

'TORAY'



(Consolidated Basis)

Semiannual Report

For the Six Months Ended
September 30, 1997



Toray Industries, Inc.

97

Financial Highlights

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

	Millions of yen		Thousands of U.S. dollars
	1997	1996	1997
Net sales	¥538,136	¥501,218	\$4,447,405
Net income	13,732	11,884	113,488
		Yen	U.S. dollars
Net income per share	¥9.80	¥8.48	\$0.081

Note: All dollar figures herein refer to U.S. currency. Yen amounts have been translated, for convenience only, at the rate of ¥121 to \$1. Billion is used in the American sense of one thousand million.

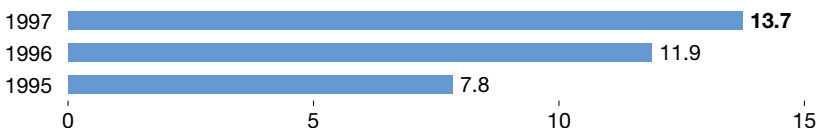
Semiannual Net Sales

(Billion ¥)



Semiannual Net Income

(Billion ¥)



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To Our Stockholders

During the six-month period ended September 30, 1997, the sense of stagnation in the Japanese economy grew stronger. Driving this sentiment were mounting structural problems within the nation's fiscal, financial, and other systems, with a hike in the national consumption tax rate and increasing concerns of individuals regarding the rising cost burden of social welfare programs also contributing factors. Compounding the situation were sluggish personal consumption, a reduction in private-sector housing construction, and a drop in public-sector investment.

Overseas, the U.S. economy continued to enjoy robust expansion, while most European countries remained on a path of modest recovery despite some difficulties due to fiscal tightening measures implemented to facilitate monetary unification. In Asia, while China continued on a stable growth track, substantial declines in the values of currencies of certain ASEAN countries against the U.S. dollar and other major currencies since July 1997 have resulted in economic turmoil for these nations, giving rise to concerns of significantly decreased economic growth rates throughout the region.

Amid this environment, Toray Industries, Inc., and Group companies posted record consolidated semiannual net sales of ¥538.1 billion, up 7.4% from the corresponding

period of the previous year. From an income perspective, the parent company as well as domestic subsidiaries and affiliates enjoyed solid results, and overseas income was up, due mainly to the performances of subsidiaries in businesses related to fibers and textiles as well as advanced composite materials. As a result, consolidated operating income rose 7.6% from the corresponding period of the previous year, to ¥35.1 billion, while net income climbed 15.6%, to ¥13.7 billion.

In fibers and textiles, buoyant sales were recorded by the parent company as well as domestic and overseas subsidiaries, leading to sales of ¥240.8 billion, up 4.4%.

The parent company also registered expanded sales of plastics and chemicals. This, coupled with substantial increases in the sales of resins and films by domestic and overseas subsidiaries, resulted in segment sales rising 7.0%, to ¥150.6 billion.

Boosted by significantly increased engineering business sales, the housing and engineering segment posted a rise in sales of 22.7%, to ¥71.6 billion.

In pharmaceuticals and medical products, efforts to increase sales of artificial kidneys and Dorner*, a prostaglandin I₂ (PGI₂) derivative drug, helped push segment sales to ¥21.0 billion, a rise of 4.1%.

In new products and other businesses, sales of color filters for use in thin-film transistor LCDs were boosted by strong demand from makers of notebook PCs for corporate users. In addition, sales of Torayca* carbon fiber enjoyed increased domestic and overseas sales for aerospace and industrial applications. As a result, segment sales rose 5.4%, to ¥54.1 billion.

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

Furthermore, with the Toray Science Foundations in Indonesia, Malaysia, and Thailand now in their fourth year of operations, the Company is working to step up its contributions to the communities in which it operates. These efforts are directed at ensuring the sure and steady advance of science in these countries and the broadening of the activities of these foundations.

Worldwide, countries are now in the midst of a period of great change with regard to the reform of political, economic, and societal structures. To cope with such changes

and to ensure its continued expansion and success in the 21st century, in April 1997, Toray launched “New AP-G2000,” its long-term corporate vision for a new era. In accordance with this vision, the Company is working to strengthen its corporate structure by further integrating the activities of Toray and Toray Group companies as well as striving to promote its global expansion efforts and maximize its R&D capabilities. In addition, Toray is seeking to expand its overall business operations, foster the securing and development of human resources, achieve steady business results, and implement management strategies that will allow Toray to grow with the times.

In closing, I would like to thank all of you for your assistance in the first half of fiscal 1998 and ask for your continued support and guidance in the future.

