Annual Report 2004

Year Ended March 31, 2004

TOYOBO

Profile

In recent years, Toyobo has aggressively sought business structure reform through the turnaround of deficit operations, expansion of profitable operations, and enhancement of financial strength, aiming to be a Multi-specialty Company in the true sense of the term. Toyobo, which was born more than 120 years ago as a fibers and textiles company, evolved through the nineteenth and twentieth centuries, and continues to evolve into a corporation that develops and provides the highly-functional products needed in twenty-first century society.

Toyobo possesses a wide range of technologies. These are fiber technology, as a matter of course; polymer technology, fostered in the process of the company's business expanding from natural fibers to chemical fibers; and bio-technology, which originates in the use of enzymes for wastewater treatment. Furthermore, Toyobo combines and differentiates these technologies as specialized technologies to develop them into cutting-edge business segments. Toyobo's goal is to become a Multi-specialty Company by utilizing these technologies as well as by expanding and developing operations of fibers, films, high polymer products, and bio-science and medical products.

As a result, sales of non-textile business covered 54.9% of the consolidated total sales in this fiscal year (the fiscal year ended March 2004) following the previous fiscal year (the fiscal year ended March 2003) when it exceeded 50% for the first time since the foundation. Ten years ago (the fiscal year ended March 1994), it covered no more than 37.8% of the total consolidated sales. By fiscal year 2006, Toyobo and the Toyobo Group plan to further raise the ratio to 60% or above.

Cover Story

Toyobo's Bright Future Is Now Coming into Bloom

In this fiscal year 2003 (the fiscal year ended April 2004), the sales proportion of common textiles to the entire fiber and textile sales decreased to about 40%, while that of functional textile materials used for base fabrics for automobile airbags and sports wear increased to about 60%. At the same time, in our non-textile segment, profitable businesses of films, high-functional materials and bio-science and medical products with unique competitive edges are growing.

Toyobo is now steadily changing into a Multi-specialty Company.

Contents

Disclaimer Regarding Forward-Looking Statements

This report describes not only the past and present facts about Toyo Boseki Co., Ltd. ("Toyobo") and its affiliates ("Toyobo Group"), but also projections of future business performance and a forecast of the future business environment. Such projections of future business performance and forecast of the future business environment are assumptions or evaluations that were developed based on information that Toyobo was able to obtain as of the time this report was printed, and thus contain known and unknown risks and uncertainties. Consequently, there is a possibility that these risks and uncertainties will render the projections and forecast invalid, and cause actual future business performance and the business environment to differ significantly from the projections and forecast presented in this report. Readers are thus advised to exercise caution.The projections of future business performance and forecast of future business environment that are found in this report were developed, based on information that our corporation was able to obtain at the time the descriptions were printed. These projections and forecast therefore contain elements of uncertainty. Moreover, there is a possibility that latent risks that have the potential of invalidating such projections and forecast will materialize. Please be fully advised that in the future the actual business performance and environment could turn out to be different from the projections and forecast presented in this report.

Consolidated Financial Highlights

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales	**¥373,066**	¥376,377	**$3,529,813**
Cost of sales	**291,440**	299,488	**2,757,498**
Income (loss) before income taxes	**16,399**	(16,397)	**155,162**
Net income (loss)	**8,762**	(6,966)	**82,903**
Total assets	**495,969**	537,315	**4,692,676**
Total stockholders' equity	**104,033**	84,025	**984,322**
	Yen		U.S. dollars (Note 1)
Net income (loss) per share	**¥ 12.63**	¥ (10.11)	**$ 0.120**

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥105.69 to $1.

Through steady progress in our business restructuring, we are solidifying our status as a superior company

Overview of Business Performance: Fiscal Year 2003

We achieved dramatic increases both in operating income and ordinary income

In the fiscal year ended March 2004 (April 1, 2003 to March 31, 2004), due to steady exports to North America and Asia, as well as ensured recoveries in capital expenditure and consumer spending, the Japanese economy started to turn around toward the latter half of fiscal year 2003 after the recession seemed to have bottomed out.

In such circumstances, we aimed to be a Multi-specialty Company by actively committing to the development and sales of high-value added products along with the reinforcement of management practices. As a result, we achieved dramatic increases both in operating income and ordinary income.

Specifically, consolidated sales for this fiscal year were 373,066 million yen, a decrease of 3,311 million yen (down 0.9%) over the previous fiscal year. However, consolidated operating income was 25,856 million yen, an increase of 6,134 million yen (up 31.1%) over the previous fiscal year. Consolidated ordinary income* was 17,491 million yen, a drastic increase of 6,991 million yen (up 66.6%) on a year-over-year basis.

This was owing to three factors: (1) successful business performance of our textile business that turned profitable in terms of ordinary income for the first time in 12 years; (2) substantial expansion of the plastics business; and (3) company-wide cost reduction by substitutional portion of the government's welfare pension insurance scheme.

The variance in the operating income came from: (1) an increase of about 6,000 million yen due to significant gains in the sales of plastics products such as films, resins, and electronic materials; and (2) a successful cost-reduction strategy in our textile business, which generated about 4,500 million yen by the closing of our three domestic spinning and looming production mills and by expanded procurement of materials from overseas. This led us to an income increase of about 10,500 million yen in total. Consequently, consolidated operating income amounted to 6,135 million yen, after we covered the loss of about 4,400 million yen caused by appreciation of the yen and price hikes of materials.

After we recorded extraordinary losses of substitutional portion of the government's welfare pension insurance scheme and restructuring-related expenses for the closing of the three mills, the consolidated net loss of 6,965 million yen in fiscal year 2002 jumped to a consolidated net income of 8,762 million yen in fiscal year 2003, which was a substantial recovery of 15,727 million yen. Thus, we finally recorded a surplus for the first time in three years since fiscal year 2001.

