From Innovation to Results

Financial Annual Report 2004

April 1, 2003—March 31, 2004

TORAY

Toray Industries, Inc.

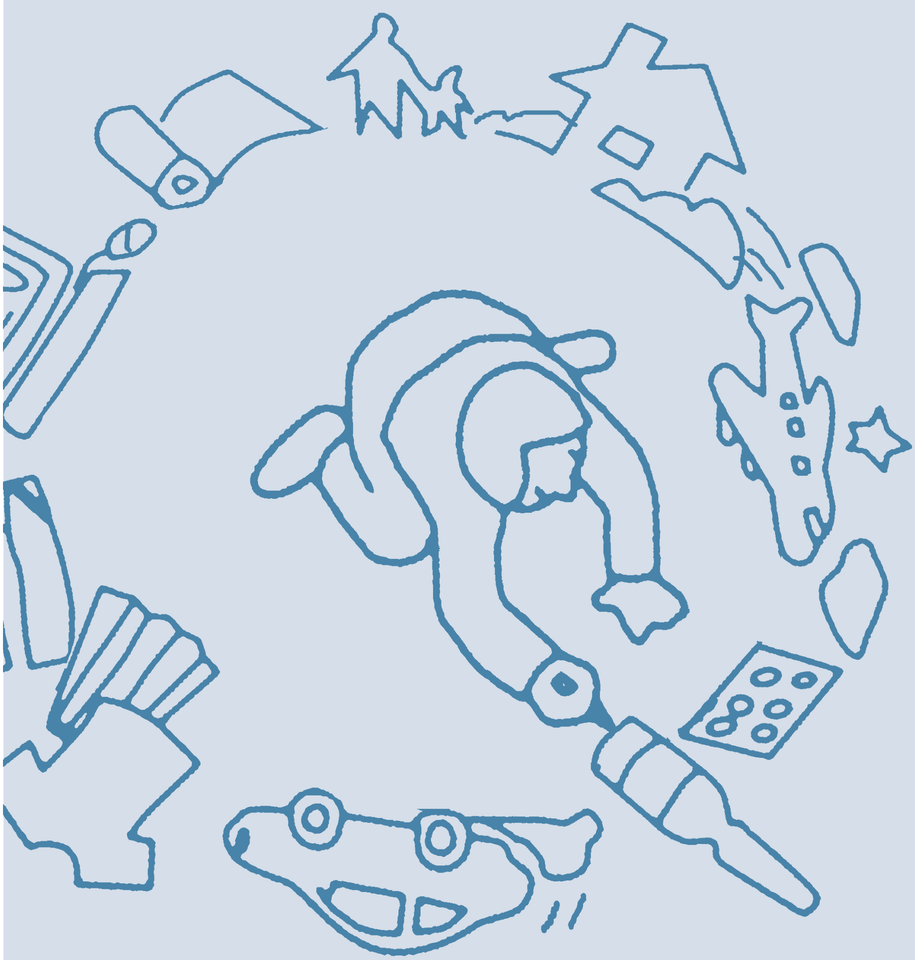
Profile

Toray—The Leader in Advanced Materials

Toray is a leading chemical manufacturer founded in 1926. Throughout its history, the company has kept itself focused on research and technological development, seeking to contribute to society by creating new value.

The Toray Group is working to expand earnings now and in the future by developing advanced materials based on our core technologies—organic synthetic chemistry, polymer chemistry, and biochemistry—and by expanding our global presence with operations around the world.

At the same time, the Toray Group gives top priority to fulfilling its corporate social responsibilities. We are actively engaged in work to increase safety, prevent accidents, and protect the environment while upholding corporate ethics and complying with all laws and regulations. In this way, we of the Toray Group are committed to achieving sustainable growth while working to improve the global environment.



Contents

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.

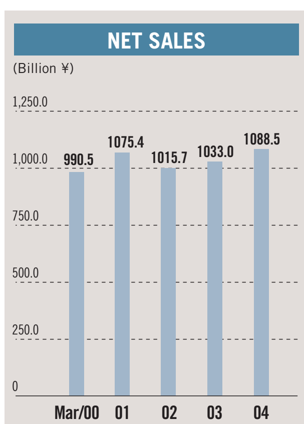
Product names with an asterisk (*) are trademarks of Toray Industries, Inc., or its subsidiaries or affiliated companies.

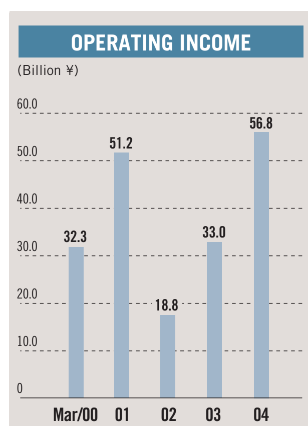
Consolidated Financial Highlights

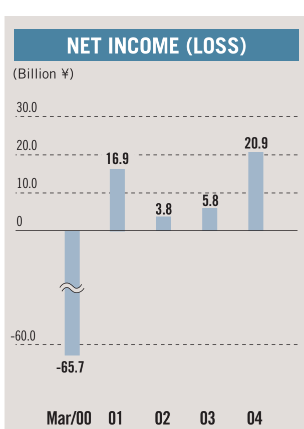
Toray Industries, Inc. and Subsidiaries
Years ended March 31

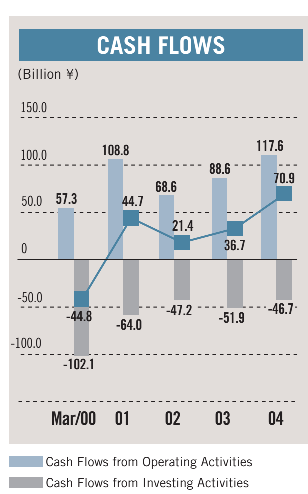
	Millions of yen			Thousands of U.S. dollars
	2004	2003	2002	**2004**
For the year:				
Net sales	**¥1,088,501**	¥1,032,991	¥1,015,713	**$10,268,877**
Operating income	**56,792**	33,043	18,845	**535,774**
Net income	**20,908**	5,790	3,802	**197,245**
Net cash provided by operating activities	**117,610**	88,582	68,590	**1,109,528**
Capital expenditures	**48,807**	57,249	65,367	**460,443**
Per share of common stock (in yen and U.S. dollars):				
Net income				
Primary	**¥14.87**	¥ 4.13	¥ 2.71	**$0.140**
Fully diluted	**—**	—	—	**—**
Net cash provided by operating activities (primary)	**83.95**	63.22	48.94	**0.792**
Cash dividends	**5.50**	5.00	5.00	**0.052**
At year-end:				
Total assets	**¥1,295,314**	¥1,300,954	¥1,386,507	**$12,219,943**
Total stockholders' equity	**414,247**	390,398	413,140	**3,907,990**

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at ¥106 to $1.00, the approximate rate of exchange prevailing on March 31, 2004. Billion is used in the American sense of one thousand million.









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

To Our Stockholders

On behalf of Toray Industries, Inc., I would like to thank our stockholders for their continued support and am pleased to report the results of operations in the fiscal year ended March 31, 2004, as well as future business challenges.

Sadayuki Sakakibara
President, CEO and COO,
Representative Director

Business Environment and Results

During the fiscal year under review, the global economy was characterized by continued economic recovery in the U.S. and widespread improvement in Europe and Asia. The Japanese economy also showed signs of recovery buoyed by higher exports and growth in digital-product markets, but with the income and employment situations remaining harsh, consumers were still reluctant to loosen their purse strings, and the economy has yet to enter an unequivocal stage of recovery.

In this business climate, Toray continued to push forward with its "Project New Toray 21" (Project NT21), working to reform and enhance its business structure under the reform program launched in April 2002.

These efforts have yielded good results, with consolidated net sales growing 5.4% year-on-year to ¥1,088.5 billion, operating income up 71.9% to ¥56.8 billion, ordinary income climbing 117.3% to ¥51.6 billion, and net income jumping 261.1% to ¥20.9 billion.

Total assets decreased ¥5.6 billion year-on-year to ¥1,295.3 billion at the fiscal year-end. Stockholders' equity increased ¥23.8 billion to ¥414.2 billion. As a result, the equity ratio rose 2.0 percentage points to 32.0%.

Return on assets gained 1.9 percentage points year-on-year to 4.4%, and return on equity increased 3.8 percentage points to 5.2%.

Further, after subtracting cash flows from investing activities from cash flows from operating activities, free cash flow totaled ¥70.9 billion at the fiscal year-end.

Launch of "Project NT–II"

The entire Toray Group has united in implementing Project NT21; as a result, consolidated operating income improved significantly from ¥33.0 billion in FY Mar/03 to ¥56.8 billion in FY Mar/04, allowing us to achieve Project NT21's initial three-year earnings improvement target one year ahead of schedule.

This achievement allowed us to bring Project NT21 to a close effective March 31 and embark on Project NT–II, a new mid-term management plan that launched with the start of the new fiscal year in April. Project NT–II is based on the results of Project NT21 and, with its objective of building the Toray Group into a vigorous and highly profitable corporate group, represents the second stage of our reform efforts.

Project NT21 sought business reform based on a "defensive" approach of reinforcing corporate structure, whereas Project

NT–II will promote an "offensive" approach to expand revenues and profits through business-structure reform in combination with the "defensive" posture of continued structural reinforcement. We need to address the following challenges in order to achieve our goals.

Strengthening Corporate Structure

The first challenge of strengthening our corporate structure involves "activating our corporate culture." While continuing Project NT21's pursuit of a shared crisis consciousness among all Toray Group employees and the clarification and combination of goals, Project NT–II seeks to additionally improve and enhance communication, implement specific measures to promote information sharing and other actions, and pursue internal revitalization with a view toward a new stage of growth and development.

The second challenge is "strengthening global competitiveness." To this end, we are continuing to reduce overall costs and strengthen our financial structure. During the current fiscal year, we are continuing the project to enhance total cost competitiveness in Project NT21 while working to further cut costs throughout the entire Toray Group. This brings us to our efforts to strengthen Toray's financial structure: Because we were able to achieve a year earlier than scheduled our Project NT21 goal of reducing interest-bearing liabilities to ¥500 billion by the end of FY Mar/05, Project NT–II sets a new financial target of quickly reaching a D/E ratio (interest-bearing debts/stockholders' equity) of 1.0 or lower, and seeks to expand investment in our Advanced Materials businesses while bolstering our financial structure.

Expanding Revenues and Profits

The first challenge in expanding revenues and profits is thorough profit management by product. Project NT21 linked earnings improvements with progress in achieving profitability or curtailing loss-making businesses and companies through a variety of measures centered on the structural reinforcement project. Project NT–II seeks to propel this process further while raising profitability in our respective businesses by curtailing and turning around loss-making products and expanding high-margin products within profitable businesses.

The second challenge is "expanding our Advanced Materials businesses." The Toray Group has developed advanced materials based on its core technologies of organic synthetic chemistry, polymer chemistry, and biochemistry, and it has achieved growth by supplying these advanced materials for a wide variety of industries and applications, primarily in the three growth areas of IT-related Products; Life Sciences; and Environment, Safety and Amenity. Project NT–II seeks to expand our existing Advanced Materials businesses both in Japan and overseas while quickly developing and commercializing new advanced materials through application of state-of-the-art technologies such as technology pursuing supreme performance of materials, nanotechnology, and biotechnology based on our core technologies. To this end, we are allocating more resources to highly profitable Advanced Materials businesses and shifting our business structure towards allowing us to become the new Toray—The Leader in Advanced Materials.

The third challenge is "expanding global No.1 businesses. The Toray Group has some 30 global No.1 businesses that enjoy a top market share worldwide, including polyester and cotton blended fabrics, man-made suede, polyester films, and carbon fiber composite materials. We also operate seven global only 1 businesses that are unique to the Toray Group based on products such as *Toraymyxin**, a blood purification device for treating severe septicemia, that were developed with our own technologies. We seek to increase earnings by leveraging the collective strength of the Toray Group to further enhance and expand these global No.1 and only 1 businesses.

The fourth challenge is "expanding businesses outside Japan." Toray conducts business in 19 countries and regions around the world, and we are working to strengthen our earnings base through further structural reform while expanding our business by developing new operations. Within this, we are pursuing business expansion and earnings growth in Asia, including China and the three ASEAN countries of Indonesia, Thailand, and Malaysia, where we have established regional headquarters, as well as in South Korea, where IT-related industries are growing rapidly. In Europe and the U.S., we seek

To Our Stockholders

to increase earnings through corporate-structure reinforcement and business-structure reform.

The fifth challenge is “establishing a brand strategy” that will help us overcome issues associated with global overcapacity and achieve business expansion and earnings growth. We are pursuing a global brand strategy that seeks to establish *TOREX** as a mainstay brand symbolizing the high quality and advanced materials provided by Toray.

Step Up Environmental and Social-Responsibility Involvement

Toray is guided by its corporate philosophy of “contributing to society through the creation of new value” and views contributing to society as a primary reason for its existence.

As a manufacturer and supplier of basic materials based on chemical technologies, Toray contributes to the preservation and improvement of the global environment by developing technologies for products to promote energy and resource conservation and recycling and for production processes that minimize the environmental burden.

As an example, Toray has long been involved in fiber recycling technologies and has promoted the chemical, material, and thermal recycling of nylon and polyester fibers. We have also been actively involved in recycling plastics and carbon fibers.

We supply a variety of products that reduce environmental burdens. Our LCD color filters use a resin black matrix that does not use chrome (a heavy metal), and for resins and films, we are developing products using non-halogen flame retardants that do not emit dioxins when incinerated. To help prevent global warming, we have been successful in developing automotive applications for PLA (polylactic acid) fiber, which is made from plant-derived materials. For 3GT fiber (polytrimethylene terephtalate), we plan to switch to 1,3-propanediol made by a bioprocess as a main raw material.

To ensure compliance with corporate ethics as well as all laws and regulations, we established a Corporate Ethics Committee, of which all directors are members and whose meetings are attended by our auditors, who serve as observers. We also formed a Compliance Committee as the subordinate body to ensure that compliance activities permeate our whole organizational structure.

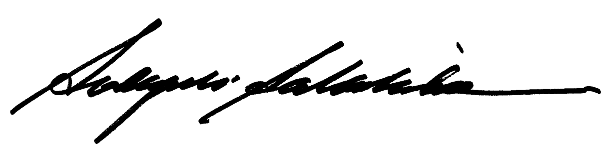
To give back to society, Toray has supported the advancement of science and technology in Japan through the activities of the Toray Science Foundation, which was established in 1960. We also help promote science and technology in Indonesia, Thailand, and Malaysia through Toray Science Foundations established in each of these countries, and the year under review marks their 10th anniversary. Moreover, the Toray Group also lends its support to artistic, cultural, educational, and sporting activities in each area of the world where it has a manufacturing or marketing presence.

Continuing to Pursue Reforms and Taking Bold Steps

Through our Project NT–II, we seek to bring together all employees in the Toray Group in order to build on the foundation created over the past two years and work with the pride and awareness of a pioneer to establish a new Toray for the 21st century.

The Toray Group aspires to substantially boost earnings by implementing Project NT–II and to enhance and push forward with our corporate social responsibility programs through active involvement in environmental activities and contributions to society. We are continuing to pursue reforms and taking bold steps to make the Toray Group into a prominent and highly profitable global corporate group in the 21st century.