December 1997



Katsuhiko Hirai
President and Chief Executive Officer

Consolidated Statements of Income and Retained Earnings

Toray Industries, Inc. and Subsidiaries
Six months ended September 30, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Net sales	¥538,136	¥501,218	\$4,447,405
Costs and expenses:			
Cost of sales	406,047	375,375	3,355,760
Selling, general and administrative expenses.....	79,353	75,246	655,810
Research and development expenses.....	17,602	17,950	145,471
	503,002	468,571	4,157,041
Operating income	35,134	32,647	290,364
Other income (expenses):			
Interest expenses.....	(9,729)	(9,090)	(80,405)
Interest and dividend income.....	2,606	2,528	21,537
Other, net	(1,142)	(387)	(9,438)
	(8,265)	(6,949)	(68,306)
Income before special credits (charges)	26,869	25,698	222,058
Special credits (charges):			
Gain (loss) on sales and disposal of property, plant and equipment, net.....	13,483	(464)	111,430
Gain on sale and write-down of investments in securities, net	2,635	263	21,777
Special severance payments and other restructuring expenses.....	(2,551)	(3,453)	(21,083)
Special contributions for retirement pension plan	(395)	—	(3,264)
Exchange loss.....	(7,630)	—	(63,058)
	5,542	(3,654)	45,802
Income before income taxes	32,411	22,044	267,860
Income taxes:			
Current	12,226	10,414	101,041
Deferred	3,798	25	31,388
	16,024	10,439	132,429
Income from consolidated operations	16,387	11,605	135,431
Minority interests in net income of consolidated subsidiaries	(3,511)	(146)	(29,017)
Amortization of cost in excess of net assets acquired	(960)	(1,251)	(7,934)
Equity in earnings of affiliated companies	1,816	1,676	15,008
Net income	13,732	11,884	113,488
Retained earnings:			
At beginning of period.....	271,634	258,798	2,244,909
	285,366	270,682	2,358,397
Appropriations:			
Cash dividends	4,905	4,905	40,537
Transfer to legal reserve.....	—	469	—
Bonuses to directors and corporate auditors	160	161	1,323
	5,065	5,535	41,860
At end of period	¥280,301	¥265,147	\$2,316,537
		Yen	U.S. dollars (Note 2)
Net income per share	¥9.80	¥8.48	\$0.081

See accompanying notes to consolidated financial statements.

Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
September 30, 1997 and 1996

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Current assets:			
Cash.....	¥ 57,772	¥ 32,088	\$ 477,455
Time deposits.....	55,512	49,929	458,777
Marketable securities.....	26,299	27,856	217,347
Trade receivables:			
Notes receivable.....	67,481	62,959	557,694
Accounts receivable.....	196,437	191,170	1,623,446
Allowance for doubtful accounts.....	(2,780)	(2,746)	(22,975)
Inventories.....	199,578	193,290	1,649,405
Deferred income taxes.....	7,787	10,087	64,355
Prepaid expenses and other current assets.....	32,949	31,394	272,306
Total current assets.....	641,035	596,027	5,297,810
Property, plant and equipment:			
Land.....	84,258	77,930	696,347
Buildings.....	321,835	314,117	2,659,793
Machinery and equipment.....	1,077,792	1,054,613	8,907,372
Construction in progress.....	70,214	37,898	580,281
	1,554,099	1,484,558	12,843,793
Accumulated depreciation.....	(965,653)	(923,198)	(7,980,603)
	588,446	561,360	4,863,190
Investments, long-term loans and other assets:			
Affiliated companies.....	42,552	39,913	351,669
Marketable equity securities.....	60,816	62,527	502,612
Other securities.....	9,427	10,135	77,909
Deferred income taxes.....	—	1,973	—
Other.....	35,374	34,086	292,347
Allowance for doubtful accounts.....	(308)	(317)	(2,545)
	147,861	148,317	1,221,992
Intangible assets.....	4,775	2,784	39,463
Cost in excess of net assets acquired.....	5,159	10,520	42,636
Foreign currency translation adjustment.....	22,539	19,429	186,273
	¥1,409,815	¥1,338,437	\$11,651,364

See accompanying notes to consolidated financial statements.

Liabilities and Stockholders' Equity	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Current liabilities:			
Bank loans	¥ 160,550	¥ 158,981	\$ 1,326,860
Long-term debt due within one year	68,731	29,563	568,025
Commercial paper	500	9,500	4,132
Trade payables:			
Notes payable	94,805	67,903	783,512
Accounts payable	100,109	89,765	827,347
Income taxes payable	14,223	13,857	117,546
Accrued liabilities	50,903	49,524	420,686
Other current liabilities	30,485	33,651	251,942
Total current liabilities	520,306	452,744	4,300,050
Long-term debt	327,589	338,483	2,707,347
Employees' retirement benefits	46,193	47,665	381,760
Customers' guarantee deposits and other liabilities	3,915	4,802	32,356
Deferred income taxes	681	—	5,628
Minority interests in consolidated subsidiaries	23,868	22,635	197,256
	922,552	866,329	7,624,397
Stockholders' equity:			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,401,481,403 shares (1,401,481,403 shares—1996)	96,937	96,937	801,132
Additional paid-in capital	85,792	85,792	709,025
Legal reserve	24,234	24,234	200,281
Retained earnings	280,301	265,147	2,316,537
	487,264	472,110	4,026,975
Treasury stock, at cost	(1)	(2)	(8)
Total stockholders' equity	487,263	472,108	4,026,967
	¥1,409,815	¥1,338,437	\$11,651,364