As for profit distribution, we decided to distribute five yen per share as a dividend to our shareholders, according to the unchanged basic policy of continuing steady cash dividend payments.

** Ordinary Income: It is the total of operating income and non-operating income; other income is classified as non-operating income (general interest received and interest paid, profit or loss on sale of securities and expenses for adjustments on differences caused by changes in accounting standards for retirement benefits) or extraordinary profit or loss (extraordinary profit or loss on sale of fixed assets, extraordinary profit on sale of securities, extraordinary loss from revaluation of securities and restructuring-related expenses). Ordinary income for this fiscal year was 6,800 million yen.*

Future Policies & Strategies

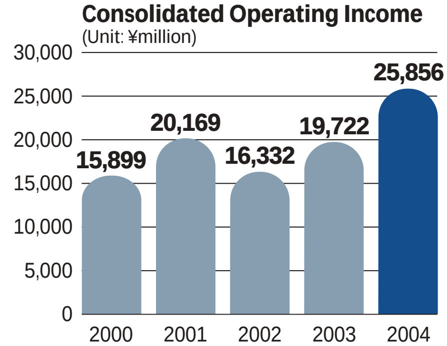
Turnaround to successful scenario of increases in sales and profit; ready to start strategies for business expansion

In fiscal year 2004, we expect the turnaround in our business to advance on the backs of increases in both sales and profit. Our prospects are based on the following scenarios: (1) a surplus in our non-textile business covers and exceeds any loss in our textile business; and (2) the downward trend of sales, which has continued since the collapse of the bubble economy, will eventually end.

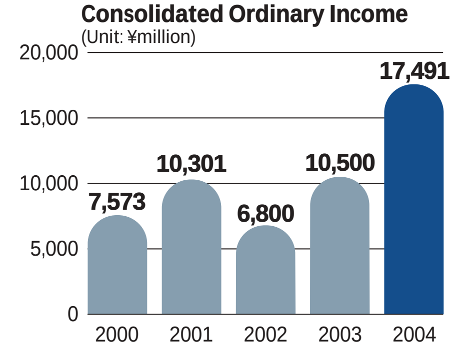
Since I assumed the post of president, I have implemented business structure reform by retreating from unprofitable operations and expanding highly profitable operations, advocating that "a black figure is good and a red figure is bad"; "let us be a Multi-specialty Company (manufacturer of high-tech materials) selected by our customers and based on our unique technology"; "let us create a forest where only vital trees (profitable operations) grow in clusters."

To be specific, in fiscal year 1998 (non-consolidated basis) when I assumed the post, about 57% of sales came from our textile business, while

Consolidated Operating Income



Consolidated Ordinary Income



about 43% came from our non-textile business. Furthermore, the sales of common textiles accounted for more than about 60% of total textile sales. However, as a result of our efforts above, it decreased to about 40% of total textile sales this fiscal year, while the sales of functional fibers used as materials for sportswear and industrial materials, typified by base fabrics for automobile airbags, increased to about 60%. The profitability of our common textiles, the operations of which were to be improved, increased owing to expanded procurement of materials from overseas and inventory cutbacks.

Thereby, with a few exceptions, we restored profitability to our textile business. Meanwhile, in our non-textile business, profitable operations with unique edges, such as films, highly functional materials, and bio-science and medical products, have been growing. In fiscal year 2003, the sales of our non-textile business exceeded that of our textile business for the second consecutive year. We continue to expand by intensively investing our management resources in profitable operations. Thereby, the proportion of non-textile sales to total sales is expected to progressively rise.

Textile Business

Ordinary income returned to the black for the first time in 12 years, pushed up by sales of base fabrics for automobile airbags.

As described above, in our textile business, we turned profitable on the basis of ordinary income for the first time in 12 years since fiscal year 1991. The major factors included the following: (1) closing of three domestic spinning and looming production mills at the end of June 2003 and disposal of our degraded synthetic-fiber plant; (2) personnel downsizing; (3) scale-down of unprofitable operations for common textiles and cutback of dead or long-held inventory; (4) cost reductions by expanded procurement of materials from our overseas affiliates; and (5) expansion of profitable operations such as industrial materials (base fabrics for automobile airbags) and functional clothing (sportswear and underwear). The business of industrial materials, particularly of base fabrics for automobile airbags, grew significantly.

Going forward, we expect stable growth in the demand for base fabrics for automobile airbags and will aim to further expand our share by bolstering production capacity of our overseas bases.

The entire sales of our textile business decreased following the previous fiscal year, due to the continued decline of common textiles.

Non-Textile Business

Sales of our non-textile business grew to cover about 55% of total sales; the business performance of optical films was favorable.

Our efforts to expand the non-textile business, as our highly profitable domain, produced sufficient results to cover about 55% of total consolidated sales in fiscal year 2003.

In fiscal year 2003, the Plastics Products segment achieved dramatic increases in both sales and profits. This was because our optical films and electronic circuits used for plasma displays and liquid crystal display TVs pushed up total sales significantly in line with growing demand for digital electric appliances. We expect favorable results in fiscal year 2004 as well and intend to expand our share through our product development capability that satisfies the needs of more sophisticated markets.

In the Bio, Medical and Functional Materials and Products segment, although sales declined slightly, we achieved an increase in operating income. This was mainly because of sluggish growth in sales of hollow fiber membranes for artificial kidneys in the first half of fiscal year 2003 due to inventory cutbacks by customers in the United States. In and after the second half, sales recovered well and are expected to advance on an expansion track in fiscal year 2004.

Our ultra-high molecular weight polyethylene fiber, DYNEEMA®, as well as reagents for genetic research and diagnostic reagents, produced favorable results to push up operating income.

Due to the deregulation triggered by the revision to the Pharmaceutical Affairs Law in April 2005, contract manufacturing of pharmaceuticals is expected to increase in the future. Currently, we are planning to establish a new building for production of injectable solutions at our Otsu Pharmaceuticals Plant.