Sadayuki Sakakibara



President
CEO and COO
Representative Director
June 2004

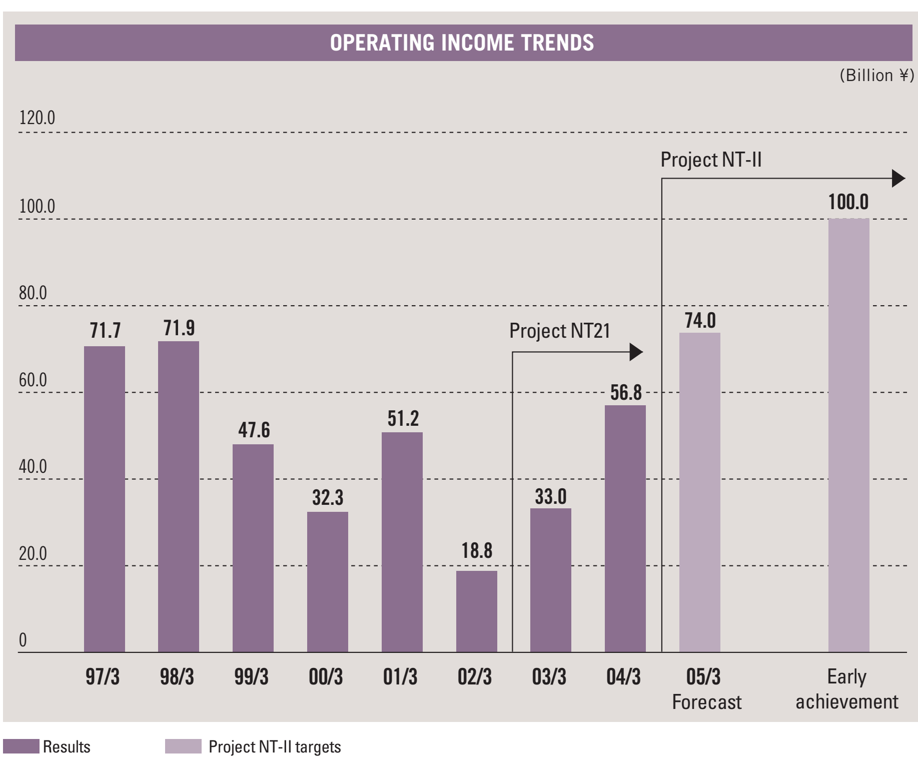
Mid-term Management Issues "Project NT-II"

Toray—The Leader in Advanced Materials Working to be a Dynamic, Highly Profitable Corporate Group

Two years have passed since we launched our "Project New TORAY 21" (Project NT21), Toray's management reform program designed to drive our transformation into a New Toray for the 21st Century forward. With a shared sense of crisis, everyone at the Toray Group has worked as a team to make headway, developing innovative attitudes and ideas and coordinating our focus to reach common goals, and we have emerged with a clear vision of the course the Group should pursue. Our progress boosted corporate performance and revived employees' confidence in Toray's ability to achieve specific results as our entire team pulled together to achieve Project NT21 reforms. Thanks to the ongoing, concentrated, and focused effort of the entire Toray Group, we posted ¥33.0 billion in consolidated operating income in the fiscal year ended March 2003 and ¥56.8 billion in the fiscal year ended March 2004—thus meeting our initial Project NT21 three-year profit improvement target one year ahead of schedule: The seven "innovation projects" implemented under Project NT21—"promoting marketing innovation," "strengthening cost competitiveness," "rationalizing global production," "re-engineering corporate structure," "strengthening financial structure," "promoting R&D innovation," and "promoting salary and pension system innovation"—set forth the radical steps needed to strengthen the Toray Group's corporate structure. Results exceeded expectations, and in turn brought significant progress in corporate restructuring as we scaled back or turned around unprofitable businesses. Having laid the groundwork with the first stage of reform, we were now ready to move on to the next one—that of transforming the Toray Group into a highly profitable corporate group, the long-term goal of Project NT21.

To mark this transition, Toray Group wound up its Project NT21 reforms at the end of March 2004 and embarked on our new "Project NT-II." As the second stage of corporate reform, Project NT-II builds on the results achieved through its predecessor by addressing mid-term management issues. Under Project NT-II, we are working to achieve operating income of ¥100 billion as soon as possible, with targets of 7% ROA, 10% ROE, and max. 1.0 D/E ratio at that time.

Project NT-II Targets



Targets for major indicators on achievement of ¥100bn operating income:

Ratio of operating income to net sales: About 8%

ROA: About 7%

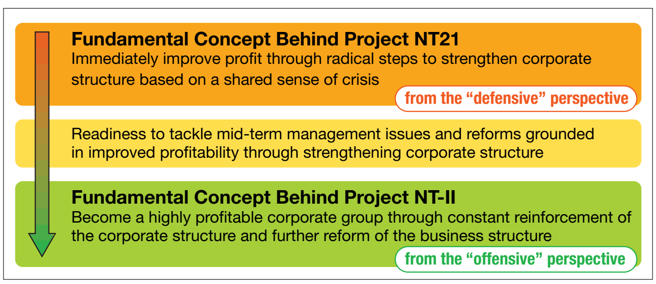
ROE: About 10%

D/E ratio: max. 1.0

Fundamental Project NT-II Concepts

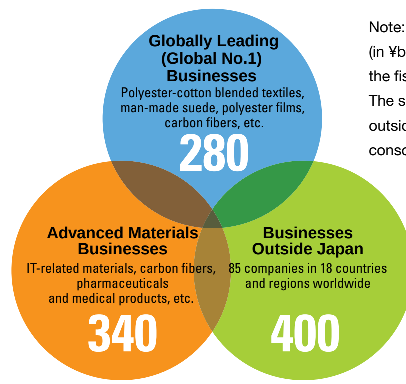
Focusing on reinforcement of the Toray Group's corporate structure, Project NT21 reforms were designed to extricate the Toray Group as quickly as possible from the crisis we faced in the fiscal year ended March 2002 and to lay the groundwork for our revival. The fundamental concept behind this reform package (designed to establish a management policy of strengthening and maintaining corporate structure) was to “immediately improve profits through radical steps to strengthen corporate structure based on a shared sense of urgency”.

In contrast, Project NT-II builds on the results achieved under Project NT21. This new stage of reform is designed to achieve further progress in transforming the Toray Group into a corporate group with a highly profitable corporate structure through decisive reform of our business structure that will push the Group firmly forward toward the steady, solid profits that characterize an outstanding corporate group. Specifically, Project NT-II is a reform package designed to establish a management policy grounded in an offensive footing; the underlying concept is that it is to be a major drive to become a highly profitable corporate group through constant reinforcement of the corporate structure and further reform of the business structure.



A core component intended to be the driving force behind our efforts to meet these objectives is the expansion of profits from established businesses through comprehensive profit management by product. Another component is the dramatic expansion and strengthening of all aspects of business in the three areas illustrated in the following figure—businesses that are valuable assets we are proud to have developed over many years.

A management issue of the highest priority is the firm establishment of profit-driven management at all levels and in all corporate divisions throughout the Group, to be achieved by expanding profits from established businesses as outlined above, as well as the expanding and reinforcing the businesses in the three areas illustrated below. A parallel focus on safety, accident prevention, and environmental conservation is a management issue of equal priority. The Toray Group is also actively promoting a strong approach to business ethics, legal and regulatory compliance, and other aspects of corporate social responsibility (CSR).



Note: Chart figures represent sales (in ¥bn) on a consolidated basis for the fiscal year ended March 2004. The sales figure for businesses outside Japan are just total sums for consolidated subsidiaries.

Main NT-II Action Points

Based on the fundamental concepts described above, the following schematic itemizes the main points of action that form the backbone of Project NT-II reforms to take us toward our goals of ¥70 billion in consolidated operating income in the fiscal year to March 2005, and early achievement of ¥100 billion in consolidated operating income.

Main Project NT-II Action Points

Develop innovative attitudes and ideas reinforce corporate structure	Management issues from a "defensive" perspective	1.Develop innovative attitudes and ideas—Revitalize organization, promote CSR • Give depth to new attitudes • Improve quality of human resources • Emphasize CSR, etc. 2.Reinforce corporate structure—Strengthen global competitiveness • Reduce total cost • Strengthen production capabilities, etc. 3.Reshape style of management • Reform management systems, etc.
Expand revenues and profits through reform of the business structure	Management issues from a "defensive" and "offensive" perspectives	4.Reform corporate structure • Marketing innovation • Integrate, consolidate, and reorganize subsidiaries and affiliates; promote strategic alliances and M&A • Roll back or turn around loss-making businesses and companies • Institute comprehensive profit management by product • Promote “New Value Creator” • Strategically promote *TOREX** brand
	Management issues from "offensive" perspective	5.Expand advanced materials businesses • Shift the allocation of managerial resources toward advanced materials businesses, etc. 6.Expand and reinforce global No.1 businesses • Expand No. 1 and only 1 businesses in which Toray leads by having top market share or being the only player 7.Expand businesses outside Japan • Strengthen ASEAN businesses • Expand businesses in China and South Korea • Expand businesses in the U.S. and Europe

Advance to become a global, highly profitable corporate group

• Earliest possible achievement of ¥100 billion in consolidated operating income

Action Points for Revenue and Profit Expansion

Listed below are the primary points of action entailed expanding revenues and profits, a major Project NT-II goal.

1. Comprehensive Profit Management by Product

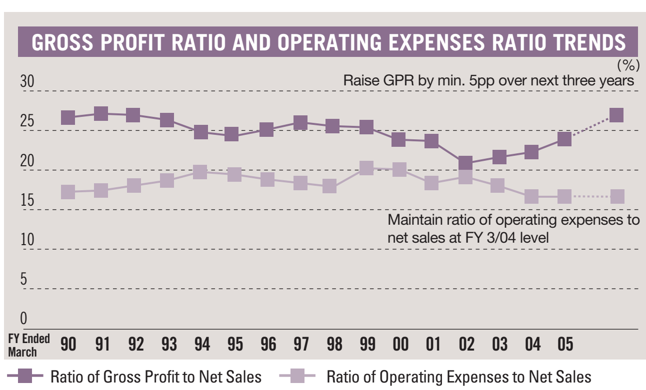
The Toray Group's aim is to advance our program for improving product-specific profits, which targets the objectives listed below, and continue to comprehensively cut back loss-generating products or bring them into the black, and at the same time to expand the number of products with high profit margins.

Program for Improving Profitability by Product

A. Raise the gross profit ratio (gross margin) to 26%, back to the highest level achieved over the past 20 years.

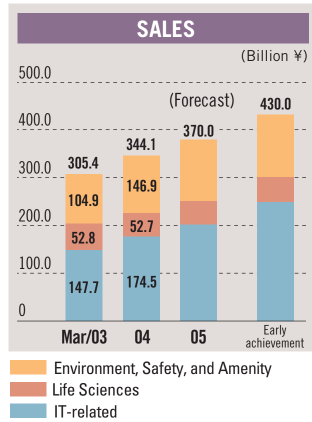
B. Eliminate products that generate negative gross profits. Raise the gross profit ratio (GPR) by at least 5 percentage points over the next three years by increasing the number of high-margin products using a two-pronged approach of expanding advanced materials businesses and promoting the "New Value Creator" concept.

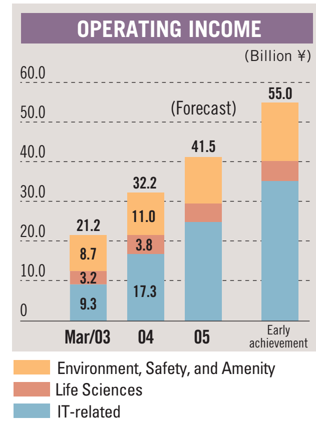
C. Set the objective of maintaining the ratio of operating expenses to net sales at the level of the fiscal year ended March 2004 (16.7% on a projected consolidated basis) or lower.



2. Expand Advanced Materials Businesses

The NT-II program calls for improving revenues and profits by ensuring a continuous supply of advanced materials that have been developed using Toray's core technologies—organic synthetic chemistry, polymer chemistry, biochemistry—primarily for industry and users in our three growth areas (IT-related products; life sciences; and environment, safety, and amenity). To achieve ¥100 billion in consolidated operating income, it is essential that we raise sales in our advanced materials businesses to the ¥430 billion level and consolidated operating income to ¥55 billion. To achieve this, a generous portion of management resources will be allocated to advanced materials businesses. Some 60% of Toray Industries' total capital investment, and about half of the Group consolidated capital investment, will be injected into advanced materials businesses, which will serve to transform our business structure and position the company as "Toray—the Leader in Advanced Materials."





3. Expand and Reinforce Global No. 1 Businesses

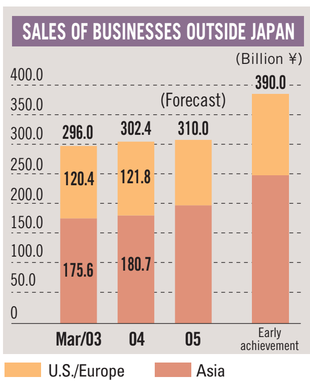
Roughly 30 of Toray Group's businesses have claimed the top share of their respective global markets—for example, in polyester-cotton blended textiles, man-made suede, polyester films, and carbon fiber composite materials. Sales in these areas account for some ¥280 billion, more than a quarter total consolidated sales. The ratio of operating income to net sales stands at a highly profitable 13%, and they generate roughly two-thirds of consolidated operating income. We will be able to increase profitability by further expanding and enhancing our businesses in these areas, which we are doing by fully leveraging the comprehensive strengths of the Toray Group.

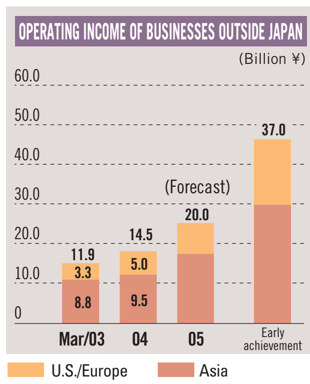
4. Expand Businesses Outside Japan

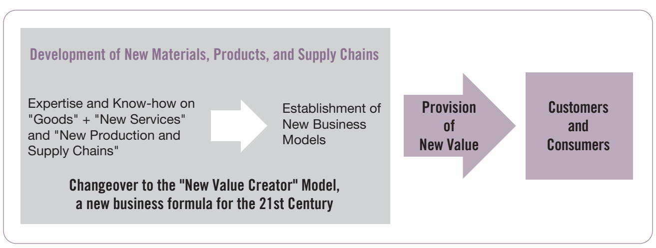
The Toray Group's businesses outside Japan now include 85 companies in 18 countries and regions around the world. In this area, we are focused on growing our operations by developing new businesses. Under Project NT-II, we also intend to further broaden our business in Asia ex-Japan by expanding into the high-growth IT-related industry in South Korea and by using regional headquarters, which have already established in the three ASEAN countries of Indonesia, Thailand, and Malaysia, and in China. This stage of reform will expand businesses in the U.S. and Europe as well.

5. Promote the "New Value Creator" Concept

Project NT21 calls for reshaping our business mode from that of a "20th-century manufacturer"—one that merely produces and markets "goods," into that of a "21st-century New Value Creator"—one that focuses on creating new value by incorporating a wide array of expertise and know-how into its goods and developing new materials, products, and supply chains that will resolve the problems its clients face. Under Project NT-II, Toray will put even greater force behind its drive to transform itself into a New Value Creator. This transformation will generate greater profitability through the enhanced acceleration of development of new-materials, products, and supply chains that integrate our research, technology, production, and marketing strengths.







Strategic Roll-out of the *TOREX** Brand

The development of brand strategies is also vital if Toray is to go beyond merely surviving in today's environment of worldwide overcapacity in our sector to expand revenues and increase profits. In this context, we intend to roll out a global brand strategy and establish *TOREX** as the overarching brand symbolizing Toray's high-quality, high-grade products and advanced materials. Our objective is to grow as a highly profitable corporate group by building *TOREX** into a strong market player, a prestige brand backed by all Toray business resources across the board.

TOREX Tomorrow's Excellence

The brand message:
Tomorrow's Excellence

Specific Projects under Project NT-II

We will develop a project structure for the particularly important Project NT-II management issues that require a Group-wide approach. Though the seven reform projects implemented under Project NT21 were, in general, brought to a close in the fiscal year ended March 2004, the Toray Group will continue to advance its reforms in the areas of promoting marketing innovation, strengthening cost competitiveness, strengthening financial structure, and certain themes outlined in other individual NT-II projects. (See the chart below.)