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Six months ended September 30, 1997 and 1996

	Millions of yen		Thousands of U.S. dollars (Note 2)
	1997	1996	1997
Cash flows from operating activities:			
Net income	¥ 13,732	¥ 11,884	\$ 113,488
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	38,499	37,125	318,174
Exchange loss	6,738	—	55,686
Deferred income taxes	3,798	25	31,388
(Gain) loss on sales and disposal of noncurrent assets	(19,640)	201	(162,314)
Loss on write-down of investment securities	3,522	—	29,107
Undistributed earnings of affiliated companies	(530)	(700)	(4,380)
Decrease (increase) in trade receivables	7,164	(7,737)	59,207
Increase in inventories	(5,347)	(5,475)	(44,190)
Increase (decrease) in trade payables and accrued liabilities	11,578	(23,932)	95,686
Decrease in employees' retirement benefits	(626)	(613)	(5,174)
Other, net	3,385	345	27,975
Net cash provided by operating activities	62,273	11,123	514,653
Cash flows from investing activities:			
Capital expenditures	(62,339)	(39,875)	(515,198)
Purchase of investment securities	(4,799)	(9,011)	(39,661)
Proceeds from sales and disposal of noncurrent assets	26,269	541	217,099
Other, net	(1,658)	1,244	(13,703)
Net cash used in investing activities	(42,527)	(47,101)	(351,463)
Cash flows from financing activities:			
(Decrease) increase in short-term debt	(4,923)	31,283	(40,686)
Proceeds from long-term debt	25,992	25,278	214,810
Repayments of long-term debt	(20,133)	(24,842)	(166,389)
Cash dividends paid	(4,905)	(4,905)	(40,537)
Net cash (used in) provided by financing activities	(3,969)	26,814	(32,802)
Effect of exchange rate changes on cash and cash equivalents	1,467	858	12,124
Net increase (decrease) in cash and cash equivalents	17,244	(8,306)	142,512
Cash and cash equivalents at beginning of period	109,539	103,629	905,281
Cash and cash equivalents at end of period	¥126,783	¥ 95,323	\$1,047,793
Supplemental information of cash flows:			
Cash paid during period for:			
Interest	¥ 8,745	¥ 8,720	\$ 72,273
Income taxes	12,862	10,527	106,298

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
September 30, 1997 and 1996

1. Accounting Principles

The accompanying semiannual consolidated financial statements have been prepared in accordance with the same accounting principles as those adopted for the preparation of the annual consolidated financial statements included in the Company's Annual Report for the year ended March 31, 1997.

2. U.S. Dollar Amounts

The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥121 to \$1, the approximate exchange rate prevailing on September 30, 1997.

3. Contingent Liabilities

The Company and its subsidiaries were contingently liable as endorsers of trade notes receivable discounted with banks in the amount of ¥5,771 million (\$47,694 thousand) at September 30, 1997.

In addition, the Company and its subsidiaries were contingently liable as guarantors of loans to affiliated companies and others in the amount of ¥14,824 million (\$122,512 thousand) at September 30, 1997.

4. Interim Dividends

In December 1997, interim cash dividends of ¥3.50 (\$0.029) per share, aggregating ¥4,905 million (\$40,537 thousand), were paid.

Certificate of Principal Financial and Accounting Officer

I, Masao Katsurauma, director of Toray Industries, Inc., do hereby certify that, in my opinion, the accompanying consolidated balance sheets at September 30, 1997 and 1996, and the related consolidated statements of income and retained earnings and cash flows for the six-month periods then ended have been prepared to present a true and fair view of the consolidated financial position at September 30, 1997 and 1996, and the consolidated results of operations and cash flows for the six-month periods then ended.

December 1997



Masao Katsurauma
Director

Board of Directors and Corporate Auditors

September 30, 1997

Chairman of the Board and Representative Director

Katsunosuke Maeda

President and Chief Executive Officer and Representative Director

Katsuhiko Hirai

Executive Vice Presidents and Representative Directors

Shigeo Mitsui
Yoshihiro Harada
Takuya Takayama

Senior Managing Directors

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

Managing Directors

Noriyasu Yamaguchi
Takanobu Shibuya
Hiroki Bessho
Hirotaka Nakashima
Satoru Masuzaki
Tamon Hiroyama
Akikazu Shimomura
Yoshihiko Fujisawa

Directors

Nobuhiro Kuruma
Shoichi Akita
Nobuya Ichikawa
Kiyoteru Wakasugi
Sadayuki Sakakibara
Kazuo Tomiita
Shinji Koyama
Masao Katsurauma
Noboru Fujihara
Hiroaki Kobayashi

Corporate Auditors

Akira Ogura
Yosuke Naito
Eiichi Kakei
Kentaro Kawahara

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Investor Information

September 30, 1997

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Established

January 1926

Common Stock

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

Number of Stockholders

137,875

Listings

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

Transfer Agent

The Mitsui Trust & Banking Co., Ltd.
1-1, Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-8666, Japan