Financial Highlights

Reduce the current balance of interest bearing loans to about 200,000 million yen

Enhancement of our financial strength is a major management issue, along with business structural reform. In fiscal year 2003, we reduced consolidated debt to 240,755 million yen, a decrease of 59,137 million yen (down 19.7%). The main source of funds was the gain on sales of securities and fixed assets, which amounted to 52,941 million yen. The reserve deficit for the employee's severance and retirement benefits was reduced to 25,700 million yen by 36,800 million yen (a decrease of 59%) by the substitutional portion.

We plan to reduce our consolidated debt to about 220,000 million yen by about 20,000 million yen in fiscal year 2004. In fiscal year 2005 and 2006, we plan to reduce it to about 200,000 million yen by about another 20,000 million yen. In and after fiscal year 2006, consolidated sales are expected to exceed about 400,000 million yen. We aim to bring the ratio of debt to sales to 50% or under as soon as possible.

We allocate resources to capital expenditure in consideration of profitability under the standard of depreciation and amortization. The investment directed at our textile business is limited to the range of depreciation and amortization, while that at our non-textile business is actively executed for future expansion.

Forecast of Business Results: Fiscal Year 2004

Advance on the track of increases both in sales and profit by bolstered development capacity

Now that we have completed the first stage of the structural reform, which we have been implementing for years, we need to continue launching our own highly functional products in order to keep track of growth by increasing both sales and profits in and after fiscal year 2004. For that purpose, we will focus on bolstering our development capacity from now on.

In April 2004, we established the Polymers Research Department to consolidate the development of polymerization technology that had been controlled by each division and to centralize control within the Polymers Operating Department. Thereby, we intend to enhance the efficiency of the development of polymerization technology, which is regarded as our company-wide core technology, as well as to bolster operations in the search for themes for our business interface.

Our research and development had been implemented by the research and development departments of the business divisions and directly controlled by the corporation; research and development had been in charge of prompt responses to the market in collaboration with our business divisions, and the corporation had been in charge of the creation of a business platform for the next generation.

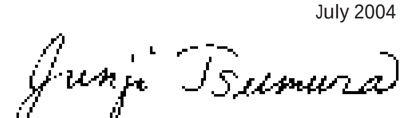
In July 2004, however, we established the Corporate R&D Planning Office for planning and implementing company-wide research and development strategies beyond the border between the business divisions and the corporation.

Even more than the development structure, the important issue for a manufacturer must be a corporate culture that places a high value on development. I have occasionally emphasized that "I expect all staff members to engage in their day-to-day business consistently with a mind that is oriented towards development and that seeks new products and new business, whether they are in charge of research, engineering, sales, or clerical work." My management philosophy, "a black figure is good and a red figure is bad," will not change in the future. However, it is certain that my focus will be shifted from retreat from unprofitable operations to expansion of highly profitable operations in the days ahead so that our advance to growth is ensured.

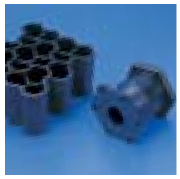
In the next fiscal year, based on our forecasts, consolidated sales are expected to reach 393,000 million yen (up about 19,900 million yen on a year-over-year basis), while operating income and ordinary income will total about 29,000 million yen (up about 3,100 million yen on a year-over-year basis)and 21,000 million yen (up about 3,500 million yen on a year-over-year basis), respectively. This will bring us to increases in both sales and profits, and net income is predicted to be about 12,000 million yen(up about 3,200 million yen on a year-over-year basis). This means that we are aiming for the highest record of all income accounts since we started consolidated financial settlement.

Finally, we thank you for the trust you have placed in us, and we look forward to the continued support of our shareholders and partners.

July 2004



Junji Tsumura, President



Fibers and Textiles

Fiber Materials
Polyester Filaments
Polyester Staple Fibers
Nylon Filaments
Acrylic Staple Fiber "Exlan®"
Polyurethane Fiber "ESPA®"
Polyolefins Elastic Fiber "DOW-XLA*"
Cotton, Wool

Fiber Products
Yarns, Textiles, Knitted Fabrics, Non-woven Fabrics

Industrial Materials
Industrial Materials,
Nylon Filaments for Airbags
Polyester Filaments for Tire Cords
Home Furnishings

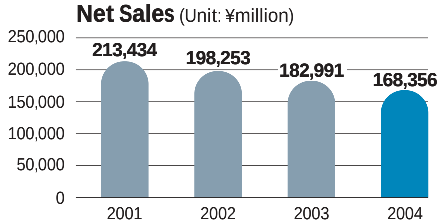
Apparels
Apparels, Uniforms

In the business of fibers and textiles, we closed three domestic spinning and looming production mills and scaled down the operations of common textiles, which had been unprofitable, following the fiscal year 2002. As a result, the business sales decreased partly due to appreciation of the yen. However, operating income improved dramatically owing to the improvement of the profit structure. In the clothing field, the apparel operations for women's clothing and knit clothing were drastically scaled down. The yen appreciation caused a decrease in the sales of our polyurethane elastic fiber, ESPA®. Meanwhile, we had a favorable business outcome in the field of functional clothing for sportswear such as MUNSINGWEAR®, a well-known golf wear brand, and nylon filament for leg inner wear.

Although sales of our base fabrics for automobile airbags showed steady growth in the field of industrial materials on the back of active demand in the automobile industry, those of our polyester filament for tire cords declined because of the yen appreciation and rising prices of materials.

Consequently, consolidated sales generated from the business amounted to 168,356 million yen and decreased by 14,635 million yen (down 8.0%) on a year-over-year basis. The operating income (before consolidation adjustment) ended up at 5,648 million yen, an increase of 2,404 million yen (up 74.1%). On a non-consolidated basis, we turned profitable in ordinary income for the first time in 12 years since 1991 in this business.