Specific Projects under Project NT-II

Management Issues	Project	Main Themes Addressed
Develop innovative attitudes and ideas, reinforce the corporate structure	1. Activation	Strengthen communication and information sharing; select young, outstanding human resources; and establish a corporate culture that allows women to realize their full potential; etc.
	2. Mar/05: Strengthening cost competitiveness	Reduction target: ¥15 billion
	Mar/06 and beyond: Promoting self-improvement efforts	Improve profits through comprehensive efforts to increase efficiency; reduce expenses through greater operating efficiency
	3. Strengthening the financial structure	Balance two-pronged approach of expanding investment in advanced materials businesses and reinforcing financial structure; early reduction of D/E ratio to 1.0 or below
Expand revenues and profits through business structure reform	4. Promoting marketing innovation	Develop innovative attitudes and ideas among marketing staff; promote the New Value Creator concept; halve inventory expand one-stop, full service functions; etc.
	5. Improving profitability by product	Eliminate products that generate negative gross profits; improve gross margin by at least 5 percentage points over the next three years; maintain or reduce the ratio of operating expenses to net sales
	6. Expanding advanced materials businesses	Commercialize new advanced materials in the near term; strengthen R&D functions; expand established advanced materials; strengthen ability to generate new intellectual property
	7. Expanding global No. 1 and only 1 businesses	Allot abundant management resources to market-leading ("No. 1") businesses; enhance employee awareness (instill self-confidence and pride); etc.
	Expanding businesses outside Japan	Strengthen profitability of ASEAN businesses; expand business in China and South Korea; expand profits of businesses in the U.S.A. and Europe

In Closing…

All employees of the Toray Group are involved in the Project NT-II reforms, which take the reform efforts of Project NT21 and advance them even further. We are confident that our achieving the objectives of Project NT-II will propel Toray Group on its way to becoming a global, highly profitable corporate group that will outshine its competitors in the 21st century.

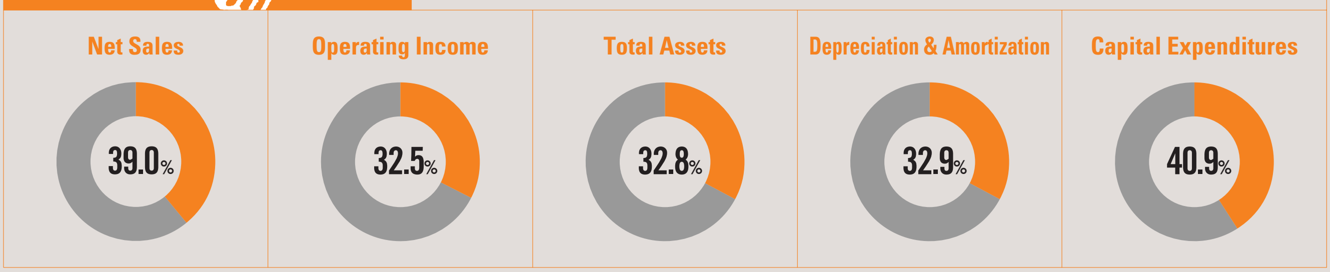
Toray Business Reports

Toray At a Glance

Businesses and Principle Products and Services

Fibers and Textiles

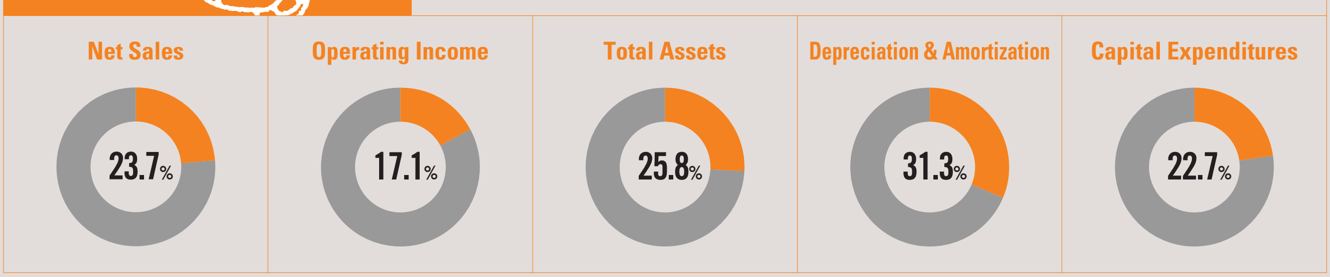
Filament yarns, staple fibers, spun yarns, and woven and knitted fabrics of nylon, polyester, and acrylic, polyphenylene sulfide (PPS) fiber, polytetra fluoro ethylene (PTFE) fiber, polylactic acid (PLA) fiber, 3GT fiber, polyester- and polypropylene-filament non-woven fabrics, man-made suede, apparel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



Plastics and Chemicals

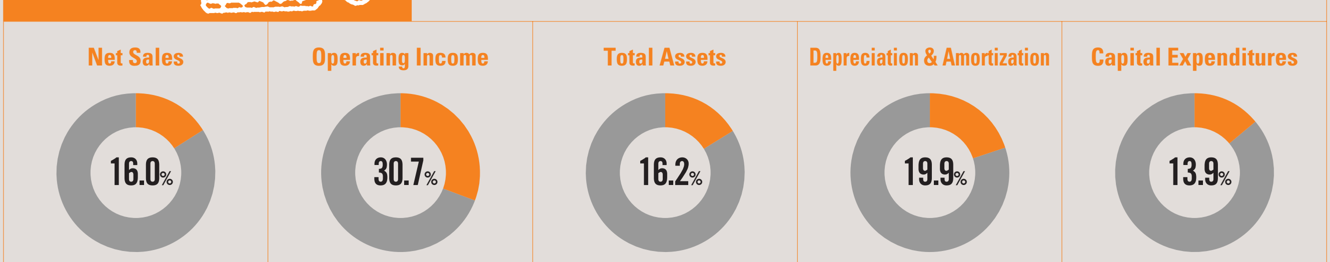
Except resins and films included under IT-related Products

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



IT-related Products

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



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

Net Sales	Operating Income	Total Assets	Depreciation & Amortization	Capital Expenditures
11.0%	3.0%	11.5%	3.4%	3.4%

Pharmaceuticals and Medical Products

Pharmaceuticals and medical products

Net Sales	Operating Income	Total Assets	Depreciation & Amortization	Capital Expenditures
4.4%	6.2%	5.0%	4.0%	5.2%

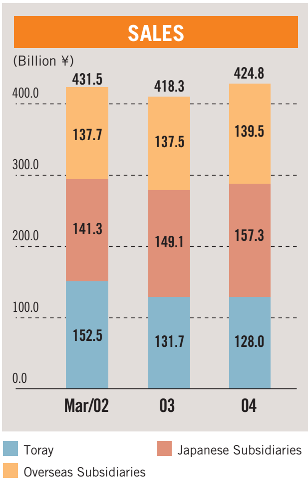
New Products and Other Businesses

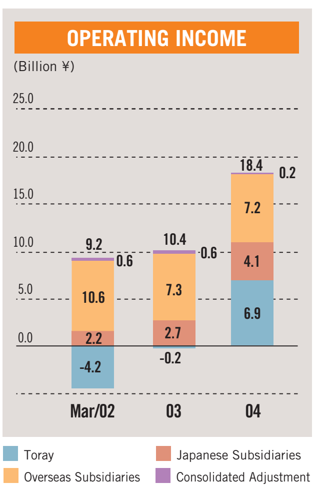
Carbon fibers and advanced composite materials, optical products, fine ceramics, analysis, physical evaluation, and research services

Net Sales	Operating Income	Total Assets	Depreciation & Amortization	Capital Expenditures
5.8%	10.4%	8.7%	8.4%	14.0%

Review of Operations

Fibers and Textiles



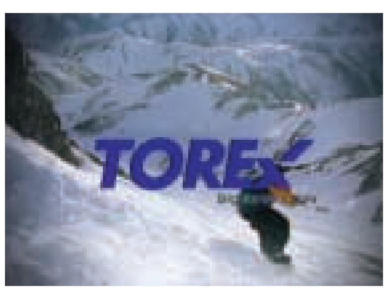


The fibers and textiles segment achieved year-on-year growth in both sales and profits. In Japan, nylon fiber sales increased on a shift to high-margin segments and recovery in prices for apparel applications as well as efforts to expand sales for airbags and other industrial applications. Sales of the polyester fiber *Tetoron** increased in apparel applications thanks to efforts to expand sales despite the ongoing slump in consumer demand in Japan, and firm sales for industrial applications. Overseas sales increased in the polyester staple fiber and polyester-rayon blended fabrics businesses in Indonesia, the polyester filament woven fabric business in China, and the polypropylene spunbond business in South Korea.

Topics for the Fiscal Year ended March 31, 2004

Launch of *TOREX** as an integrated global brand in the fibers and textiles segment

Toray launched *TOREX** simultaneously in Japan and China last year as a global prestige brand integrating Toray products selected for their high quality, technological superiority, and advanced materials. The name *TOREX** was chosen to represent an "EXtension" of Toray into the future as an "EXcellent" product brand that continues to provide "EXciting" value to customers. The new brand enables the creation of greater value for materials and components by extending the brand appeal to consumers. We are pushing forward with this brand strategy, especially in Japan and China.



TOREX Promotional TV commercial.*

Augmenting PP-SB production facility at Toray Saehan Inc.

The state-of-the-art polypropylene spunbond (PP-SB) production facility at Toray Saehan Inc. (TSI) in South Korea commenced operations in November 2003. The facility can produce multi-layer spunbond with high functionality and composite spunbond with different types of polymer such as polyethylene. The new facility has an annual production capacity of 13,000 tons to expand TSI's total PP-SB annual production capacity to 45,000 tons.

PP-SB is primarily used for disposable diapers and feminine napkins, which already have high penetration rates in advanced regions such as Japan, North America, and Europe. Growth is expected to continue at an annual rate of 10% or higher through 2010 due to the recent rapid increase in penetration rates in China and Asia. Consumers are seeking higher quality disposable diapers and feminine napkins in terms of a soft texture, lighter weight, and high absorption capacity, and products from this state-of-the-art facility are receiving high praise in the marketplace. TSI is looking to further expand its PP-SB business in Asia with the new facility providing advantages in terms of scale, quality, and product variation.

The Toray Group has a total spunbond production capacity of 53,000 tons annually when combining TSI and Toray's PET-SB facility in Shiga, making it one of the world's largest spunbond manufacturers.

TSI's PP-SB is widely used by leading diaper and feminine napkin manufacturers both in Japan and overseas.

Business Environment and Outlook

In Japan, though underlying demand is largely unchanged, we anticipate growth in demand for high performance fibers and textiles for both apparel and industrial applications. Additionally, we seek to achieve sales and profit growth by reducing unprofitable sales through rigorous product-based profitability management, expanding the New Value Creator concept, and passing on raw material cost increase to selling price.

Overseas, we expect fiber and textile trade to expand, especially in Asia and China, and global industry reorganization to accelerate. We plan to increase sales and profits in China and Southeast Asia, where growth is continuing, expect a man-made suede subsidiary in Europe to recover from FY Mar/06.

Plastics and Chemicals

The plastics and chemicals segment achieved year-on-year growth in both sales and profits. In the resins business, sales of the ABS resin *Toyolac** increased on healthy demand for automotive and electrical machinery applications in Japan, strong exports of transparent grades, and higher sales overseas due to economic recovery. The nylon resin *Amilan** and PBT resin *Toraycon** also enjoyed higher sales on an expansion of sales primarily for automotive and electrical machinery applications. In the films business, sales of the mainstay polyester film *Lumirror** increased on higher sales for packaging and industrial materials applications overseas and smooth progress in the shift to high value-added products. The polypropylene film *Torayfan** also recorded sales growth on higher sales for packaging materials applications overseas. In the chemicals business, sales increased on a recovery in prices in basic materials.

Topics for the Fiscal Year ended March 31, 2004

Establishment of PBT resin joint venture in Malaysia

Toray and leading German chemicals manufacturer BASF Aktiengesellschaft established Toray BASF PBT Resin Sdn. Bhd. in March 2004 as a 50–50 joint venture in Malaysia to produce high-performance polybutylene terephthalate resin (PBT resin). The new company plans to begin producing 60,000 tons of PBT resin annually from early in 2006.

Toray BASF PBT Resin will supply PBT resin with global leading quality and cost competitiveness to both Toray and BASF by introducing the latest polymerization technology from Toray while procuring its main raw materials from a neighboring state-of-the-art BASF subsidiary.

PBT resin has superior physical and chemical properties and is used in electrical and electronic components, precision components for office automation equipment, and automotive electrical components. Applications are expected to expand in the future to include interior and exterior automotive components, general industrial equipment, fibers, and films. In particular, demand in Asia is forecasted to grow at a high annual rate of 10%.

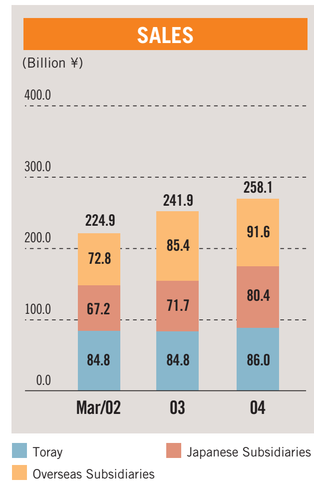
The establishment of Toray BASF PBT Resin makes Toray the first Japanese PBT resin manufacturer to have production facilities located overseas. Toray is actively expanding its overseas compound (resin treatment) facilities and developing an optimal global supply system in an effort to enhance competitiveness and expand its PBT resin business.

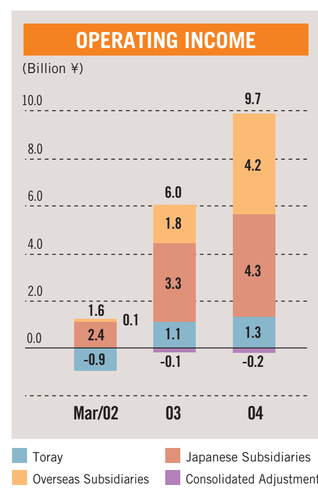
Connectors that use PBT resin.

Business Environment and Outlook

We expect worldwide resin demand to continue growing steadily due to a global increase in the production of automotive and electrical machinery. For Toray's resins business, we target sales and profit growth on further progress in passing on the material cost increase to selling price and the introduction of new products and new items.

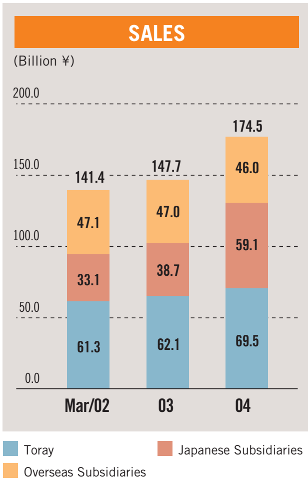
We look for stable growth in global demand for films used in industrial and packaging materials and for demand in Asia, especially China, to remain high on an improvement in living standards. In Toray's films business, we seek to shift to high value-added products in Japan while maximizing profits through global operations. At film subsidiaries in Europe and the US, we are working to increase profits by continuing to change their business structure from reliance on magnetic materials applications to packaging and industrial materials applications.

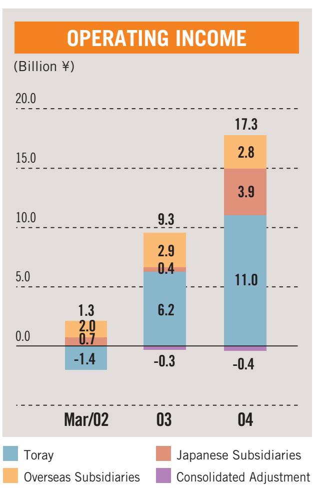




Review of Operations

IT-related Products





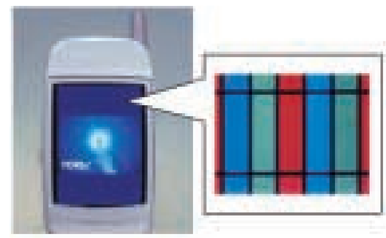
The IT-related products segment achieved year-on-year growth in both sales and profits. In the IT-related resins and films business, sales increased as strong demand boosted sales for all applications in Japan, including LCDs, mobile phones, and digital home electronics. In the electronic materials business, sales increased on a strong performance by circuit materials and printing plate materials both in Japan and overseas. In the LCD materials business, sales increased on higher sales of the TFT LCD color filter *Toptical**, which is used in small and medium-sized displays, mainly for mobile phones, and in LCD televisions. In the IT-related equipment business, sales increased on growth in semiconductor and LCD-related equipment such as liquid crystal coating equipment.

Topics for the Fiscal Year ended March 31, 2004

Growth in LCD color filter business

The Toray Group's LCD color filter business, in addition to strategic alliances with previous customers Toshiba Matsushita Display Technology Co., Ltd. and Seiko Group companies, is supplying color filters on a long-term basis to South Korea's Samsung Group, the world's largest LCD manufacturer, starting in April 2004. In the partnership with the Samsung Group, Toray will supply color filters as well as manufacturing equipment and color filter materials in order for the Samsung Group to internally manufacture large color filters.

