

Review of Operations

17 Fibers and Textiles

20 Plastics and Chemicals

22 Housing and Engineering

23 Pharmaceuticals and Medical Products

24 New Products and Other Businesses

Fibers and Textiles

Sales of fibers and textiles declined 10.1% from the previous year, to ¥420.0 billion, and accounted for 42.0% of consolidated net sales. Operating income recorded by this segment fell 44.3%, to ¥15.7 billion.

Domestic sales of nylon filament yarns for application in garment fabrics, especially to the mainstay pantyhose and skiwear industries, did not meet expectations. In industrial-purpose materials, although sales of nylon filaments for automotive tire cord declined, those for use in automotive air bags recorded a comparatively stable performance.

Tetoron* polyester filament yarns and textiles for garments experienced increased export shipments. This was contrasted by slumping demand for heavyweight and lightweight polyester woven fabrics. Overall, however, due primarily to price declines resulting from sluggish international market conditions, total sales of polyester filament yarns for garment applications decreased.

Regarding industrial-use polyester filaments, comparatively strong demand for products used in such automotive applications as seat belts partially offset lower sales for construction and civil engineering materials applications. As a result, overall sales of industrial-use polyester filaments registered only a slight decrease.

New products introduced during the term included a new polyester silky texture material for woven and knitted items and a moisture-dispersing, quick-drying material for sportswear applications. Furthermore, the Company aggressively pursued other product development activities during the term, which resulted in the launch of such products as Makspec*, an antibacterial industrial fabric.

In Asia, Toray subsidiaries in ASEAN countries experienced decreased revenues amid a deteriorating market for polyester filament yarns.

The polyester staple fibers business achieved increased export volume. In addition, from the second half of the term, domestic demand rebounded for nonwoven fabrics and fiberfill applications. However, slumping demand for products used in such spinning applications as apparel and interior products resulted in a decline in overall sales of polyester blended fabrics.

Polyester- and cotton-blended fabrics produced by subsidiaries and affiliated companies in Malaysia, Thailand, and Indonesia continued to experience strong export sales, primarily to Europe and the United States.

Toraylon* acrylic staple fibers experienced lower sales due to weak domestic demand and a fall in export volume to China, our principal overseas market for Toraylon*.



Feminos* silky texture fabric for women's apparel

Makspec* environment-friendly, antibacterial fabric is ideal for hospital uniforms.



A program to double the man-made suede production capacity at Alcantara S.p.A. was completed in July 1998.

Although Ecsaine* man-made suede experienced increased exports in the first half of the term, domestic sales of products for application in garments and furniture were sluggish. The Italian subsidiary Alcantara S.p.A. achieved expanded sales, which were supported by a doubling of its production capacity. During the term, Toray purchased the man-made suede division of Springs Industries, Inc., and established Toray Ultrasuede (America), Inc., which began operations in August 1998. Toray Ultrasuede will join forces with parent company factories in Japan and Alcantara in Italy to further expand the man-made suede business in the Americas.

Trading Division

Due to sluggish consumer demand for apparel in Japan, imported garment business volume declined. In addition, despite growth in trading activities by overseas subsidiaries, mainly in the United States and Europe, the effect of deteriorating markets for trading

subsidiaries in Asia resulted in weakened overall business performance.

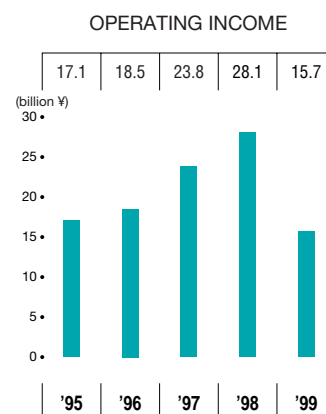
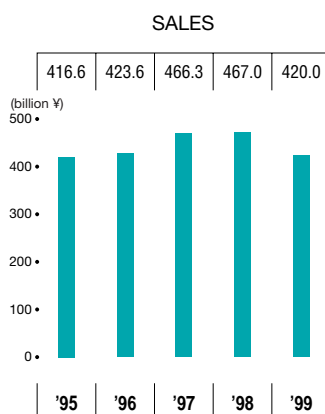
Fashion Division

In the Fashion Division, although several domestic affiliates boast strong apparel brands, a slump across the retail industry led to a sluggish overall business performance.