Net Sales (Unit: ¥million)



Plastics Products

Films
Polyester Films, Nylon Films
Polypropylene Films, Polyethylene Films

(Packaging Films)
General Packaging Films,
Food Packaging Films

(Industrial Films)
Films for Information Devices, Optical Films
Films for Recording and Printing
Magnetic Tape Films

Resins, Printing Materials, Electronic Materials
High Functional Resin "VYLON®"
Engineering Plastics
Photosensitive Printing Plates
Acrylate High Functional Plastics and Fibers
Intermediates for Medicines

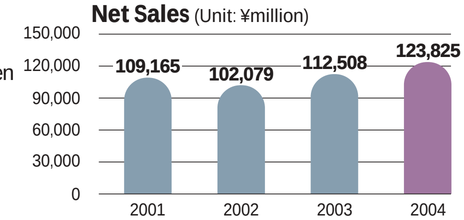
In the business of plastics products, the sales of films, resins, and electronic materials grew steadily to contribute to increases both in sales and profits of the business. In the field of films, we faced an uphill battle in the operation of packaging films, but our industrial films produced a satisfactory outcome. This was because the sales of our optical transparent filmed used for liquid crystal display TVs showed steady growth on the back of active demand in the digital appliance market. Our efforts for sales expansion of the polyester-based synthetic paper CRISPER® produced successful results to push up sales.

In the packaging film field, sales of nylon films slightly increased, while other products showed moderate declines due to the seasonal factor of a cool summer and warm winter. In the field of resins, our copolymer polyester resin, VYLON®, recorded an increase in sales mainly for the use of industrial adhesives and data recording for information technology (IT). We were actively committed to sales expansion of newly developed products of molding resins with a focus on domestic and foreign automobile markets, which led us to successful business performance. The sales of the acrylate high moisture absorbing exothermic fiber MOISCARE®, well accepted as a material for sportswear, increased dramatically.

In the field of electronic materials, the sales of our flexible printed circuit board (FPC) for print wiring doubled due to a rapid increase in demand for materials for digital appliances such as plasma display TVs.

Consequently, consolidated sales generated from the business amounted to 123,825 million yen and increased by 11,317 million yen (up 10.1%) on a year-over-year basis. The operating income ended up at 14,245 million yen, an increase of 3,384 million yen (up 31.2%).

Net Sales (Unit: ¥million)



Bio, Medical and Functional Materials and Products

Bio
Reagents and Instruments for Biochemical Research
Diagnostic Reagents Using Enzymes
Gene Analysis Service

Medical Products and Services
Hollow Fiber Membranes for Artificial Kidneys
Medical Devices such as Highly Antithrombogenic Cannula for Use in Extracorporeal Circulation
Contract Production of Pharmaceuticals

Functional Materials and Products
(Super Fiber)
PBO Fiber "ZYLON®"
Ultra-High Molecular Weight Polyethlene Fiber "DYNEEMA®"
Seawater Desalination Reverse Osmosis Membrane Module "HOLLOSEP®"
Environental Purification Materials and Devices
Non-woven Polyester Filaments (Spunbond)
Non-woven Polyester Staple Fibers

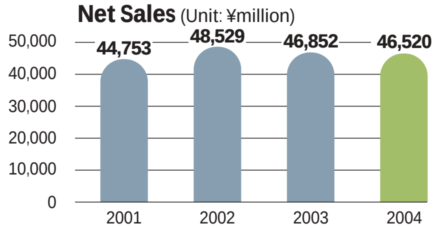
In the business of Bio, Medical and Functional Materials and Products, sales of our diagnostic reagents saw sluggish growth due to the government's restrictive policy on medical fees continued from the latter half of fiscal year 2002, while those of our hollow fiber membranes for artificial kidneys slowed due to an inventory cutback by our customers in the United States, which resulted in a slight decline in sales.

Under such circumstances, in the bio-science and medical field, our enzymes for measuring blood sugar produced a satisfactory outcome, as the demand for self-monitoring machines for blood sugar grew significantly. In spite of conservative purchases before the university's migration to an independent agency, the sales of enzymes for genetic amplification and contract genetic analytic research increased steadily.

Also, we had an increase in the sales of antithrombogenic coating materials for cardiopulmonary bypass. A large-scale project for our seawater desalination reverse osmosis membrane module was launched in the Middle East, which contributed to a considerable sales increase for the fiscal year 2002. In the field of functional materials, while our ultra-high molecular weight polyethylene fiber DYNEEMA® recorded an increase in sales due to the growing demand for tether ropes used for towing boats, the sales of our non-woven polyester filaments (Spunbond) maintained slight growth.

Consequently, consolidated sales generated from the business amounted to 46,520 million yen and decreased by 331 million yen (down 0.7%) on a year-over-year basis. The operating income ended up at 6,558 million yen, an increase of 616 million yen (up 10.4%).

Net Sales (Unit: ¥million)



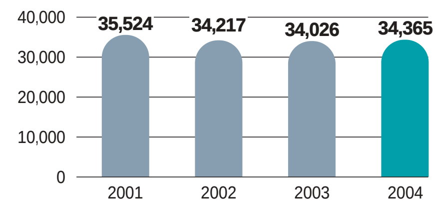
Other Businesses

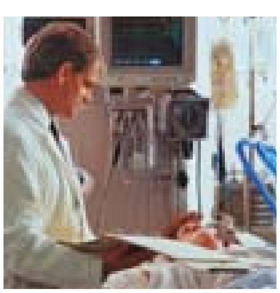
Environmental Purification Facilities, Mechanical Tools, Engineering, Real Estate Data Processing, Materials for Automobiles, Logistics

In our other businesses, all operations and services in the fields of engineering, real estate, information processing services, and logistics services produced a satisfactory outcome as a whole.