In the Toray Group's color filter-related business, we are looking to enhance the solutions provided to companies in this industry and expand this business in the following three ways. First, in terms of color filter sales, we will introduce new products (high resolution, high visibility semi-transparent color filters) in the rapidly growing small and medium-sized filter segment that capitalize on the strengths of Toray's unique materials. Second, we will also pursue outside sales of manufacturing equipment (slit coaters) to enable LCD manufacturers to produce color filters internally starting with fifth-generation large filters. Third, we will expand sales of color filter materials such as color paste for slit coaters and environmentally-friendly resin black matrix.



TFT LCD Color fillter used in mobile phones.

Business Environment and Outlook

Going forward, we anticipate continued growth in personal computers, mobile phones and other mobile devices, and digital home electronics. We aim to increase sales and profits by working aggressively to expand sales of products widely used in these applications, including PET films and advanced IT materials, circuit materials, LCD color filters, and IT equipment.

In April 2004, we established the IT Strategic Business Unit in order to redouble our efforts to expand the IT-related products segment and launched coordinated activities encompassing each business division as well as subsidiaries.

Housing and Engineering

The housing and engineering segment achieved year-on-year growth in both sales and profits, with sales totaling ¥120.1 billion and operating income ¥1.7 billion. Growth can be attributed to efforts to expand sales in the condominium and construction businesses.

Topics for the Fiscal Year ended March 31, 2004

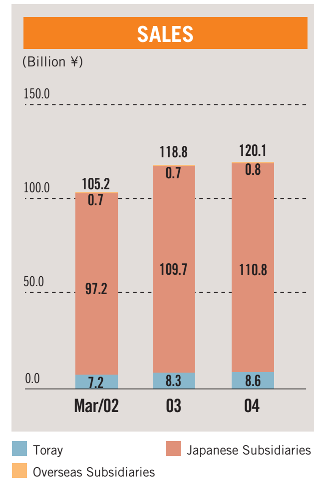
Orders received for low-fouling reverse osmosis membrane from Singapore, Spain, and Sulaibiya, Kuwait

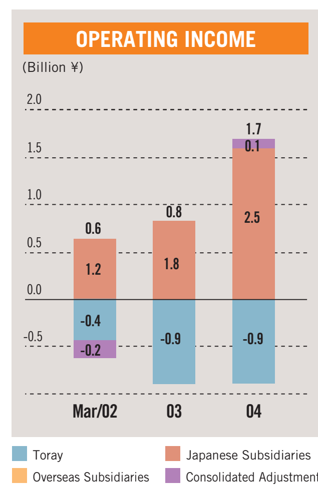
Toray has developed a low-fouling reverse osmosis (RO) membrane that has superior anti-fouling properties (improves contamination resistance) for organic matter and microbes without losing the high desalination properties and permeability of conventional reverse osmosis membranes. The new product was first adopted at a high-quality water treatment plant (NEWater plant) in Seletar, Singapore and at an industrial waste water recycling plant in Spain. These were followed by an order from a membrane water treatment plant in Sulaibiya, Kuwait that produces the world's top water volume at 310,000 tons per day. Sewage and wastewater reclamation holds great promise alongside seawater desalination and advanced treatment of river water and groundwater as a means for solving water shortages in the 21st century. Going forward, Toray plans to aggressively expand use of its low-fouling reverse osmosis membrane element in sewage recycling and reclaimed water production around the world as well as in industrial waste water recycling.

Business Environment and Outlook

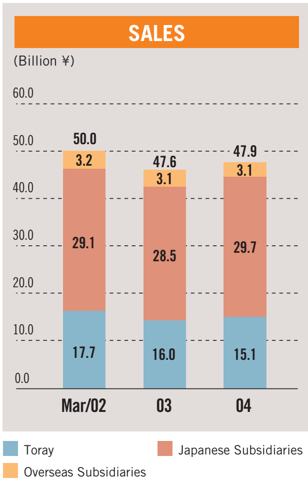
Though we expect competition in the construction and housing sectors to remain harsh, we are working to increase sales and profits in this segment by shifting toward high-margin businesses and reinforcing the business structure. In the water treatment business, demand is expanding as a result of water shortages worldwide. We also aim to continue growing sales in the RO business both in Japan and overseas while working to acquire large orders in the systems and plant business.

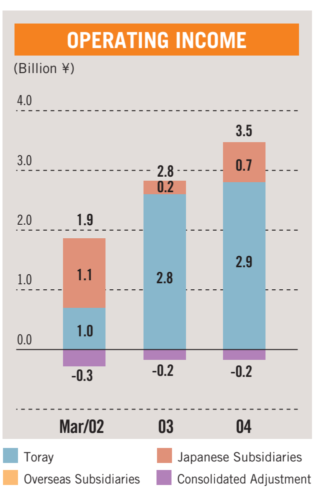
Low-fouling reverse osmosis membrane.





Pharmaceuticals and Medical Products





The pharmaceuticals and medical products segment achieved year-on-year growth in both sales and profits. Though sales in the pharmaceuticals business decreased, due partly to the impact of competition from the products of other companies, sales in the medical products business increased on growth for *Toraysulfone**, a polysulfone based artificial kidney, and *Toraymyxin**, a blood purification device for treating severe septicemia.

Topics for the Fiscal Year ended March 31, 2004

Joint development of new oral controlled-release painkiller

Toray and Nippon Shinyaku Co., Ltd. have agreed to jointly develop and commercialize in Japan a new oral controlled-release painkiller that uses tramadol hydrochloride as the active component (Toray's development code is TRK-091).

Tramadol hydrochloride is positioned as a moderate analgesic that fills a niche between products now available. Given the growing tendency at Japanese medical institutions to emphasize a patient's quality of life, the new product is expected to meet the need for a controlled-release painkiller that can be safely used for an extended period of time.

In line with its policy to pursue strategic growth in the life sciences, Toray is focusing R&D activities on drug discovery and other areas intended to help develop the pharmaceuticals and medical products segment into a core business in the 21st century. TRK-091 is expected to follow TRK-820, which is being developed as an antipruritic drug for dialysis patients, as the next new drug to reach the stage of commercialization.

Business Environment and Outlook

Though we anticipate lower prices as a result of reductions in drug prices and reimbursement prices, we are pursing a differentiation strategy in the pharmaceuticals business in an effort to increase market share. In the medical products business, we plan to boost overall profits by expanding sales, especially of artificial kidneys, and reinforcing the business structure.

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

New Products and Other Businesses

The new products and other businesses segment achieved year-on-year growth in both sales and profits. In the carbon fiber composite materials business, sales and profits increased thanks to favorable sales growth for industrial applications such as civil engineering and construction, turbine blades for wind power generation, and CNG tanks for natural gas automotives, and to a recovery in demand for aircraft applications.

Topics for the Fiscal Year ended March 31, 2004

Status of CFRP automotive applications

Toray has worked to develop carbon fiber reinforced plastic (CFRP) components in an effort to expand the number of applications for carbon fiber and make further inroads into automotive applications, for which large demand is expected in the future. The automotive CFRP component business commenced full-scale operations as a result of car manufacturers adopting CFRP components in mass-produced car models. Car applications include propeller shafts, which transfer power from the engine to the drive wheels, exterior shell components such as the hood and trunk, and secondary structural components such as spoilers, which improve a car's aerodynamic properties.

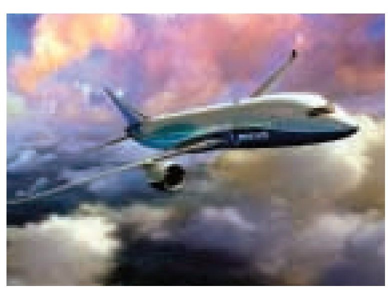
The first worldwide use of a CFRP propeller shaft was by a Japanese car manufacturer in November 1999, and since that time, they have been adopted by three Japanese car manufacturers for mainstay car models. We also anticipate use in new car models of car manufacturers in Europe.

Propeller shafts, exterior shell components, and structural components are currently undergoing technological assessment for use in mass-produced car models by a total of about 10 car manufacturers in Japan and overseas. We therefore see the potential for CFRP to spread rapidly as a standard automotive material in the near future.

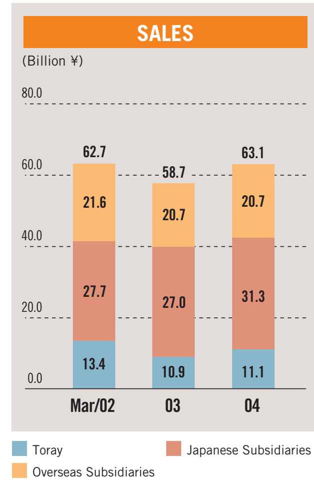
Going forward, we are looking to further develop composite material design techniques based on our longstanding expertise as the world's largest manufacturer of carbon fiber, resin molding techniques that utilize polymer chemistry, a core technology of Toray, and surface finishing techniques suited to automotive materials. We are also working to promote CFRP as a next-generation automotive material by actively pursuing carbon fiber recycling.

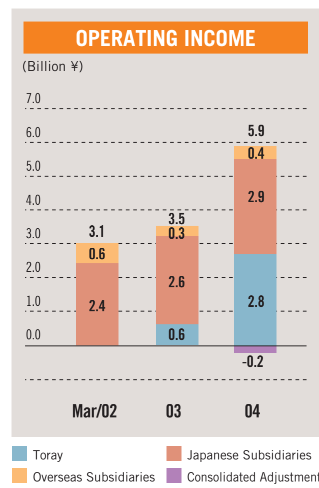
Business Environment and Outlook

In the carbon fiber composite materials business, industrial application demand is steadily expanding, especially in Europe and Asia. At the same time, demand for new aircraft applications is also expected to enter a growth period with the Airbus A380 entering service in 2006 and the Boeing 7E7 entering service in 2008. Amid improvement in the supply and demand balance, we seek to achieve sales and profit growth by increasing sales for industrial and aircraft applications, expanding composites, and quickly restoring prices to an appropriate level.

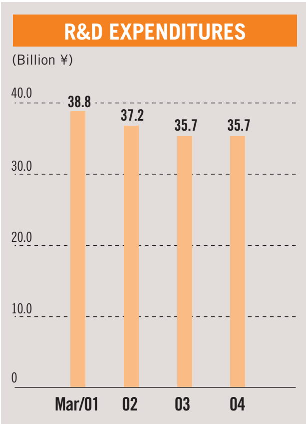


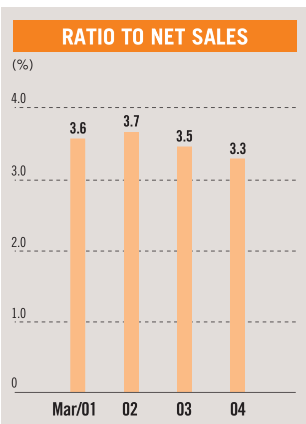
Boeing 7E7 entering service in 2008.





Research & Development





Consolidated R&D expenditures totaled ¥35.7 billion and represented 3.3% of sales in FY Mar/04. R&D expenditures at Toray Industries itself totaled ¥29.9 billion, 6.5% of its sales.

Toray has thus far supplied a number of advanced materials to the world, and going forward, we will continue to develop and supply advanced materials in the three growth areas of IT-related products, life sciences, and environment, safety and amenity. We believe these efforts are central to the identity of the Toray Group.

In FY Mar/04, in order to step up activities associated with the research reform project of Project NT21, Toray sought to strengthen its research capabilities by 1) becoming more active in partnering with prominent companies that serve as global leaders, 2) enhancing research planning capabilities, 3) developing a system for quickly commercializing the results of research and technological development (advanced materials project), and 4) raising the polymer research capabilities of Toray Fibers & Textiles Research Laboratories (China) Co., Ltd.

Topics for the Fiscal Year ended March 31, 2004

Development of next-generation FPC with the world's highest density level

Toray has successfully developed a next-generation flexible printed circuit board (FPC) with the highest density level in the world. This technology enables the mounting of LCD driver ICs capable of processing a substantially higher performance than before. It will allow users to enjoy high resolution images with mobile phones and PDAs.

FPC mounted with driver ICs for electronic devices are approaching the limits of miniaturization as the current technology is limited to a wiring pitch of over 30μm. Toray has overcome this limitation to enable a wiring pitch of 25μm by combining its fine pitch wiring technology that uses photosensitive polymer with a new technology that decreases the dimensional change of polyimide film. In principle, this technology can achieve a wiring pitch of 10μm to acquire extremely high accuracy.

Toray is already supplying samples of this FPC to leading potential customers and aims for practical application in 2005.

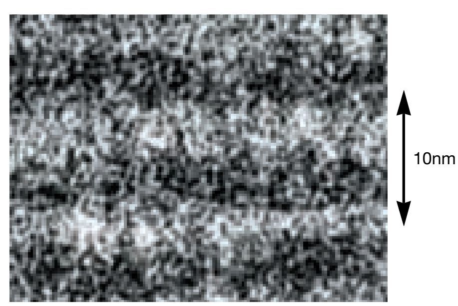
Further, this technology can also be applied to extremely thin and flexible polyimide film, and in addition to FPC for LCD driver ICs, a wide range of market applications are anticipated, including FPC requiring folded three-dimensional packaging such as in electronic circuits for mobile phones, digital cameras, and other such products.

Next-generation FPC using new materials and processes to push back the technological frontiers.

Development of advanced film materials using nano-laminating technology

Toray is a global pioneer in developing nano-laminating technology, which is a composite film production technology that is far superior to conventional technology. The Company has vastly improved basic film properties and developed new functions by creating a single thin film from laminating thousands of layers of several different polymers at a thickness on order of several nanometers during the film production process.

Toray positions nanotechnology as a core next-generation technology and is stepping up research in this area. We are also focusing on applying our unique nanotechnology to create advanced materials in the areas of fibers, films, resins, and other mainstay products.



Cross-sectional picture of an advanced film using the nano-laminating technology.

Financial Section

Six-Year Summary of Selected Financial Data

Toray Industries, Inc. and Subsidiaries
Years ended March 31

	Millions of yen					
	2004	2003	2002	2001	2000	1999
Net sales	**¥1,088,501**	¥1,032,991	¥1,015,713	¥1,075,371	¥ 990,487	¥1,001,117
Fibers and Textiles	**424,755**	418,332	431,483	433,500	404,966	420,040
Plastics and Chemicals	**258,093**	241,882	224,895	245,804	221,230	295,537
IT-related Products	**174,538**	147,729	141,424	153,612	125,599	—
Housing and Engineering	**120,123**	118,764	105,153	124,055	123,615	132,343
Pharmaceuticals and Medical Products	**47,875**	47,632	50,015	52,425	47,439	47,796
New Products and Other Businesses	**63,117**	58,652	62,743	65,975	67,638	105,401
Operating income	**56,792**	33,043	18,845	51,166	32,320	47,564
Income (loss) before income taxes	**44,876**	22,480	13,140	32,329	(108,093)	23,729
Net income (loss)	**20,908**	5,790	3,802	16,937	(65,667)	8,117
Net cash provided by operating activities	**117,610**	88,582	68,590	108,756	57,298	59,984
Depreciation and amortization	**68,221**	75,544	79,391	82,068	80,698	79,663
Capital expenditures	**48,807**	57,249	65,367	60,071	109,514	120,968
Total assets	**1,295,314**	1,300,954	1,386,507	1,461,133	1,470,850	1,437,360
Property, plant and equipment, net	**543,315**	583,280	633,345	629,007	636,491	643,914
Interest-bearing liabilities	**494,527**	546,099	585,269	586,723	619,707	611,693
Total stockholders' equity	**414,247**	390,398	413,140	425,193	415,878	491,497
		Yen				
Per share of common stock:						
Net income (loss):						
Primary	**¥ 14.87**	¥ 4.13	¥ 2.71	¥ 12.09	¥ (46.86)	¥ 5.79
Fully diluted	—	—	—	12.02	—	—
Cash dividends	**5.50**	5.00	5.00	7.00	7.00	7.00
Stockholders' equity	**295.64**	278.65	294.80	303.39	296.74	350.70
Ratios:						
Operating income to net sales	**5.22%**	3.20%	1.86%	4.76%	3.26%	4.75%
Net income (loss) to net sales	**1.92**	0.56	0.37	1.57	(6.63)	0.81
Equity ratio	**32.0**	30.0	29.8	29.1	28.3	34.2
Return on equity	**5.2**	1.4	0.9	3.9	(14.5)	1.6
Debt/equity ratio (times)	**1.19**	1.40	1.42	1.38	1.49	1.24
		Yen				
Common stock price range:						
High	**¥492**	¥395	¥585	¥530	¥665	¥745
Low	**258**	230	299	374	326	501
Number of employees	**32,901**	33,791	34,910	35,686	35,516	34,263

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 the fiscal year ended March 31, 2004 (FY Mar/04), the US economy continued to recover while conditions in Europe and Asia generally improved. The Japanese economy also showed signs of recovery buoyed by higher exports and growth in markets for digital products, but personal consumption—a driver of economic activity—remained weak in a still-harsh income and employment environment, and the economy, while back on track, is not yet running under a full head of steam.