Capital Investment Activities

Capital investment highlights in fiscal 1999 included the completion of a modernization program for apparel-use Tetoron* polyester filament yarn production facilities at the Mishima plant in September 1998. At the Okazaki plant, upgraded facilities for the production of nylon filament yarns for use in air bags commenced operations in April 1998. In addition, two programs totaling ¥7.0 billion for increasing Ecsaine* man-made suede production capacity at the Shiga and Gifu plants are scheduled for completion in October 1999.

Overseas capital investments included the July 1998 completion



of two projects to double the weaving and dyeing capacities at Toray Sakai Weaving (Nantong) Co., Ltd., and Toray Sakai Printing & Dyeing (Nantong) Co., Ltd. Also, Toray Fibers (Nantong) Co., Ltd., commenced production of polyester chips and filament yarns in August 1998. This now gives Toray a vertically integrated manufacturing base for making products ranging from polyester chips and filament yarns to textiles, which are targeted mainly at markets in China. Moreover, Alcantara increased man-made suede production facilities in July 1998, and Toray Fibers (Thailand) Ltd. (TFL) put into operation its doubled-capacity polyester filament yarn production facilities in December 1998. In the Czech Republic, Toray Textiles Central Europe s.r.o. (TTCE) will commence operations of its ¥5.5 billion polyester filament fabric weaving and dyeing plant in July 1999. TTCE will team with TFL and other Toray Group companies to achieve expanded business activities.

Outlook

In fiscal 2000, with domestic demand for apparel products expected to remain low, Toray will work to improve market conditions by reducing the volume of filament yarns and textiles it supplies to the domestic market. At the same time, Toray will endeavor to increase profits and maintain high-capacity utilization levels across the Toray Group through a stepped-up drive to carry out global operations.

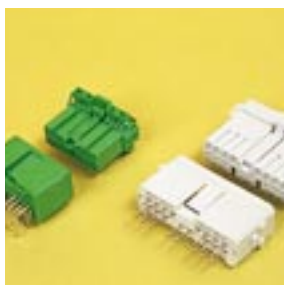
Moreover, in fiscal 2000, the second year of Action Program for 21—a set of medium-term goals for Toray's fibers and textiles operations—the Company will work to significantly reduce overall costs and undertake new overseas projects that contribute to steady profit growth.



A program to double the polyester filament yarn production capacity at Toray Fibers (Thailand) Ltd. was completed in December 1998.

Toray Fibers (Nantong) Co., Ltd., in China's Jiangsu Province, commenced production of polyester chips and filament yarns in August 1998.

Plastics and Chemicals



20

Toyolac* ABS resin is widely used for applications in products ranging from OA equipment, automobile interior parts, and household electric equipment to daily-use items.

Toraycon* PBT resin is widely used in connectors and other automobile parts, bobbins, coil cases and other electronic and electrical components, and precision parts for office equipment.

Penfibre Sdn. Berhad, in Malaysia, commenced production of Lumirror* PET films in August 1998.

Sales of plastics and chemicals shrank 1.6%, to ¥295.5 billion, accounting for 29.5% of consolidated net sales—roughly the same percentage as that in the previous term. However, operating income slumped 35.7%, to ¥17.2 billion.