Consequently, consolidated sales generated from other businesses amounted to 34,365 million yen and increased by 339 million yen (up 1.0%) on a year-over-year basis. The operating income ended up at 2,368 million yen, a decrease of 125 million yen (down 5.0%).

Net Sales (Unit: ¥million)





Shift from Protective Strategies to Proactive Strategies: Aggressive Expansion of Advantageous Business Domains

Toyobo and the Toyobo Group aim to be a Multi-specialty Company in the true sense of the term in order to survive global market competition and to satisfy customer needs by leveraging our core technologies, which represent advantages in the three fields of fibers, polymers, and biotechnology.

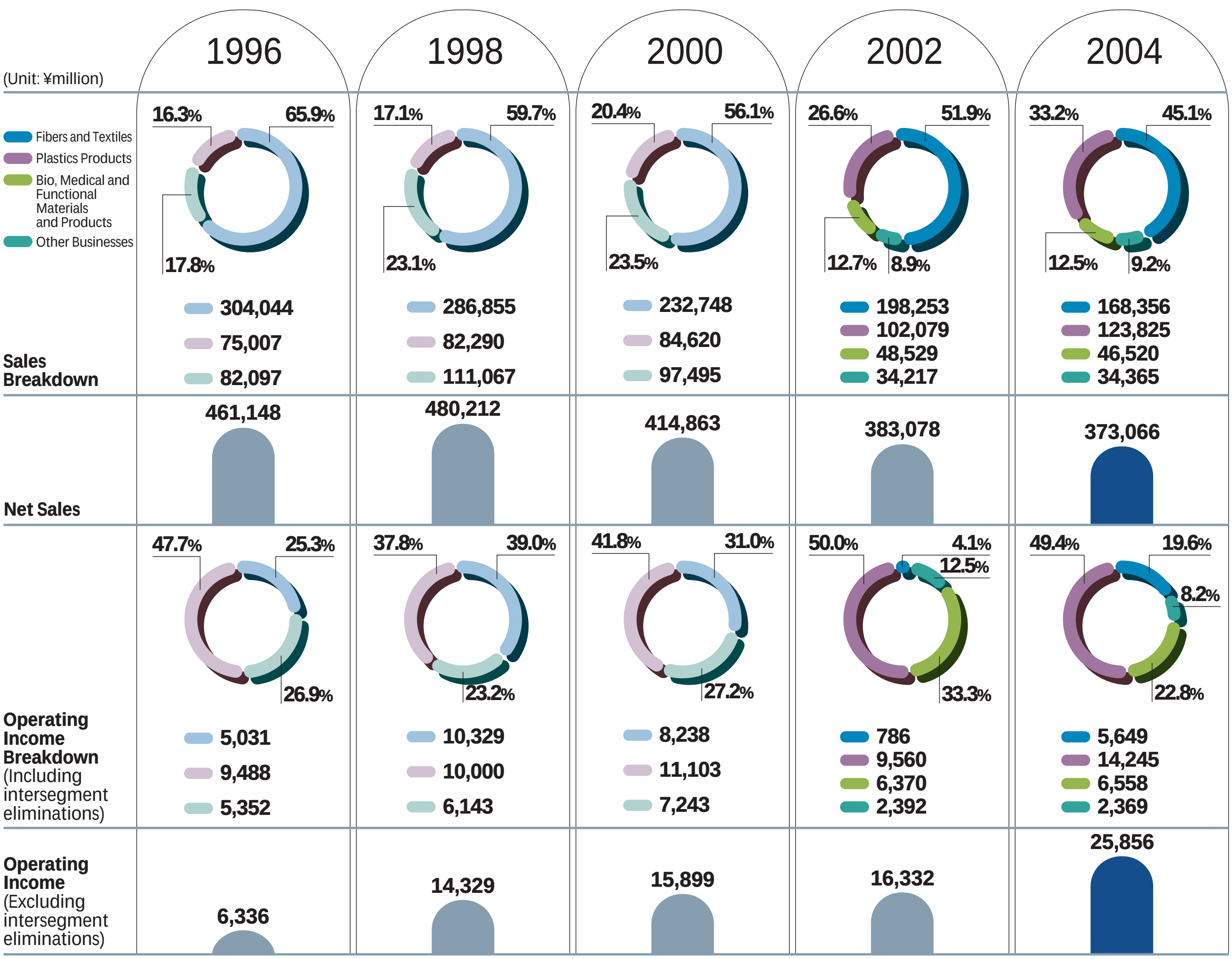
We have implemented drastic business structure reform by scaling down the operation of common textiles and shifting our focus from the textile business to the non-textile business, aspiring to be "a forest where only vital trees (profitable operations) grow in clusters" and advocating that "a black figure is good and a red figure is bad."

Now that the business structure reform started to produce successful outcomes, we are facing a turnaround toward the shift from protective strategies to proactive strategies, which leads to business expansion.

Going forward, we are concentrating our capital expenditure and research and development on highly competitive business segments such as film operations, high-functional materials, bio-science and medical products, and industrial materials. We intend to aggressively expand our business and bolster our research and development structure for continuous development of new products and new businesses by leveraging our strengths.

The sales of non-textile business covered 54.9% of the consolidated total sales in this fiscal year (fiscal year 2003) following the previous fiscal year (fiscal year 2002) when it exceeded 50% for the first time since the foundation. Our immediate goal (for fiscal year 2005–2006) is to reach 60% in the rate of non-textile sales to total sales, 400,000 million yen in sales, and 25,000 million yen in ordinary income.