In this business climate, Toray ("the Company") and its Group Companies persevered with their "Project New Toray 21" (Project NT21), the management reform program launched in April 2002, and continued working to strengthen the overall group and overhaul its business structure. These efforts bore fruit, with both consolidated sales and profits increasing year-on-year.

Income Analysis

Net Sales

Consolidated net sales rose ¥55.5 billion, or 5.4%, year-on-year to ¥1,088.5 billion in FY Mar/04. All business segments recorded sales growth.

Sales by Business Segment

◆ Fibers and Textiles

Total segment sales grew ¥6.4 billion, or 1.5%, to ¥424.8 billion.

Nylon sales in Japan increased on a shift to high-margin segments and recovery in prices for apparel applications as well as efforts to expand sales for airbags and other industrial applications. Sales of the polyester fiber *Tetoron** increased for apparel applications thanks to efforts to expand sales despite the ongoing slump in Japanese consumer demand, and firm sales for industrial applications.

Overseas sales increased in the polyester staple fiber and polyester-rayon blend fabrics businesses in Indonesia, polyester filament woven fabric businesses in China, and polypropylene spunbond businesses in South Korea.

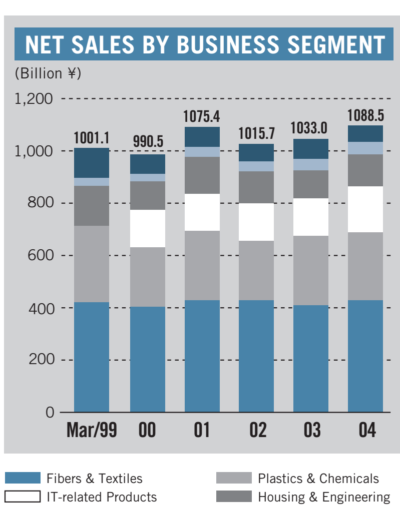
◆ Plastics and Chemicals

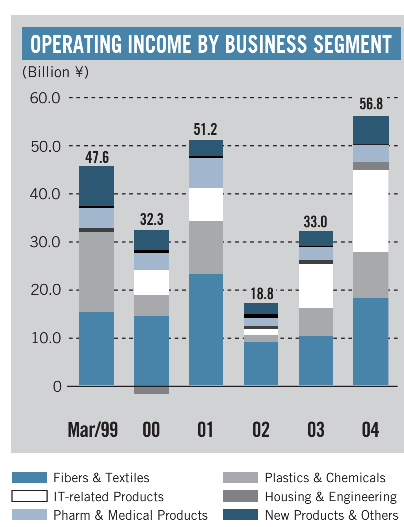
Total segment sales grew ¥16.2 billion, or 6.7%, to ¥258.1 billion.

In the resins business, sales of the ABS resin *Toyolac** increased on healthy demand for automotive and electrical machinery applications in Japan as well as for exports of transparent grades from Japan. Higher sales overseas due to economic recovery also contributed. The nylon resin *Amilan** and PBT resin *Toraycon** also enjoyed higher sales on an expansion of sales primarily for automotive and electrical machinery applications.

In the films business, sales of the mainstay polyester film *Lumirror** increased on higher sales for packaging and industrial materials applications overseas and smooth progress in the shift to high value-added products. The polypropylene film *Torayfan** also recorded sales growth on higher sales for packaging materials applications overseas.

In the chemicals business, sales increased on a recovery in prices in basic materials as well as other factors.





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

◆ IT-related Products

Total segment sales grew ¥26.8 billion, or 18.1%, to ¥174.5 billion.

In the IT-related resins and films business, sales increased as strong demand boosted sales for many applications in Japan, including liquid crystal displays (LCDs), mobile phones, and digital home electronics.

In the electronic materials business, sales increased on a strong performance by circuit materials and printing plate materials both in Japan and overseas.

In the LCD materials business, sales increased on higher sales of the TFT LCD color filter *Toptical**, which is used in small and medium-sized displays, mainly for mobile phones, and in LCD televisions.

In the IT-related equipment business, sales increased on growth in semiconductor and LCD-related equipment such as liquid crystal coating equipment.

◆ Housing and Engineering

Total segment sales grew ¥1.4 billion, or 1.1%, to ¥120.1 billion.

Sales increased thanks to efforts to expand sales in the condominium and construction businesses.

◆ Pharmaceuticals and Medical Products

Total segment sales grew ¥0.2 billion, or 0.5%, to ¥47.9 billion.

Though sales in the pharmaceuticals business decreased as a result of competition from the products of other companies, sales in the medical products business increased on growth for *Toraysulfone**, a polysulfone based artificial kidney, and *Toraymyxin**, a device for treating septicemia by removing endotoxins from the blood.

◆ New Products and Other Businesses

Total segment sales grew ¥4.5 billion, or 7.6%, to ¥63.1 billion.

In the carbon-fiber composite materials business, sales increased thanks to favorable growth for industrial applications such as civil engineering and construction, turbine blades for wind power generation, and CNG tanks for natural gas automobiles, and to a recovery in demand for aircraft applications.

Sales by Geographic Segment

◆ Japan

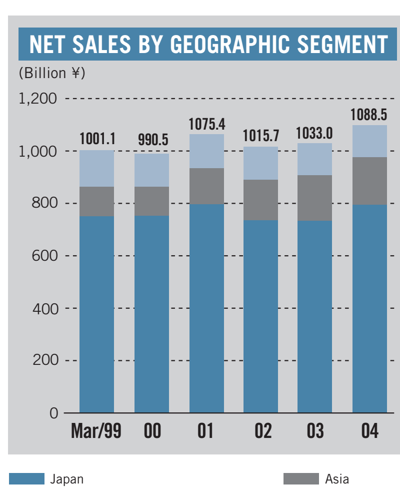
Sales of the Company and subsidiaries in Japan grew ¥49.1 billion, or 6.7%, to ¥786.1 billion as a result of higher sales primarily in the IT-related products segment and the plastics and chemicals segment. Japan's share of consolidated net sales was up from 71.3% to 72.2%.

◆ Asia

Sales of subsidiaries in China, Indonesia, Thailand, Malaysia, South Korea, and the rest of Asia ex-Japan rose ¥5.1 billion, or 2.9%, to ¥180.7 billion. Growth can be attributed mainly to a strong performance in the films business in South Korea. Asia's share of consolidated net sales was down from 17.0% to 16.6%.

◆ North America and Europe

Sales of subsidiaries in the US, UK, France, Italy, the Czech Republic, and other countries in North America and Europe grew ¥1.4 billion, or 1.2%, to ¥121.8 billion on higher sales in the films business and the advanced composite materials business in Europe. These two regions' share of consolidated net sales was down from 11.7% to 11.2%.



Export Sales and Sales by Overseas Subsidiaries

Overseas sales—comprised of exports from Japan and sales at overseas subsidiaries—grew ¥15.8 billion, or 3.7%, to ¥443.3 billion. Sales in Asia increased on growth in exports from Japan and a strong performance in the films business in South Korea, but sales in North America, Europe, and other areas decreased, due mainly to a slump in synthetic suede in Europe. Overseas sales accounted for 40.7% of consolidated net sales, a decline of 0.7 percentage points. Of this, sales in Asia totaled ¥274.4 billion to account for 25.2% of consolidated net sales, and sales in North America, Europe, and other areas totaled ¥168.9 billion to account for 15.5% of consolidated net sales.

Costs and Expenses

The ratio of total costs and expenses to net sales stood at 94.8%, down 2.0 percentage points from 96.8% in the previous fiscal year.

Consolidated net sales rose 5.4% while the cost of sales was up 4.5%. As a result, the cost of sales ratio decreased by 0.7 percentage points to 78.2%.

Selling, general and administrative expenses decreased ¥4.3 billion, or 2.9%, to ¥145.1 billion on progress in reducing overall costs as part of efforts to achieve sweeping structural improvement, a goal in Project NT21. The ratio of selling, general and administrative expenses to net sales declined 1.2 percentage points to 13.3%.

Research and development expenses rose ¥0.1 billion, or 0.2%, to ¥35.7 billion.

Amortization of cost in excess of net assets acquired declined ¥0.4 billion to ¥0.03 billion.

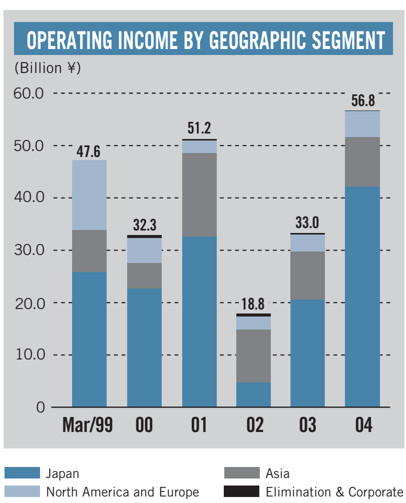
Operating Income and Net Income

Operating income grew ¥23.7 billion, or 71.9%, year-on-year to ¥56.8 billion. Operating income to net sales rose 2.0 percentage points to 5.2%.

All business segments recorded gains in operating income. The fibers and textiles segment grew ¥8.0 billion, or 77.0%, to ¥18.4 billion, due mainly to ongoing structural improvement efforts and to a shift to high-margin products. Plastics and chemicals rose ¥3.7 billion, or 60.7%, to ¥9.7 billion on firm growth for automotive and electrical machinery applications in the resins business and a shift to high-margin products in films business. IT-related products were up ¥8.0 billion, or 86.3%, to ¥17.3 billion, driven by strong gains for IT-related resins, films, and circuit materials and by earnings improvement for LCD color filters. Housing and engineering jumped ¥0.8 billion, or 100.4%, to ¥1.7 billion. Pharmaceuticals and medical products grew ¥0.8 billion, or 27.4%, to ¥3.5 billion, due mainly to higher sales of the artificial kidney *Toraysulfone**. New products and other businesses climbed ¥2.4 billion, or 69.1%, to ¥5.9 billion on an expansion in sales due to a global market recovery in the carbon-fiber composite materials business.

By geographic segment, operating income increased in all segments: In Japan, operating income jumped ¥20.9 billion, or 98.4%, to ¥42.2 billion, due mainly to gains in the fibers and textiles, plastics and chemicals, and IT-related products segments. In Asia, operating income grew ¥0.8 billion, or 9.8%, to ¥9.5 billion on a strong performance in the films business in South Korea. In North America and Europe, operating income rose ¥1.7 billion, or 51.9%, to ¥5.0 billion, due mainly to earnings improvement in the films business.

Net other income (expenses) improved ¥4.1 billion, or 44.2%, to



Management's Discussion and Analysis

¥5.2 billion in expenses. Interest and dividend income declined ¥0.5 billion to ¥1.4 billion and interest expenses fell ¥2.4 billion to ¥7.5 billion. This resulted in net financial expenses improving ¥2.0 billion to ¥6.1 billion. Other income (expenses), other, net improved ¥1.3 billion to ¥4.8 billion in expenses. Equity in earnings of affiliates increased ¥0.9 billion to ¥5.7 billion.

Special credits decreased ¥31.9 billion to ¥3.5 billion. This is due to the absence of a ¥15.3 billion gain on contribution of securities to retirement benefit trust and an ¥18.6 billion gain on return of employees' pension fund representative service in the previous fiscal year.

Special charges decreased ¥26.5 billion to ¥10.2 billion. This can be attributed to the loss on write-down of property, plant and equipment declining by ¥4.9 billion to ¥4.0 billion, the loss on write-down of investments in securities declining by ¥7.6 billion to ¥0.1 billion, and the absence of the loss on write-off of loans of ¥4.0 billion in the previous fiscal year.

As a result, income before income taxes rose ¥22.4 billion to ¥44.9 billion. After income taxes and minority interests in net income of consolidated subsidiaries, net income grew ¥15.1 billion to ¥20.9 billion.

Net income per share increased ¥10.74 to ¥14.87. The year-end cash dividend was also raised ¥0.50 to ¥3.00 per share in consideration of earnings results in FY Mar/04 and earnings prospects in FY Mar/05. Adding this to the interim cash dividend brings the annual cash dividend to ¥5.50 per share.

Financial Position

Assets

Total assets decreased ¥5.6 billion, or 0.4%, year-on-year to ¥1,295.3 billion at the end of FY Mar/04. Despite increases in cash as well as investments in securities, due mainly to a higher market value of stocks of listed companies, the decline in total assets can be attributed to decreases in property, plant and equipment and in non-current deferred tax assets. Overseas assets accounted for 26.7% of total assets, down 2.4 percentage points.

Current Assets

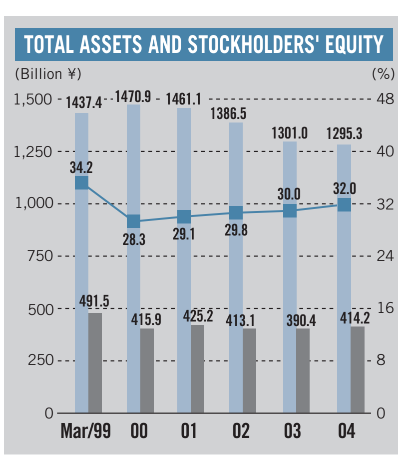
Current assets grew ¥27.4 billion, or 5.3%, to ¥549.1 billion.

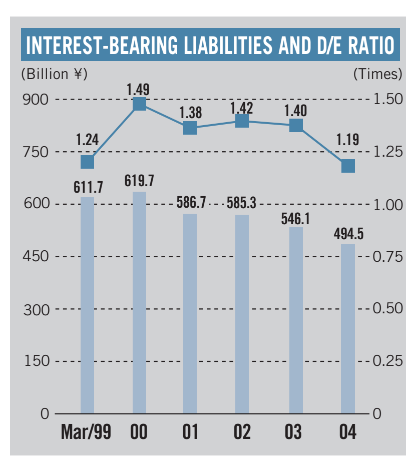
Liquid assets, which include cash, time deposits, and short-term investment securities, increased ¥22.6 billion, or 40.3%, to ¥78.7 billion. Trade receivables, representing the total of notes and accounts receivable, rose ¥10.5 billion, or 5.1%, to ¥216.8 billion. Inventories declined ¥5.9 billion, or 2.8%, to ¥207.1 billion.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, decreased ¥40.0 billion, or 6.9%, to ¥543.3 billion. Capital expenditures were reduced by ¥8.4 billion, or 14.7%, to ¥48.8 billion, based on the policy of investing selectively in prospective growth areas as well as to streamline and modernize production facilities to enhance production efficiency.

In the fibers and textiles segment, capital expenditures totaled ¥20.1 billion and included additional nylon yarn production facilities at Thai Toray Synthetics Co., Ltd. and additional polypropylene spunbond production facilities at Toray Saehan, Inc. In the plastics and chemicals segment, capital expenditures totaled ¥11.2 billion and included additional polyester film production facilities at the Company and additional ABS resin production facilities at Toray Plastics (Malaysia) Sdn. Berhad. In the IT-related products segment, capital expenditures totaled ¥6.8 billion and included additional printing materials production





Management's Discussion and Analysis

facilities at the Company. Capital expenditures totaled ¥1.7 billion in the housing and engineering segment, ¥2.6 billion in the pharmaceuticals and medical products segment, and ¥6.9 billion in the new products and other businesses segment.

Liabilities

Total liabilities decreased ¥32.6 billion, or 3.7%, to ¥843.7 billion, due mainly to a reduction in interest-bearing liabilities.

Total interest-bearing liabilities—comprised of bank loans, long-term debt due within one year, commercial paper, and long-term debt—were reduced by ¥51.6 billion, or 9.4%, to ¥494.5 billion as a result of efforts to reinforce the Company's financial structure, a goal in Project NT21.