Resins

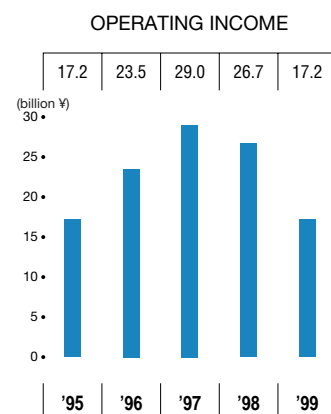
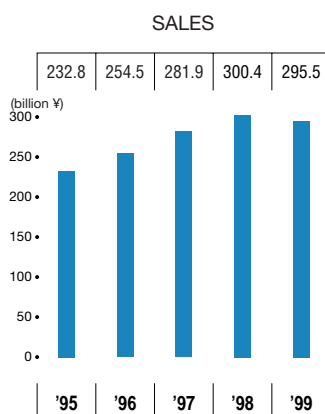
In Japan, Toyolac* ABS resin, designed for game machine applications, enjoyed firm sales. Moreover, sales of Amilan* nylon resin and Toraycon* PBT resin registered increased sales for application in new minicars. However, sales contracted in the mainstay areas of automotive and electrical goods applications, and demand for resins used in housing and building materials was lower than expected. These factors, coupled with the effects of a slumping export market and weak performances by subsidiaries in Japan, resulted in an overall decline in domestic resin sales.

In overseas markets, Toray Plastics (Malaysia) Sdn. Berhad, a production base for ABS resin in Malaysia, achieved a comparatively strong performance. In China, the Company's

resin compounds and precision resin molded products businesses achieved expanded sales. In addition, the Company accelerated efforts to expand its resin business by taking such steps as commencing engineering plastic compounding operations in Thailand and polyacetal resin production in South Korea in early 1998.

Films

Regarding the films business, domestic sales of our mainstay Lumirror* polyester film grew for such applications as packaging, electronics components, and magnetic tape for digital recording media. However, this growth was countered by such factors as shrinking demand for the film's use in such industrial materials as labels and capacitors, lower prices resulting from deteriorating market conditions in Asian markets, and a reduction in exports stemming from the partial transfer of manufacturing operations to overseas subsidiaries. As a result, overall sales of Lumirror* declined. In overseas markets, Toray commenced production of Lumirror* film at a new



production facility in Malaysia in August 1998, while subsidiaries in the United States and France enjoyed higher sales. Nevertheless, a deterioration of worldwide market conditions resulted in price declines.

Torayfan* polypropylene film experienced increased sales volume due to growing demand for uses in industrial applications and packaging in Japan. In the United States, sales of Torayfan* expanded thanks to increased production capacity for its application as a base film in capacitors and enhanced processing capabilities provided by the addition of new metalizing equipment.

Capital Investment Activities

In Malaysia, the Company commenced operations of a Lumirror* production line with a capacity of 14,400 tons in August 1998, which was completed under a first-phase project. A second-phase line with a capacity of 15,600 tons was completed in May 1999. In France, the Company also completed a program to add 20,000 tons to its yearly Lumirror* production capacity by June 1999. One of the capital investment programs undertaken in Japan increased the parent company's production capacity for Mictron* para-based aramid film for application in high-density magnetic recording media. Furthermore, steps were taken to increase the production capacity of domestic subsidiaries for such high-value-added, high-performance products as antireflective film.

Chemicals

In the chemicals business, sales of fine chemical intermediates for use in pharmaceuticals and agrochemicals were buoyant. However, countering this favorable trend was a slump in export prices for the nylon raw material caprolactam in Asian markets. As a result, overall chemicals sales declined.

In new product developments, in November 1998 Japan's Ministry of Agriculture, Forestry and Fisheries approved the Company's new dog interferon agent, which uses recombinant DNA technology, to be manufactured for clinical trials. In the near future, the Company aims to commercialize and market the canine interferon- γ and the feline interferon agent Intercat* around the world.

As part of efforts to expand its consolidated operations during the term, the Company raised its stake in SODA AROMATIC Co., Ltd., which manufactures and markets a variety of aromatic chemicals, to 50.01%, thereby making SODA AROMATIC a key Toray subsidiary in its specialty chemicals business.

Outlook

In the current term, amid sluggish recoveries in markets in Japan and overseas for such mainstay products as resins, films, and caprolactam, Toray aims to increase earnings by leveraging the enhanced sales capabilities provided by capital investment programs undertaken during the term under review.



Demand for heat-resistant film for use as a flexible material in processed, high-precision electrical circuits was boosted by the increased application in small, lightweight mobile communication devices.