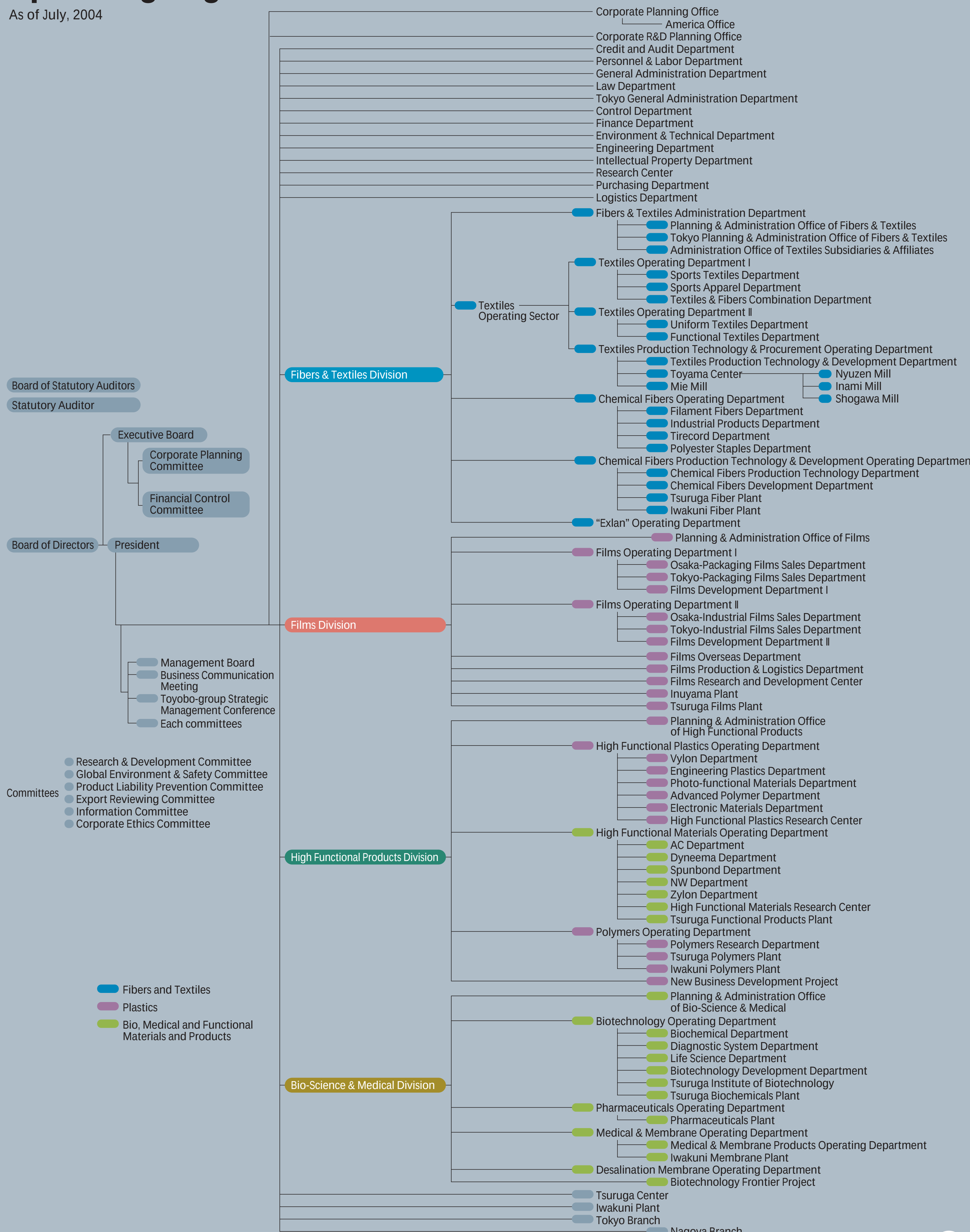
Transition in the Earnings Structure



Note) While our business segments had been fibers and textiles, plastic products, and other businesses before the fiscal year ended March 2001, we classified them into the current four segments in the fiscal year ended March 2002. In the same fiscal year, we began to allocate our overhead costs as operating costs for each business, which had previously been counted as unallocated operating costs. This was intended to properly present our business performance for each group.

Operating Organization

As of July, 2004



As the Most Unique Supplier of Composite Materials from Original Technology in the World

Daijirou Tsujii
Senior Managing Director
Head, Fibers & Textiles Division

Our Strength

We offer Solutions for Diverse Customer Needs through a Variety of Composite Materials.

The division mainly deals with four businesses: (1) industrial materials for the auto industry and industrial textiles; (2) materials for household products such as sanitary products, home products, and beddings; (3) functional clothing such as sportswear and underwear; and (4) women's clothing and other common categories such as shirts, which are exposed to tough price competition from foreign manufacturers, thus positioned as "the core field for restructuring." The entire division is shifting its focus from clothing to industrial materials and materials for daily living, where we are able to target customers pursuing functionality, while the closing unit is accelerating its transition from common clothing to functional clothing.

We are the only company in the world that supplies such a variety of textile materials, including polyester, nylon, polyurethane elastic fibers (spandex), acryl, cotton and wool. In response to customer needs, we combine these textile materials to provide woven fabrics and knits manufactured in a variety of ways, which gives us a competitive edge and also enables us to supply composite materials.

Overview of Business Performance for Fiscal 2003

- **Improving Investment Efficiency by Reduction of Fixed Costs, Inventory Cutbacks, and by Personnel Downsizing**
- **Growth and Stability of Marginal Profit by Scale-Down of Unprofitable Operations and Expansion of Profitable Operations**

In the year ended in March 2004 (fiscal 2003), we turned profitable on the basis of non-consolidated ordinary income for the first time in 12 years, although our net sales declined. This was due to our efforts for structural reform.

First of all, regarding the reduction of fixed costs, we closed three out of six domestic spinning and looming production mills by the end of June 2003. At the same time, we disposed of synthetic-fiber plants, which had been degraded and not fully exploited. For the previously implemented personnel downsizing, we decreased the division's entire headcount from approximately 1,700 at the end of March 2002 to about 1,200 by the end of March 2004. As described later, we scaled down operations for apparel, which had been less profitable, and cut back our dead or long-held inventory in this field.