Stockholders' Equity

Stockholders' equity increased ¥23.8 billion, or 6.1%, to ¥414.2 billion. This can be attributed to net income of ¥20.9 billion, dividends applicable to the previous fiscal year of ¥7.0 billion, an increase of ¥19.3 billion in unrealized gains on securities, and an increase of ¥9.3 billion in foreign currency translation adjustment (deduction item). As a result, stockholders' equity per share increased ¥16.99 to ¥295.64, and the equity ratio rose 2.0 percentage points to 32.0%.

Cash Flows

In FY Mar/04, net cash provided by operating activities exceeded net cash used in investing activities by ¥70.9 billion, due mainly to capital expenditures being lower than depreciation and amortization. Financing activities used net cash of ¥46.7 billion as a result of efforts to reduce interest-bearing liabilities to strengthen the Company's financial position. This resulted in cash and cash equivalents increasing ¥23.0 billion to ¥78.7 billion at the end of FY Mar/04.

Cash Flows from Operating Activities

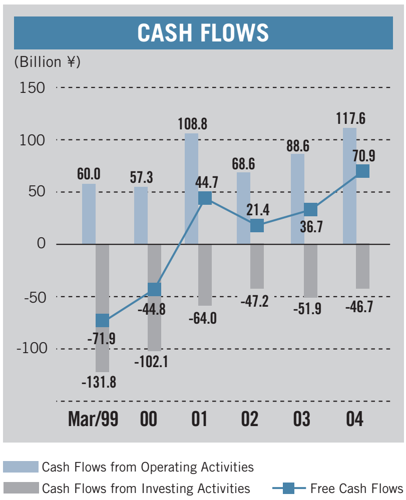
Net cash provided by operating activities increased ¥29.0 billion to ¥117.6 billion in FY Mar/04. This reflects income before income taxes of ¥44.9 billion, depreciation and amortization of ¥68.2 billion, an increase in trade payables and accrued liabilities of ¥8.7 billion, an increase in trade receivables of ¥11.9 billion, and income taxes paid of ¥9.2 billion.

Cash Flows from Investing Activities

Net cash used in investing activities decreased ¥5.2 billion to ¥46.7 billion. This reflects proceeds from sales and disposal of non-current assets of ¥6.8 billion and capital expenditures of ¥51.5 billion.

Cash Flows from Financing Activities

Net cash used in financing activities increased ¥14.8 billion to ¥46.7 billion. This can be attributed to a decrease in short-term debt of ¥21.9 billion and to repayments of long-term debt exceeding proceeds from long-term debt by ¥17.4 billion.



Management's Discussion and Analysis

Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
March 31, 2004, 2003 and 2002

Assets	Millions of yen 2004	2003	2002	Thousands of U.S. dollars (Note2) 2004
Current assets:				
Cash	**¥ 73,135**	¥ 46,101	¥ 42,226	**$ 689,953**
Time deposits	**5,567**	8,968	8,708	**52,519**
Short-term investment securities (Note 6)	**5**	1,037	3,544	**47**
Trade receivables (Note 4):				
Notes receivable	**32,737**	34,174	43,475	**308,840**
Accounts receivable	**184,021**	172,096	153,287	**1,736,047**
Inventories (Note 3)	**207,068**	212,981	222,140	**1,953,472**
Deferred tax assets (Note 9)	**13,803**	12,542	11,221	**130,217**
Prepaid expenses and other current assets	**36,881**	39,223	34,806	**347,933**
Allowance for doubtful accounts	**(4,127)**	(5,473)	(3,545)	**(38,934)**
Total current assets	**549,090**	521,649	515,862	**5,180,094**
Property, plant and equipment (Notes 5 and 12):				
Land	**82,692**	83,733	88,943	**780,113**
Buildings	**403,087**	397,582	398,916	**3,802,708**
Machinery and equipment	**1,309,316**	1,318,592	1,331,807	**12,352,038**
Construction in progress	**23,420**	29,566	26,593	**220,943**
	1,818,515	1,829,473	1,846,259	**17,155,802**
Accumulated depreciation	**(1,275,200)**	(1,246,193)	(1,212,914)	**(12,030,189)**
	543,315	583,280	633,345	**5,125,613**
Investments, long-term loans and other assets:				
Affiliates	**61,882**	59,802	52,684	**583,792**
Marketable equity securities (Notes 5 and 6)	**82,283**	47,760	88,563	**776,255**
Other securities (Note 6)	**4,541**	5,614	12,828	**42,840**
Long-term loans receivable	**5,887**	5,920	1,263	**55,538**
Deferred tax assets (Note 9)	**24,092**	50,258	44,192	**227,283**
Other	**19,466**	22,582	32,053	**183,641**
Allowance for doubtful accounts	**(4,887)**	(5,008)	(1,827)	**(46,104)**
	193,264	186,928	229,756	**1,823,245**
Intangible assets	**9,645**	9,097	7,544	**90,991**
	¥1,295,314	¥1,300,954	¥1,386,507	**$12,219,943**

See accompanying notes to consolidated financial statements.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen 2004	2003	2002	Thousands of U.S. dollars (Note2) 2004
Current liabilities:				
Bank loans (Note 5)	**¥ 131,145**	¥ 159,859	¥ 179,019	**$ 1,237,217**
Long-term debt due within one year (Note 5)	**59,549**	59,253	81,627	**561,783**
Commercial paper	**21,000**	18,000	7,000	**198,113**
Trade payables (Note 4):				
Notes payable	**35,644**	39,255	42,875	**336,264**
Accounts payable	**112,552**	104,420	104,066	**1,061,811**
Income taxes payable (Note 9)	**5,641**	5,785	4,932	**53,217**
Accrued liabilities	**44,396**	41,481	43,445	**418,830**
Other current liabilities	**62,947**	54,511	34,340	**593,840**
Total current liabilities	**472,874**	482,564	497,304	**4,461,075**
Long-term debt (Note 5)	**282,833**	308,987	317,623	**2,668,236**
Deferred tax liabilities (Note 9)	**1,430**	1,520	2,248	**13,491**
Reserve for employees' retirement benefits (Note 8)	**72,487**	73,620	115,671	**683,840**
Customers' guarantee deposits and other liabilities	**14,046**	9,614	8,294	**132,509**
	843,670	876,305	941,140	**7,959,151**
Commitments and contingent liabilities (Note 11)				
Minority interests in consolidated subsidiaries	**37,397**	34,251	32,227	**352,802**
Stockholders' equity (Note 10):				
Common stock:				
Authorized—4,000,000,000 shares				
Issued—1,401,481,403 shares	**96,937**	96,937	96,937	**914,500**
Capital surplus	**85,792**	85,792	85,792	**809,358**
Retained earnings	**245,267**	231,371	232,594	**2,313,840**
Unrealized gain on securities	**29,731**	10,481	26,558	**280,481**
Foreign currency translation adjustment	**(43,326)**	(34,062)	(28,727)	**(408,736)**
	414,401	390,519	413,154	**3,909,443**
Treasury stock, at cost	**(154)**	(121)	(14)	**(1,453)**
Total stockholders' equity	**414,247**	390,398	413,140	**3,907,990**
	¥1,295,314	¥1,300,954	¥1,386,507	**$12,219,943**

Consolidated Statements of Income

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Net sales (Note 4)	**¥1,088,501**	¥1,032,991	¥1,015,713	**$10,268,877**
Costs and expenses:				
Cost of sales (Notes 4, 8 and 12)	**850,881**	814,518	804,116	**8,027,179**
Selling, general and administrative expenses (Notes 8 and 12)	**145,071**	149,391	155,289	**1,368,594**
Research and development expenses (Notes 8 and 12)	**35,730**	35,654	37,213	**337,075**
Amortization of cost in excess of net assets acquired	**27**	385	250	**255**
	1,031,709	999,948	996,868	**9,733,103**
Operating income	**56,792**	33,043	18,845	**535,774**
Other income (expenses):				
Interest expenses	**(7,505)**	(9,935)	(14,650)	**(70,802)**
Interest and dividend income	**1,395**	1,859	2,769	**13,160**
Equity in earnings of affiliates	**5,697**	4,844	4,823	**53,745**
Other, net	**(4,777)**	(6,065)	(2,849)	**(45,066)**
	(5,190)	(9,297)	(9,907)	**(48,963)**
Income before special credits (charges)	**51,602**	23,746	8,938	**486,811**
Special credits (charges):				
Loss on sale or disposal of property, plant and equipment, net	**(558)**	(4,030)	(2,113)	**(5,264)**
Loss on write-down of property, plant and equipment	**(4,045)**	(8,988)	—	**(38,160)**
Loss on write-down or disposal of inventories	**—**	—	(10,785)	**—**
Gain (loss) on sale or write-down of investments in securities, net	**858**	(7,572)	5,644	**8,094**
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	**(2,748)**	(5,554)	(6,743)	**(25,925)**
Gain on contribution of securities to retirement benefit trust (Note 1)	**—**	15,305	17,473	**—**
Gain on return of employees' pension fund representative service (Notes 1 and 8)	**—**	18,551	—	**—**
Loss on write-off of loans	**—**	(4,011)	—	**—**
Other, net	**(233)**	(4,967)	(1,590)	**(2,198)**
	(6,726)	(1,266)	4,202	**(63,453)**
Income before income taxes	**44,876**	22,480	13,140	**423,358**
Income taxes (Note 9):				
Current	**9,127**	9,419	10,185	**86,104**
Deferred	**11,629**	4,083	(3,807)	**109,707**
	20,756	13,502	6,378	**195,811**
Income from consolidated operations	**24,120**	8,978	6,762	**227,547**
Minority interests in net income of consolidated subsidiaries	**(3,212)**	(3,188)	(2,960)	**(30,302)**
Net income	**20,908**	5,790	3,802	**197,245**

	Yen			U.S. dollars (Note2)
Net income per share (Note 1):				
Primary	**¥14.87**	¥4.13	¥2.71	**$0.140**
Fully diluted	**—**	—	—	**—**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Income

Consolidated Statements of Stockholders' Equity

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	2004
Common stock:				
Balance at beginning of year	**¥ 96,937**	¥ 96,937	¥ 96,937	**$ 914,500**
Balance at end of year	**¥ 96,937**	¥ 96,937	¥ 96,937	**$ 914,500**
Capital surplus:				
Balance at beginning of year	**¥ 85,792**	¥ 85,792	¥ 85,792	**$ 809,358**
Balance at end of year	**¥ 85,792**	¥ 85,792	¥ 85,792	**$ 809,358**
Retained earnings:				
Balance at beginning of year	**¥231,371**	¥232,594	¥237,336	**$2,182,745**
Net income	**20,908**	5,790	3,802	**197,245**
Cash dividends	**(7,005)**	(7,007)	(8,409)	**(66,084)**
Bonuses to directors and corporate auditors	**(7)**	(6)	(135)	**(66)**
Balance at end of year	**¥245,267**	¥231,371	¥232,594	**$2,313,840**
Treasury stock, at cost	**¥ (154)**	¥ (121)	¥ (14)	**$(1,453)**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Years ended March 31,2004,2003 and 2002

	Millions of yen			Thousands of U.S. dollars (Note2)
	2004	2003	2002	**2004**
Cash flows from operating activities:				
Income before income taxes	**¥ 44,876**	¥22,480	¥13,140	**$423,358**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	**68,221**	75,544	79,391	**643,594**
Interest and dividend income	**(1,395)**	(1,859)	(2,769)	**(13,160)**
Equity in earnings of affiliates	**(5,697)**	(4,844)	(4,823)	**(53,745)**
Interest expenses	**7,505**	9,935	14,650	**70,802**
Loss on sale or disposal of property, plant and equipment, net	**558**	4,030	2,113	**5,264**
(Gain) loss on sale or write-down of investments in securities, net	**(826)**	7,773	(5,612)	**(7,792)**
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	**4,045**	8,988	—	**38,160**
Decrease in reserve for employees' retirement benefits	**(995)**	(35,500)	(21,922)	**(9,387)**
(Increase) decrease in trade receivables	**(11,908)**	(9,512)	46,282	**(112,339)**
Decrease in inventories	**3,395**	5,133	13,859	**32,028**
Increase (decrease) in trade payables and accrued liabilities	**8,701**	14,808	(33,700)	**82,085**
Other, net	**12,912**	4,199	1,178	**121,811**
Subtotal	**129,392**	101,175	99,471	**1,220,679**
Interest and dividend income received	**4,547**	3,659	5,305	**42,896**
Interest expenses paid	**(7,123)**	(8,358)	(15,189)	**(67,198)**
Income taxes paid	**(9,206)**	(7,894)	(20,997)	**(86,849)**
Net cash provided by operating activities	**117,610**	88,582	68,590	**1,109,528**
Cash flows from investing activities:				
Capital expenditures	**(51,453)**	(60,607)	(61,963)	**(485,406)**
Purchase of investments in securities	**(4,052)**	(4,579)	(11,822)	**(38,226)**
Proceeds from sale and disposal of noncurrent assets	**6,806**	17,053	18,568	**64,208**
Other, net	**2,012**	(3,762)	7,983	**18,981**
Net cash used in investing activities	**(46,687)**	(51,895)	(47,234)	**(440,443)**
Cash flows from financing activities:				
Decrease in short-term debt	**(21,852)**	(3,695)	(5,272)	**(206,150)**
Proceeds from long-term debt	**44,175**	61,201	81,051	**416,745**
Repayments of long-term debt	**(61,596)**	(80,744)	(98,753)	**(581,094)**
Cash dividends paid	**(8,226)**	(8,548)	(11,427)	**(77,604)**
Other, net	**814**	(107)	(12)	**7,679**
Net cash used in financing activities	**(46,685)**	(31,893)	(34,413)	**(440,424)**
Effect of exchange rate changes on cash and cash equivalents	**(1,308)**	(602)	1,437	**(12,340)**
Net increase (decrease) in cash and cash equivalents	**22,930**	4,192	(11,620)	**216,321**
Cash and cash equivalents at beginning of year	**55,677**	51,485	62,890	**525,255**
Beginning of term balance of cash and cash equivalents at subsidiaries not previously included in consolidated financial statements	**95**	—	215	**896**
Cash and cash equivalents at end of year	**¥ 78,702**	¥55,677	¥51,485	**$742,472**

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2004, 2003 and 2002

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, 2004 and 2003 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
	2004	2003	**2004**
Cash	**¥73,135**	¥46,101	**$689,953**
Time deposits	**5,567**	8,968	**52,519**
Less—Time deposits with maturities of over 3 months	**—**	(6)	**—**
Short-term investment securities and others with maturities of 3 months or less	**—**	614	**—**
Cash and cash equivalents	**¥78,702**	¥55,677	**$742,472**

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.

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

In the Company and its domestic subsidiaries, 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. Deferred 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 Ministry of Health, Labor and Welfare 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 the Japanese 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 fiscal 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.