The lightest of all plastic films, Torayfan* polypropylene film is ideally suited for use in such applications as capacitors and adhesive tape, glossy and matte laminates for books, and packaging materials for foodstuffs and textiles.

Housing and Engineering



The Toray SK77* home-use water filter is compact enough to be installed in a storage space under the sink.

Spuckturf* artificial turf is used in the Nagoya Dome.

Toray reverse-osmosis membrane elements are used in this Okinawa desalination plant, which has a production capacity of 40,000m³ of fresh-water per day. These elements have recently drawn increased attention as a means of maintaining a stable supply of potable water.

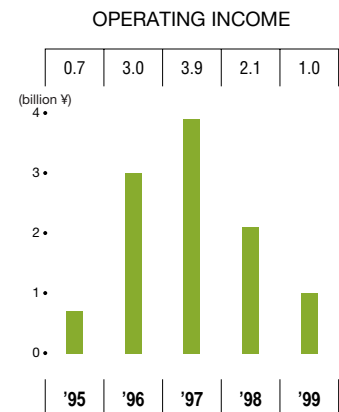
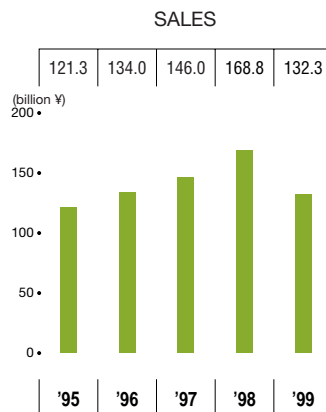
Housing and engineering sales in fiscal 1999 slumped 21.6%, to ¥132.3 billion, and accounted for 13.2% of consolidated net sales. Operating income in the segment sank 51.1%, to ¥1.0 billion.

In the Amenity and Civil Engineering Division, sales of artificial turf and air filters for use in air purifiers and air conditioners expanded. However, in water treatment related operations, demand for Romembra* reverse-osmosis membrane elements for semiconductor manufacturing equipment declined, and sales of Torayrom* rotary drum-filter equipment for use in pool water purification systems were weak. Sales of Torayvino* home water purifiers expanded in Japan thanks to the addition of a new product to the lineup.

In seawater desalination related activities, the Company worked with its subsidiary Toray Engineering Co., Ltd., to generate orders in Japan and overseas for the construction of large-scale facilities that use Toray's high-efficiency, two-step desalination process, which produces 50% more potable water

than existing systems. During the term under review, the Company worked to strengthen its marketing capabilities with a view toward expanding business activities and received an order for the construction of a 4,500-ton-per-day test facility in Las Palmas on Spain's Grand Canary Island.

Amid a harsh business environment, Toray Engineering experienced favorable demand for equipment used in the production of fibers and expanded its activities in the electronics field. Nevertheless, other plant-related orders decreased due to lackluster domestic private-sector capital investment. With sales of condominiums comparatively stable, Toray Construction Co., Ltd., focused its efforts on acquiring profitable orders for the construction of buildings. Toray Glasal Corp. experienced a deterioration in sales due to slumping market conditions in Japan for exterior ceramic wall material for housing applications.



Pharmaceuticals and Medical Products

Pharmaceuticals and medical products sales in fiscal 1999 rose 2.8%, to ¥47.8 billion, and accounted for 4.8% of consolidated net sales. Operating income fell 19.8%, to ¥4.2 billion.

Pharmaceuticals

The domestic business environment for pharmaceuticals further deteriorated due to continued slack demand for interferon and the third consecutive year of large price declines for pharmaceuticals. However, intensified scientific sales promotion activities and the leveraging of the previous year's approval for an expanded indication as a treatment for chronic hepatitis C resulted in increased sales of Toray's natural interferon- β preparation Feron*.

Medical Products

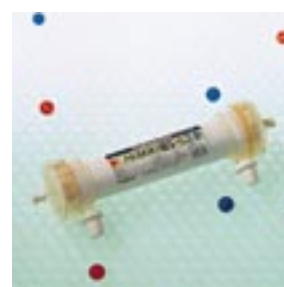
In the medical products business, strong performances by Toraysulfone* polysulfone-based artificial kidneys and Toraymyxin*, a device for treating severe septicemia by removing endotoxins from blood, resulted in increased medical product sales.