Moving on to an overview of sales, we improved profitability in our clothing business by bolstering operations for such functional clothing as sportswear and underwear, which requires material with high functionality. The major materials used for such clothing are EKS®, functional textile to absorb moisture and emit heat, and FIRACIS®, composite spun yarn that is sweat absorbent and quick drying. As a result, we had favorable outcomes in sales of MUNSINGWEAR®, (a brand of golf wear jointly operated by Descente Ltd., Itochu Corp., and Toyobo), other active sportswear, and nylon filament for leg inner wear. However, the sales of our polyurethane elastic fiber, ESPA®, positioned as an export-oriented product, decreased due to the appreciation of the yen.

Meanwhile, apparel sales of women's clothing and knits decreased drastically creating a large inventory risk and vulnerability to fashion trends.

In our industrial materials business, sales of base fabrics for automobile airbags showed steady growth on the back of active demand in the automobile industry. Polyester filament for tire cords, however, declined because of the high yen and the rising prices of materials.

Consequently, sales (on a non-consolidated basis) for fiscal 2003 amounted to 98,488 million yen (down 6.9% from the previous year). On the other hand, operating income showed a dramatic increase owing to the reduction of fixed costs and the scaling down of unprofitable operations.

Airbags are now standard equipment for driver and passenger seats in automobiles.

Other types of airbags, such as curtain and side airbags, are also employed to increase automobile safety. Our base fabric for automobile airbags is a non-coated type using nylon 66 yarn. Thinner and stronger than previous products, nylon 66 base yarn is manufactured as a light, thin base fabric that fits easily inside the panels. This product feature has been highly rated by our customers, which earned for us an approximately 50% share of the domestic market in this field.

Nylon 66 Base Fabrics for Automobile Airbags

Strategies for Fiscal 2004

- **Technology Transfer Overseas and Strengthening of Product OEM Business**
- **Global Business Development by Bolstering Production Capacity of Base Fabrics for Automobile Airbags**
- **Division's Direct Control of Affiliate Companies to Consolidate their Functions**

Under the theme of value creation, we are actively committed to the construction of a unique textile business based on original technology, business structural reform by selection and concentration and promotion of operations that generate stable income.

We plan to minimize apparel operations of our large-risk clothing business because of its short product cycle. Our OEM business represented by MUNSINGWEAR®, which enjoys a strong brand and is free from product risks, will be bolstered. To further strengthen our competitive edge for spinning and looming production, we plan to develop high-value-added products that cannot be produced in other countries at our production base called *Mother Mills*, which consist of our three domestic spinning and looming mills. We also intend to implement technology transfer to our overseas affiliates for enhancement of procurement capability.

At the same time, we will focus on industrial materials and materials for daily living with a long product cycle for which future production is relatively easy. In our industrial materials business, given the expectation for rapid growth in the Asian automobile market along with the future increase in demand caused by the installation of airbags in additional places in vehicles, we plan to expand nylon 66 yarn production at the Tsuruga Fiber Plant from the current 10,000 tons per year to 14,000 tons per year in fiscal 2005. To work closely with manufacturers of airbag parts that started local production, we expect Toyobo Industrial Materials (Thailand), Ltd. to increase base-cloth production from the current 10.8 million meters per year to 21.6 million meters per year in fiscal 2005, which will boost total production, including the domestic portion, from 24 million meters to 36 million meters. Moreover, we are currently investigating the feasibility of production in China, that is expected to become the future market.

To develop our business globally, we established an alliance with several partners. We acquired the exclusive domestic licensing and distributorship rights for LYOCELL®, a trademark of Lengzing AG. As an original equipment manufacturer, we started to distribute the products as TUFFCELL® III produced by Lenzing AG in Austria in the Japanese market. The other exclusive domestic licensing and distributorship rights we acquired were for DOW-XLA* polyolefins elastic fiber by Dow Chemical Company in the United States. We launched these products in fiscal 2003.

Finally, we move on to reinforcement of our affiliate network. There are 25 affiliates controlled by the division; about 60% of them are positioned as a *function company* in charge of specific operations of the division. The president of each affiliate is co-headed by our general manager; this is for enhancement of competitive strength through integration of duplicate functions across affiliates. We also studied the feasibility of the continued existence of profitable companies and the shutdown of unprofitable companies, as in operations not directly related to our business.

Based on the above strategies, we plan to reach 97,000 million yen (down 1.5% from fiscal 2003) in non-consolidated sales for fiscal 2004.

DOW-XLA* is a polyolefins elastic fiber developed by Dow Chemical Company. We concluded exclusive domestic licensing and distributorship contracts with Dow Chemical Company for DOW-XLA* and launched it in autumn 2003. In addition to elasticity equal to that of polyurethane elastic fiber and the soft, supple texture, DOW-XLA* is heat resistant to 220 degrees centigrade and resistant to chlorine and other chemicals, such as sulfuric acid. The thin fabric features a soft texture and elasticity that has been well accepted as suit material for men and wool dress material for women. Going forward, it is expected to be suitable material for sanitary gowns and nursing garments because of the chemical resistance and for light sportswear.

* Trademark of Dow Chemical Company

DOW-XLA*: Polyolefins Elastic Fiber

BREATHAIR® is a spring structure with easiness to cut water, high elasticity, and high breathability proven by the void ratio of 95%.* With a press recovery feature and durability equal to that of urethane, it is suitable as cushion material. The material excels at dispersing body pressure and is comfortable to sleep on, easy to wash, and well accepted by customers in the bed clothing market as a high-quality antibacterial and antibromic material. It is already used for common mats, pillows, seats, nursing mats, and mats to prevent pressure sores. We are currently enjoying favorable reputations for sofas, sports protection materials, filters, shoe insoles, and green-zone spring structures for roof gardens and floating islands.