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 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 ¥106 to $1.00, the approximate exchange rate prevailing on March 31, 2004. 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, 2004 and 2003, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods and work in process	**¥165,729**	¥167,879	**$1,563,481**
Raw materials and supplies	**41,339**	45,102	**389,991**
	¥207,068	¥212,981	**$1,953,472**

4. Account Balances and Transactions with Affiliates

Account balances due to/from unconsolidated subsidiaries and affiliated companies at March 31, 2004 and 2003 and transactions for the years then ended with unconsolidated subsidiaries and affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Trade receivables	**¥ 9,424**	¥ 9,801	**$ 88,906**
Trade payables	**4,396**	4,538	**41,472**
Sales	**¥40,047**	¥41,348	**$377,802**
Purchases	**25,084**	25,878	**236,642**

Notes to Consolidated Financial Statements

5. Bank Loans and Long-Term Debt

Bank loans at March 31, 2004 and 2003 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, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Loans principally from banks and insurance companies with interest rates primarily from 0.2500% to 5.9500%, maturing serially through 2013:			
Collateralized	**¥ 806**	¥ 1,392	**$ 7,603**
Unsecured	**180,690**	185,916	**1,704,622**
Medium-term notes of consolidated subsidiary with an interest rate of LIBOR+0.35% due 2005	**386**	432	**3,641**
Mortgage bonds with an interest rate of 2.3% due 2006	**500**	500	**4,717**
Yen notes with an interest rate of 2.40% due 2009	**20,000**	20,000	**188,679**
Yen notes with an interest rate of 2.275% due 2004	**—**	15,000	**—**
Yen notes with an interest rate of 2.20% due 2003	**—**	15,000	**—**
Yen notes with an interest rate of 2.03% due 2008	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 2.00% due 2013	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 1.95% due 2009	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 1.94% due 2010	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 1.93% due 2009	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 1.925% due 2005	**20,000**	20,000	**188,679**
Yen notes with an interest rate of 1.61% due 2013	**10,000**	—	**94,340**
Yen notes with an interest rate of 1.48% due 2011	**20,000**	20,000	**188,679**
Yen notes with an interest rate of 1.40% due 2004	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 1.05% due 2004	**10,000**	10,000	**94,340**
Yen notes with an interest rate of 0.60% due 2006	**20,000**	20,000	**188,679**
	342,382	368,240	**3,230,019**
Less amounts due within one year	**59,549**	59,253	**561,783**
	¥282,833	¥308,987	**$2,668,236**

At March 31, 2004, 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
Investments in securities at carrying value	¥ 45	$ 425
Property, plant and equipment, at cost, less accumulated depreciation	11,826	111,566
	¥11,871	$111,991

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2005	¥ 59,549	$ 561,783
2006	53,618	505,830
2007	37,211	351,047
2008	43,465	410,047
2009	31,076	293,170
2010 and thereafter	117,463	1,108,142
	¥342,382	$3,230,019

6. Securities

At March 31, 2004 and 2003, 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							
	2004				2003			
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	**¥ 45**	**¥ —**	**¥ —**	**¥ 45**	¥ 45	¥ —	¥ —	¥ 45
Other securities	**32,040**	**50,566**	**368**	**82,238**	29,959	19,959	2,203	47,715

	Thousands of U.S. dollars			
	2004			
	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	**$ 425**	**$ —**	**$ —**	**$ 425**
Other securities	**302,264**	**477,038**	**3,472**	**775,830**

At March 31, 2004 and 2003, 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
	2004	2003	2004
Held-to-maturity debt securities	**¥ 34**	¥ 38	**$ 321**
Other securities	**4,488**	6,574	**42,340**

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, 2004 and 2003 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2004		2003		2004	
	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	**¥ 39**	**¥ —**	¥ 14	¥ —	**$ 368**	**$ —**
Due over one year	**40**	**20**	69	20	**377**	**189**

7. Derivatives

The Company and its subsidiaries had the following derivatives contracts outstanding at March 31, 2004 and 2003:

	Millions of yen					
	2004			2003		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:						
Buying U.S. dollar	**¥1,702**	**¥1,696**	**¥ (6)**	¥2,134	¥2,129	¥ (5)
Buying Japanese yen	**—**	**—**	**—**	112	122	10
Selling U.S. dollar	**605**	**570**	**35**	78	72	6
Selling euro	**1,039**	**991**	**48**	999	1,038	(39)
Selling British pound	**29**	**28**	**1**	—	—	—

	Thousands of U.S. dollars		
	2004		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollar	**$16,057**	**$16,000**	**$ (57)**
Selling U.S. dollar	**5,707**	**5,377**	**330**
Selling euro	**9,802**	**9,349**	**453**
Selling British pound	**273**	**264**	**9**

8. Retirement Benefit Plan

The reserve for employees' retirement benefits as of March 31, 2004 and 2003 was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligations	**¥269,287**	¥272,462	**$2,540,443**
Plan assets	**164,033**	133,611	**1,547,481**
	105,254	138,851	**992,962**
Unrecognized actuarial differences	**35,484**	68,166	**334,755**
Unrecognized prior service cost	**(2,677)**	(2,895)	**(25,255)**
	72,447	73,580	**683,462**
Prepaid pension cost	**40**	40	**378**
	¥ 72,487	¥ 73,620	**$ 683,840**

Net pension expense related to the employees' retirement benefits for the year ended March 31, 2004 and 2003 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 7,132**	¥11,453	**$ 67,283**
Interest cost	**7,571**	9,288	**71,425**
Expected return on plan assets	**(3,871)**	(4,709)	**(36,519)**
Amortization of actuarial differences	**4,891**	4,007	**46,141**
Amortization of prior service cost	**(219)**	(431)	**(2,066)**
Net pension expense	**15,504**	19,608	**146,264**
Gain on return of employees' pension fund representative service	**—**	(18,551)	**—**
	¥15,504	¥ 1,057	**$146,264**

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

	2004	2003
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 3.0%
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 year ended on March 31, 2002 was 42.3%. Due to the change in local tax law effective for years beginning April 1, 2004, the statutory tax rate used for calculating non-current deferred tax assets and liabilities in the fiscal year ended on March 31, 2003 was changed to the expected rate 41.3%, while the rate used for calculating current deferred tax assets and liabilities remained 42.3%. In the fiscal year ended on March 31, 2004, as the above tax rate was fixed, the statutory tax rate for calculating deferred tax assets and liabilities was changed to 40.7%.

At March 31, 2004 and 2003, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Inventories	**¥ 3,402**	¥ 3,600	**$ 32,094**
Accrued bonuses	**5,209**	3,961	**49,142**
Reserve for employees' retirement benefits	**29,052**	28,002	**274,076**
Tax loss carryforwards	**20,785**	33,156	**196,085**
Unrealized earnings	**10,506**	11,114	**99,113**
Other	**24,669**	26,101	**232,726**
	93,623	105,934	**883,236**
Valuation allowance	**(16,350)**	(15,546)	**(154,245)**
Total deferred tax assets	**77,273**	90,388	**728,991**
Deferred tax liabilities:			
Reserve for advanced depreciation	**13,319**	13,839	**125,651**
Depreciation	**2,664**	3,706	**25,132**
Undistributed earnings of foreign subsidiaries and affiliates	**3,745**	3,455	**35,330**
Unrealized gain on securities	**20,401**	7,485	**192,463**
Other	**1,113**	1,219	**10,500**
Total deferred tax liabilities	**41,242**	29,704	**389,076**
Net deferred tax assets	**¥36,031**	¥ 60,684	**$339,915**

At March 31, 2004 and 2003, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets - current	**¥13,803**	¥12,542	**$130,217**
Deferred tax assets - non-current	**24,092**	50,258	**227,283**
Deferred tax liabilities -current	**434**	596	**4,094**
Deferred tax liabilities -non-current	**1,430**	1,520	**13,491**

At March 31, 2004 and 2003, a reconciliation of the statutory tax rate and the effective income tax rate was as follows:

	2004	2003
Statutory tax rate	**42.3%**	42.3%
Increase (decrease) in taxes resulting from:		
Permanent differences	**1.6**	3.4
Losses by subsidiaries not utilizing deferred tax accounting	**5.7**	15.2
Equity in earnings of affiliates	**(5.4)**	(9.1)
Adjustment of deferred tax assets and liabilities due to tax rate change	**1.3**	4.8
Other	**0.8**	3.5
Effective income tax rate	**46.3%**	60.1%

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 un-appropriated 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 exceed 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 2004 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥3.00 per share, aggregating ¥4,203 million ($39,651 thousand).

11. Commitments and Contingent Liabilities

At March 31, 2004, commitment line of credit was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥7,522	$70,962
Outstanding borrowings	6,690	63,113
Balance	¥ 832	$ 7,849

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

At March 31, 2004 and 2003, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
As guarantors of loans to:			
Affiliates	**¥10,567**	¥11,335	**$ 99,689**
Others	**3,012**	5,532	**28,415**
	¥13,579	¥16,867	**$128,104**
Obligations of guarantee	**¥ 41**	¥ 54	**$ 387**
Buyback obligations associated with securitization of receivables	**¥ 7,352**	¥ 6,055	**$ 69,358**

12. Leases

Finance leases

The Group holds certain machinery, equipment and vehicles and other assets (fixtures and tools) by leases. Total lease payments under these leases were ¥2,828 million ($26,679 thousand) and ¥2,141 million for the fiscal years ended on March 31, 2004 and 2003, 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, 2004 and 2003 was as follows:

	Millions of yen		
Year ended March 31, 2004:	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Acquisition costs	**¥ 2,201**	**¥10,533**	**¥12,734**
Accumulated depreciation	**1,162**	**5,655**	**6,817**
Net leased property	**¥ 1,039**	**¥ 4,878**	**¥ 5,917**

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

	Thousands of U.S. dollars		
Year ended March 31, 2004:	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Acquisition costs	**$20,764**	**$99,368**	**$120,132**
Accumulated depreciation	**10,962**	**53,349**	**64,311**
Net leased property	**$ 9,802**	**$46,019**	**$ 55,821**

Future minimum lease payments under finance leases as of March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Due within one year	**¥2,415**	¥2,794	**$22,783**
Due over one year	**3,502**	3,705	**33,038**
Total	**¥5,917**	¥6,499	**$55,821**

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

Operating leases

Future minimum lease payments under noncancellable operating leases as of March 31, 2004 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2004	**2004**
Due within one year	**¥1,039**	**$ 9,802**
Due over one year	**7,054**	**66,547**
Total	**¥8,093**	**$76,349**

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-ß, 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.

	Millions of yen								
Year ended March 31, 2004:	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	**¥424,755**	**¥258,093**	**¥174,538**	**¥120,123**	**¥47,875**	**¥ 63,117**	**¥1,088,501**	**¥ —**	**¥1,088,501**
Intersegment sales	**1,358**	**27,460**	**4,462**	**38,988**	**2**	**16,179**	**88,449**	**(88,449)**	**—**
Total sales	**¥426,113**	**¥285,553**	**¥179,000**	**¥159,111**	**¥47,877**	**¥ 79,296**	**¥1,176,950**	**¥(88,449)**	**¥1,088,501**
Operating income	**¥ 18,371**	**¥ 9,676**	**¥ 17,326**	**¥ 1,695**	**¥ 3,510**	**¥ 5,868**	**¥ 56,446**	**¥ 346**	**¥ 56,792**
Assets	**¥442,598**	**¥348,520**	**¥219,133**	**¥155,682**	**¥67,546**	**¥117,683**	**¥1,351,162**	**¥(55,848)**	**¥1,295,314**
Depreciation and amortization	**22,688**	**21,609**	**13,721**	**2,376**	**2,734**	**5,822**	**68,950**	**(718)**	**68,232**
Capital expenditures	**20,143**	**11,197**	**6,829**	**1,676**	**2,554**	**6,900**	**49,299**	**(492)**	**48,807**
Year ended March 31, 2003:									
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

	Thousands of U.S. dollars								
Year ended March 31, 2004:	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	**$4,007,122**	**$2,434,840**	**$1,646,585**	**$1,133,236**	**$451,651**	**$ 595,443**	**$10,268,877**	**$ —**	**$10,268,877**
Intersegment sales	**12,812**	**259,056**	**42,094**	**367,811**	**19**	**152,632**	**834,424**	**(834,424)**	**—**
Total sales	**$4,019,934**	**$2,693,896**	**$1,688,679**	**$1,501,047**	**$451,670**	**$ 748,075**	**$11,103,301**	**$(834,424)**	**$10,268,877**
Operating income	**$ 173,311**	**$ 91,283**	**$ 163,453**	**$ 15,991**	**$ 33,113**	**$ 55,359**	**$ 532,510**	**$ 3,264**	**$ 535,774**
Assets	**$4,175,453**	**$3,287,925**	**$2,067,292**	**$1,468,698**	**$637,226**	**$1,110,217**	**$12,746,811**	**$(526,868)**	**$12,219,943**
Depreciation and amortization	**214,038**	**203,859**	**129,443**	**22,415**	**25,792**	**54,925**	**650,472**	**(6,774)**	**643,698**
Capital expenditures	**190,028**	**105,632**	**64,425**	**15,811**	**24,094**	**65,095**	**465,085**	**(4,642)**	**460,443**

Results by Geographic Segment

Year ended March 31, 2004:	Japan	Asia	North America and Europe	Total	Elimination and corporate	Consolidated total
	Millions of yen					
Sales to outside customers	**¥786,063**	**¥180,676**	**¥121,762**	**¥1,088,501**	**¥ —**	**¥1,088,501**
Intersegment sales	**67,606**	**22,402**	**5,068**	**95,076**	**(95,076)**	**—**
Total sales	**¥853,669**	**¥203,078**	**¥126,830**	**¥1,183,577**	**¥ (95,076)**	**¥1,088,501**
Operating income	**¥ 42,202**	**¥ 9,462**	**¥ 5,010**	**¥ 56,674**	**¥ 118**	**¥ 56,792**
Assets	**¥963,366**	**¥211,161**	**¥140,484**	**¥1,315,011**	**¥(19,697)**	**¥1,295,314**
Year ended March 31, 2003:						
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, 2004:	Japan	Asia	North America and Europe	Total	Elimination and corporate	Consolidated total
	Thousands of U.S. dollars					
Sales to outside customers	**$7,415,689**	**$1,704,490**	**$1,148,698**	**$10,268,877**	**$ —**	**$10,268,877**
Intersegment sales	**637,792**	**211,340**	**47,811**	**896,943**	**(896,943)**	**—**
Total sales	**$8,053,481**	**$1,915,830**	**$1,196,509**	**$11,165,820**	**$(896,943)**	**$10,268,877**
Operating income	**$ 398,132**	**$ 89,265**	**$ 47,264**	**$ 534,661**	**$ 1,113**	**$ 535,774**
Assets	**$9,088,358**	**$1,992,085**	**$1,325,321**	**$12,405,764**	**$(185,821)**	**$12,219,943**

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, 2004:	Asia	North America, Europe and other areas	Total
	Millions of yen		
Export sales and sales by overseas subsidiaries	**¥274,372**	**¥168,901**	**¥443,273**
Percentage of such sales against consolidated net sales	**25.2%**	**15.5%**	**40.7%**
Year ended March 31, 2003:			
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, 2004:	Thousands of U.S. dollars		
Export sales and sales by overseas subsidiaries	**$2,588,415**	**$1,593,406**	**$4,181,821**

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, 2004. 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, 2004.

Report of Independent Auditors

ChuoAoyama PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS

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

To the Board of Directors and Stockholders of Toray Industries, Inc.

We have audited the accompanying consolidated balance sheets of Toray Industries, Inc. and its subsidiaries as of March 31, 2004, 2003, and 2002 and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, 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 generally accepted 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 subsidiaries as of March 31, 2004, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in *Japan*.

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 PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 25, 2004

Toray Corporate Data

Toray Group Worldwide Network (As of March 31, 2004)

Switzerland

Subsidiaries Accounted for by Equity Method
- ◆ Toray Membrane Europe AG (TMEu)

Italy

Consolidated Subsidiaries
- ■ Alcantara S.p.a.