Strategic Initiatives

Strategic alliances forged during the term included the acquisition of a 5% stake in United Therapeutics Corporation, of the United States, with a view toward cooperating in the North American development and marketing of a beraprost sodium (BPS) oral prostacyclin (PGI₂) derivative for the treatment of pulmonary vascular disease. This independently developed drug is marketed in Japan under such brand names as Dorner* and is the world's first orally active PGI₂ derivative. While continuing to push forward with efforts to introduce BPS into markets around the world, Toray intends to utilize its new alliance with United Therapeutics to aggressively expand its pharmaceuticals business.

Outlook

Although market conditions are expected to be severe, Toray will strive to expand sales volumes for medical products as well as such mainstay products as Feron* and Dorner*.

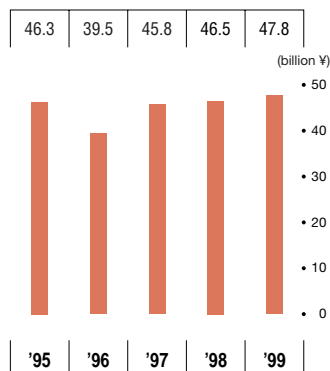


Feron* natural interferon- β preparation

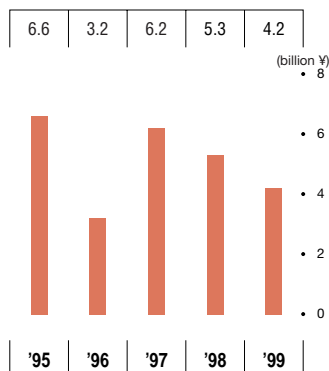
Dorner*, the world's first PGI₂ derivative

Toraysulfone* polysulfone-based, hollow-fiber artificial kidney

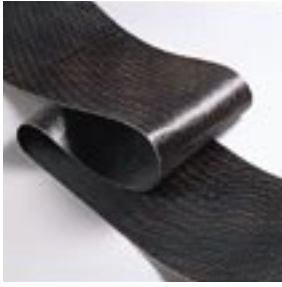
SALES



OPERATING INCOME



New Products and Other Businesses



24

Carbon fiber reinforced composite is used in notebook PC cases.

Torayca* carbon fiber cloth for civil engineering reinforcement applications

Sales in new products and other businesses in fiscal 1999 rose 0.4% from the previous year, to ¥105.4 billion, accounting for 10.5% of consolidated net sales. Segment operating income declined 13.8%, to ¥9.0 billion.

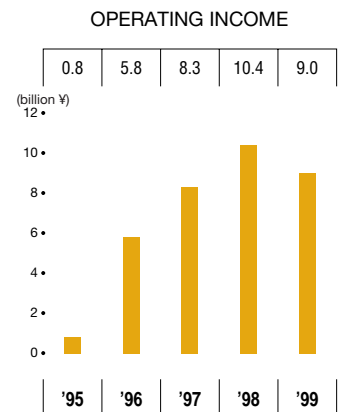
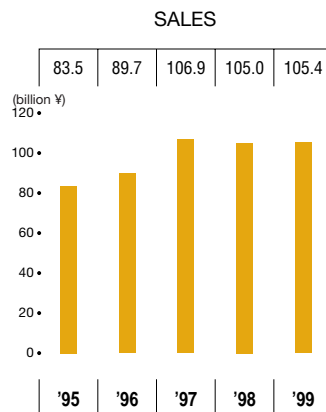
Advanced Composite Materials

The carbon fiber market continued to report strong growth in fiscal 1999, and our composite material businesses enjoyed substantially heightened performances. Worldwide demand for industrial-use carbon fiber expanded greatly despite a sluggish environment for sporting goods applications in the United States and Japan. Sales of Torayca* carbon fiber increased, particularly for use in aerospace and industrial applications in the United States and Europe, while higher sales of composite products were driven by increased demand for use in such information technology related products as

notebook computer components and for use in medical-related products.

Regarding capital investments, Toray commenced operations of a Torayca* large-tow-type production facility at the Ehime plant in July 1998. Furthermore, in April 1999 our subsidiary Toray Carbon Fibers America, Inc. (CFA), in the United States, completed a carbonizing plant with an annual production capacity of 1,800 tons.

In the following term, worldwide demand for carbon fiber is expected to increase steadily. As the world's largest producer of carbon fiber, Toray will take full advantage of its existing production bases in Japan and Europe as well as the new operations at CFA to carry out management strategies aimed at further business expansion over the medium-to-long term. CFA's new operations came on stream in April 1999 and now give the Toray Group a total Torayca* production capacity of 7,300 tons per year.



Electronics and Information-Related Products

Overall sales of electronics and information-related products decreased from the previous year, mainly as a result of sluggish sales of materials used in the semiconductor industry and lower prices of thin-film transistor (TFT) color filters for liquid crystal displays (LCDs).

Among circuit materials, the Company's liquid crystal driver mounting materials achieved expanded market share. However, due to deteriorating conditions in the semiconductor industry, sales of IC molding compounds declined. Sales of display materials declined as a result of the adverse effects of substantial price declines centered on TFT color filters for LCDs. In South Korea, the gradual expansion of tape automated bonding (TAB) operations was accomplished on schedule.

Looking at capital investments, Toray completed the fourth production line for color filters at the Shiga plant. The line is scheduled to start up in the current term, with products aimed primarily at applications in large LCD monitors. The Company is aiming to increase the profitability of its display and circuit materials business and achieve a turnaround in the earnings performance of electronics and information-related products.

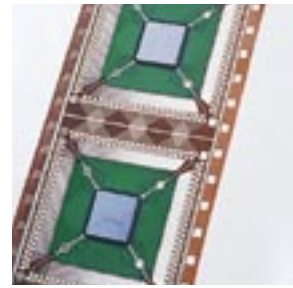
Other Businesses

In the ceramics business, sales of mainstay components for semiconductor manufacturing equipment declined.

Domestic sales in the printer business decreased because of postponed information-technology-related capital investment by major industries; however, export sales of printer engines increased.

In the large-scale structures business, despite lower sales of products for applications in truck bodies, sales of building materials and home elevator cages expanded.

In the contact lenses and optical filters businesses, the Company worked to develop and market new products, launching such new products as Breath-O* Super Hard contact lenses and, in the field of screen filters for preventing eye fatigue, commencing sales of ultralow antireflecting filters for use in LCDs.



E-Filter* antireflecting filters are a hit with PC users.

Printed circuit materials of film carrier-tape for TAB

Board of Directors

(As of June 29, 1999)

Chairman of the Board
and Representative Director

KATSUNOSUKE MAEDA

President
and Chief Executive Officer
and Representative Director

KATSUHIKO HIRAI

Executive Vice Presidents
and Representative Directors

**TAKUYA TAKAYAMA
HIDETANE IJIMA
YOICHI SHIMOKAWA**

Senior Managing Directors

**AKIRA SAWAMURA
TERUYA OHNO
HIN IGARASHI
NORIYASU YAMAGUCHI
SADAYUKI SAKAKIBARA**

Managing Directors

**TAKANOBU SHIBUYA
HIROTAKE NAKASHIMA
SATORU MASUZAKI
TAMON HIROYAMA
SHOICHI AKITA
KIYOTERU WAKASUGI
KAZUO TOMIITA
SHINJI KOYAMA
MASAO KATSURAUMA
NOBORU FUJIHARA
HIROAKI KOBAYASHI
YOSHIHIRO OKUMURA**

Directors

**JUNICHI UJIKE
HIROSHI OKA
MOTOO YOSHIKAWA
TOSHIYUKI UMEMOTO
KEIZO SANO
TSUYOSHI WATANABE
CHIAKI TANAKA
SHUNJI NAKAZAWA**

Corporate Auditors

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