Subsidiaries Accounted for by Equity Method
- ● Toray Italia S.r.l. (TITA)

United Kingdom

Consolidated Subsidiaries
- ■ Toray Textiles Europe Ltd. (TTEL)
- ● Toray Europe Ltd. (TEL)

France

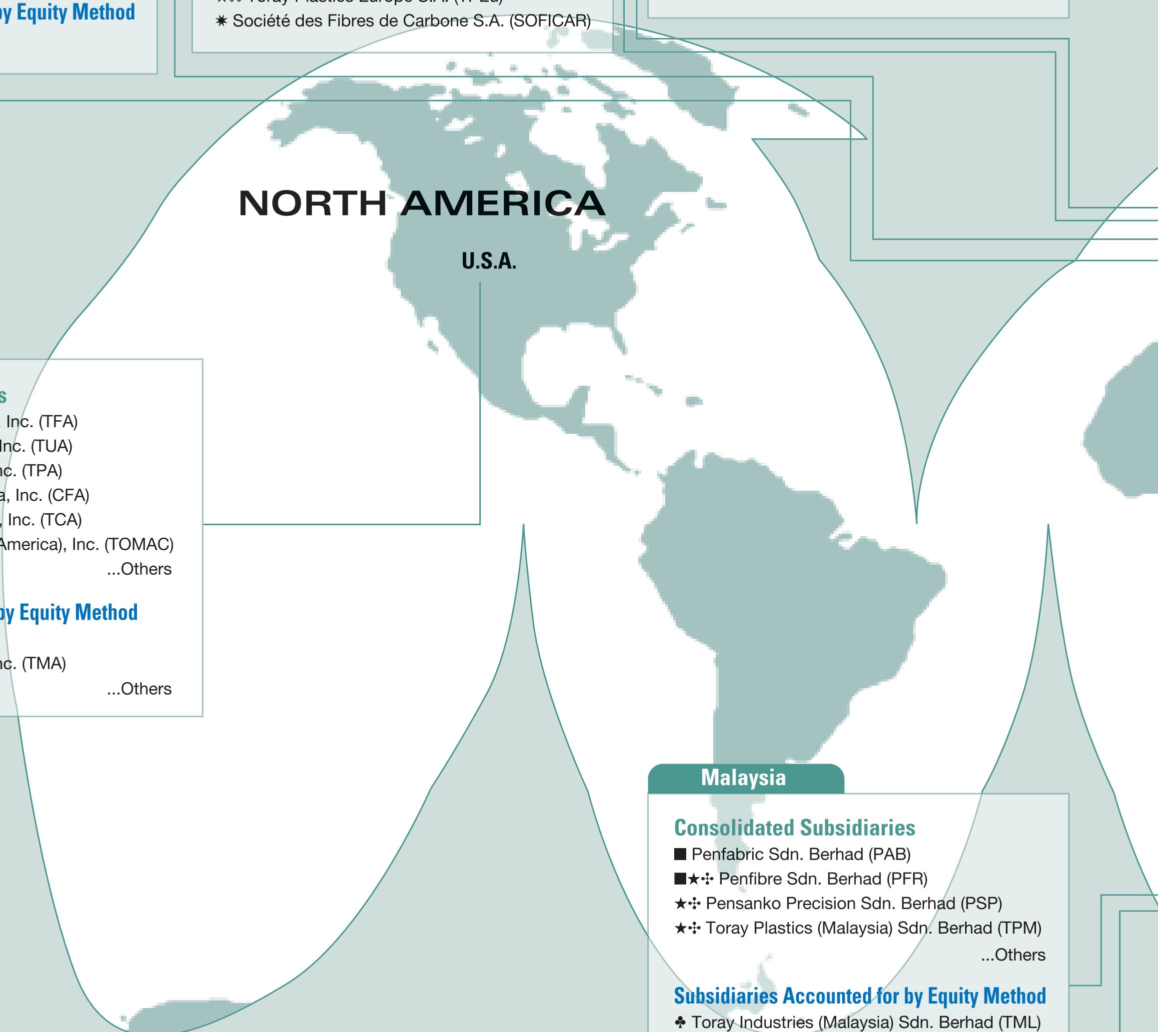
Consolidated Subsidiaries
- ★⌘ Toray Plastics Europe S.A. (TPEu)
- ✷ Société des Fibres de Carbone S.A. (SOFICAR)

Czech

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

Germany

Consolidated Subsidiaries
- ■ Toray Deutschland GmbH (TDG)



U.S.A.

Consolidated Subsidiaries
- ■ Toray Fluorofibers (America), Inc. (TFA)
- ■ Toray Ultrasuede (America), Inc. (TUA)
- ★⌘ Toray Plastics (America), Inc. (TPA)
- ✷ Toray Carbon Fibers America, Inc. (CFA)
- ✷ Toray Composites (America), Inc. (TCA)
- ● Toray Marketing and Sales (America), Inc. (TOMAC)

...Others

Subsidiaries Accounted for by Equity Method
- ★ Toray Resin Co. (TREC)
- ◆ Toray Membrane America, Inc. (TMA)

...Others

Malaysia

Consolidated Subsidiaries
- ■ Penfabric Sdn. Berhad (PAB)
- ■★✣ Penfibre Sdn. Berhad (PFR)
- ★✣ Pensanko Precision Sdn. Berhad (PSP)
- ★✣ Toray Plastics (Malaysia) Sdn. Berhad (TPM)

...Others

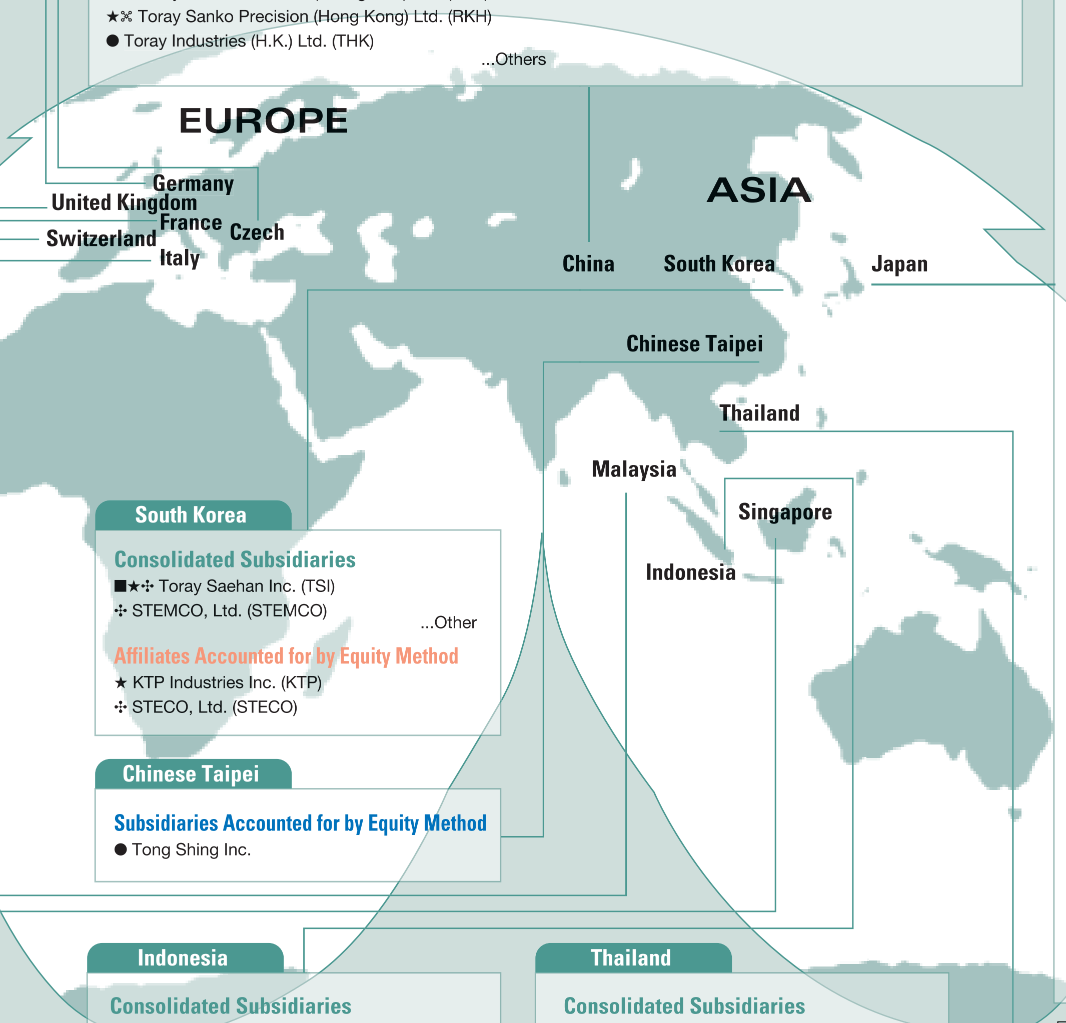
Subsidiaries Accounted for by Equity Method
- ♣ Toray Industries (Malaysia) Sdn. Berhad (TML)

Affiliates Accounted for by Equity Method
- ★ Toray BASF PBT Resin Sdn. Berhad (TBPR)

Singapore

Consolidated Subsidiaries
- ● Toray Industries (Singapore) Pte. Ltd. (TSP)

- ♣ Regional Supervisory Organization
- ■ Fibers & Textiles
- ★ Plastics & Chemicals
- ⌘ IT-related Products
- ◆ Housing & Engineering
- ✚ Pharmaceuticals & Medical Products
- ✷ New Products & Other Businesses
- ● Trading



China

Consolidated Subsidiaries

♣ Toray Industries (China) Co., Ltd. (TCH)
■ Toray Fibers (Nantong) Co., Ltd. (TFNL)
■ Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd.(TSD)
■ TAL Knits Ltd. (TAK)
★⌘ LIBI Plastic Compounding (Shenzhen) Co., Ltd.(LCS)
★✣ LIBI Plastic Compounding (Hong Kong) Co., Ltd.(LCH)
★ Toray Film Products (Zhongshan) Ltd. (TFZ)
★⌘ Toray Sanko Precision (Zhongshan) Ltd. (RKZ)
★⌘ Toray Sanko Precision (Hong Kong) Ltd. (RKH)
● Toray Industries (H.K.) Ltd. (THK)
...Others

Subsidiaries Accounted for by Equity Method

♣ Toray Industries (South China) Co., Ltd. (TSCH)
● Toray Trading (Shanghai) Co., Ltd. (TSL)

Affiliates Accounted for by Equity Method

★ Yihua Toray Polyester Film Co., Ltd. (YTP)

South Korea

Consolidated Subsidiaries

■★✣ Toray Saehan Inc. (TSI)
✣ STEMCO, Ltd. (STEMCO)
...Other

Affiliates Accounted for by Equity Method

★ KTP Industries Inc. (KTP)
✣ STECO, Ltd. (STECO)

Chinese Taipei

Subsidiaries Accounted for by Equity Method

● Tong Shing Inc.

Indonesia

Consolidated Subsidiaries

■ 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)
...Others

Subsidiaries Accounted for by Equity Method

♣ P.T. Toray Industries Indonesia (TIN)
...Others

Affiliates Accounted for by Equity Method

★ P.T. Petnesia Resindo (PNR)
...Other

Thailand

Consolidated Subsidiaries

■ Luckytex (Thailand) Public Co., Ltd. (LTX)
■ Thai Toray Textile Mills Public Co., Ltd. (TTTM)
■★⌘ Thai Toray Synthetics Co., Ltd. (TTS)

Subsidiaries Accounted for by Equity Method

♣ Toray Industries (Thailand) Co., Ltd. (TTH)

Affiliates Accounted for by Equity Method

★ Thai PET Resin Co., Ltd. (TPRC)

Japan

Consolidated Subsidiaries

■ Ogaki Fuso Spinning Co., Ltd.
■ Toray Textiles, Inc.
■ Inami Texiles, Inc.
■ Toyo Seisen Co., Ltd.
■ Toray Coatex Co., Ltd.
■ Towa Orimono Co., Ltd.
■ Toray Monofilament Co., Ltd.
■ Toyo Tire Cord Co., Ltd.
■ Ichimura Sangyo, Co., Ltd.
■ Marusa Co., Ltd.
■ Toray Kimono Co., Ltd.
■ Toray Fishing Corp.
■ Toray Diplomode, Inc.
■ Sunrich Mode Inc.
■ San e Origin Co., Ltd.
■ ★⌘ Toray Fine Chemicals Co., Ltd.
★⌘ Toyo Plastic Seiko Co., Ltd.
★ Toray PEF Products Inc.
★⌘ Toray Advanced Film Co., Ltd.
★ Soda Aromatic Co., Ltd.
⌘◆ Toray Engineering Co., Ltd.
✣◆ Toray Precision Co., Ltd.
✣ Toray Systems Center, Inc.
✣ Toray Advanced Computer Solution Inc.
◆ Toray Construction Co., Ltd.
◆ Toray ACE Co., Ltd.
✚ Toray Medical Co., Ltd.
✱ Toray Research Center Inc.
✱ Toray Enterprise Corp.
✱ Toray Agency Inc.
✱ Toyo Jitsugyo Co., Ltd.
✱ Toyo Logistics Co., Ltd.
● Toray Ireeve Corp.
●Toray International, Inc.
● Toray Alphart Co., Ltd.
...Others

Subsidiaries Accounted for by Equity Method

✱ Toray Travel Co., Ltd.
✱ Kanto General Service Inc.
...Others

Affiliates Accounted for by Equity Method

■★✣ Du Pont-Toray Co., Ltd.
■ Opelontex Co., Ltd.
★✣ Dow Corning Toray Silicone Co., Ltd.
★ Sanyo Chemical Industries, Ltd.
◆ Suido Kiko Kaisha, Ltd.
✣ Matsushita PDP Co., Ltd.
● Chori Co., Ltd.
...Others

Consolidated Subsidiaries	Japan	54
	Overseas	52
	Total	106
Subsidiaries Accounted for by Equity Method	Japan	38
	Overseas	20
	Total	58
Total Subsidiaries	Japan	92
	Overseas	72
	Total	164
Affiliates Accounted for by Equity Method	Japan	16
	Overseas	13
	Total	29
Companies subject to Consolidation	Japan	108
	Overseas	85
	Total	193

Board of Directors and Corporate Auditors (As of June 25, 2004)

TORAY

President and Chief Executive Officer and Chief Operating Officer and Representative Director

Sadayuki Sakakibara

Executive Vice President and Representative Directors

Kazuo Tomiita
Akikazu Shimomura

Senior Managing Directors and Representative Directors

Satoru Masuzaki
Nobuyuki Matsubara
Hiroaki Kobayashi

Senior Managing Director

Masao Katsurauma

Managing Directors

Motoo Yoshikawa
Chiaki Tanaka
Shunji Nakazawa
Osamu Nakatani
Masayoshi Kamiura
Katsutoshi Ono
Junichi Fujikawa
Eizo Tanaka
Akihiro Nikkaku

Directors

Kozo Nagai
Hiroshi Miyazaki
Yuji Takita
Norihiko Saitou
Toshio Nakamoto
Ginjiro Ishii
Hitoshi Morino
Kazuhiro Maruyama
Munehiro Se
Shinichi Koizumi
Hideyasu Okawara
Kazushi Hashimoto
Ken Nishikawa
Akira Karasawa

Corporate Auditors

Tomojiro Morigaki
Shinsuke Imamura
Kunihisa Hama
Keno Yamamoto

Investor Information (As of March 31, 2004)

Toray Industries, Inc.

Head Office
2-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-8666, Japan
Telephone: 81 (3) 3245-5111
Facsimile: 81 (3) 3245-5054
URL: http://www.toray.com

2nd Head Office Building
8-1, Mihama 1-chome,
Urayasu, Chiba 279-8555, Japan
Telephone: 81 (47) 350-6001
Facsimile: 81 (47) 350-6075

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

Overseas Offices

New York
Toray Industries (America), Inc. (TAM)
461 Fifth Ave, 9th Fl., New York,
NY 10017, U.S.A.
Telephone: 1 (212) 697-8150
Facsimile: 1 (212) 972-4279

London
Toray Industries, Inc. Europe Office (TEU)
3rd Fl., 7 Old Park Lane, London W1K 1AD,
England, U.K.
Telephone: 44 (20) 7663-7760
Facsimile: 44 (20) 7663-7770

Beijing
Toray Industries, Inc. Beijing Office
Beijing Fortune Bldg., No.802,
5,Dong San Huan Bei-Lu,
Chao Yang District, Beijing 100004, China
Telephone: 86 (10) 6590-8961~3
Facsimile: 86 (10) 6590-8964

Seoul
Toray Industries, Inc. Seoul Office
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	7,115
Japanese subsidiaries	8,536
Overseas subsidiaries	17,250
Total	32,901

	2004		2003	
Common Stock Price Range	High	Low	High	Low
First quarter	**¥292**	**¥258**	¥395	¥310
Second quarter	**449**	**276**	331	281
Third quarter	**481**	**396**	297	230
Fourth quarter	**492**	**391**	281	238

Cash Dividends per Share	**2004**	2003
Total for the year	**¥5.50**	¥5.00
Interim	**2.50**	2.50

Composition of Stockholders	Percent of total	Thousands of shares
The Master Trust Bank of Japan, Ltd.	7.85%	109,271
Japan Trustee Services Bank, Ltd.	6.94	96,615
Nippon Life Insurance Co.	5.00	69,589
Mitsui Mutual Life Insurance Co.	3.44	47,948
Sumitomo Mitsui Banking Corporation	2.51	35,022
The Dai-ichi Mutual Life Insurance Co.	2.17	30,252
Shinsei Bank, Limited	1.96	27,332
The Chase Manhattan Bank, N.A., London S.L. Omnibus Account	1.89	26,408
The Chase Manhattan Bank, N.A., London	1.61	22,421
Mitsui Sumitomo Insurance Co., Ltd.	1.26	17,620

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

Number of Stockholders: 154,644

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

Toray Industries, Inc.

2-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-8666, Japan
Telephone: 81 (3) 3245-5111
Facsimile: 81 (3) 3245-5054

http://www.toray.com
http://www.toray.co.jp

Contact IR Dept.
Telephone: 81 (3) 3245-5113
Facsimile: 81 (3) 3245-5459
e-mail: ir@nts.toray.co.jp

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