* Ratio of Air Cubic Content of Structure

BREATHAIR®: Polyester Elastomer Spring Structure

For development of comfortable clothing materials, we use sensory measurement technology to digitalize discomfort, which is expressed ambiguously, by a measurement system. TOM® III (Tom Three) and SAM® (Sam), perspiration mannequin equipment we developed, are based on this technology, which contributes to product development that satisfies the needs of apparel companies.

TOM® III measures the "steam" (vapor) of sweat, while SAM® measures the "heat" caused by sports activities, which is related to the human body's thermal storage that generates sweat (liquid) resulting in the exoergic cooling effect of perspiration. SAM® is capable of maintaining its skin temperature and thermogenic quantities at constant levels. SAM® can also make its skin temperature and the amount of sweat change over time. By doing so, SAM® is able to simulate the different conditions of the human body.

TOM® III and SAM®: Perspiration Mannequin Equipment

For Further Business Expansion Based on Our Three Core Competences: Responsiveness to Customer Needs, Research and Development Capacity and Patents, and Production Capacity

Masahiko Hachimaru
Managing Director
Head, Films Division

Our Strength

Timely Offering of Highly-Functional Products Developed from our Accumulated Technology as our Strength

Our strength originates from the following three competitive edges: (1) diverse product development combining materials such as polyester, nylon, polypropylene, and polyethylene with our own polymer synthesis technology that we have built up over many years; (2) filming technology generating a wide range of film features based on the manufacturing processes of both biaxially-oriented films and casting films; and (3) surface-control processing of various properties, such as electric properties, gas barrier properties, and surface characteristics. On the backs of such technical capabilities, we listen to the voices of our customers for the development and timely offering of optimal products in order to satisfy their needs, which leads us to competitive advantages.

Our film materials are used in various ways – in packaging, labels and information technology (IT) equipment such as liquid crystal displays (LCD) and membrane switches. In recent years, our polyester films for flexible packaging and IT equipment grew significantly, maintaining a top share of the domestic market.

Overview of Business Performance for Fiscal 2003

Persistent Efforts for Product Development Supporting Steady Growth

In the year ended in March 2004 (fiscal 2003), our sales and income exceeded those of fiscal 2002.

Our industrial film business dramatically grew following the previous fiscal year. This was due to the favorable outcome of the business of optical transparent films, as the LCD TV display and plasma TV display markets showed particularly rapid growth. The other major factor for the growth was that we were actively committed to the sales expansion of our polyester-based synthetic paper, CRISPER®. The business of packaging films declined slightly due to the uphill battle faced by the label film business for drink bottles in a cool summer and warm winter.

The driving force for our growth is the development of highly functional products that satisfy customer needs. In the rapidly growing digital appliance market, it is essential to respond promptly to demanding functional requests from appliance manufacturers to keep up with the speed of their product development. COSMOSHINE® polyester film, which is used in optical transparent films, has earned a firm position in the market owing to its transparency, adhesiveness, and other basic features.

SPACECLEAN®, a heat-shrink polyester film used for PET bottle labels achieves bright color printing and is recognized mainly for its fineness. In recent years, moreover, it has often been used for PET bottle labels on hot drinks because of its heat resistance. The light blocking type for the protection of flavor and quality is currently being developed.

Our ECOSYAR® barrier film has attracted attention for its innovative technology of dual deposition of alumina and silica. With its technical problems solved, ECOSYAR® was subject to a full-scale launch in fiscal 2003. In fiscal 2003, our polyester-based film, TEARFINE®, which tears easily because of its cellophane-like properties, was also launched. Moreover, as an environmental conservation product, we successfully developed a polypropylene film for aqueous ink.

Consequently, our sales (non-consolidated basis) for fiscal 2003 amounted to 57,143 million yen (up 5.5% from the previous year).

Generally, the slippery feature of the film surface derives from the convex section created on the surface by the participles mixed in the film. Therefore, adhesion increases the quantity of participles that are mixed in, while transparency is deteriorated.

COSMOSHINE® combines these two different features, slipperiness and transparency, based on a high level of skills and the help of our own technology. COSMOSHINE® is used for printing, LCD displays for computers and mobile phones, electric appliances and membrane switches (*), since it is suitable for printing and adhesive to resins.

* Light, thin switches using circuits formed in polyester film

COSMOSHINE®: Ultra Slippery, High Transparent Polyester Film

Strategies for Fiscal 2004

- **Bolstering Production Capacity of Polyester Films with the Start of a New Operation Line (Annual Production Capacity: 10,000 tons) Scheduled for Autumn 2005**
- **Accelerating the Development of High-Value-Added Products**
- **Overseas Production Base for Nylon Films**

The domestic market for packaging films has been growing by 2–4% annually for the past few years, while that of industrial films has grown by 8–10%. Going forward, these markets are expected to grow increasingly. Under such circumstances, we intend to further expand our market share based on our three core competences, which are responsiveness to customer needs, research and development capacity and patents, and production capacity. At present, our products far exceed foreign products in terms of technology. Hence, our double or triple patent strategies are to be an entry barrier for foreign products. We believe that maintenance and intensification of the three core competences continue to protect us from facing price competition with foreign products.

Let us start with responsiveness to customer needs. We launched COSMOSHINE®, SPACECLEAN®, CRISPER® and TEARFINE® along with fine-tuned proposals, processing and delivery services that satisfy our customer needs. We continue to responsibly carry out the ideas generated from communicating with our customers by feeding them back to our production and development for the purpose of future sales expansion.

Next, we move on to research and development capacity and patents. By laminating dissimilar polyesters in nano orders, we are currently accelerating research and development of (1) polyester multiphase films with toughness and elasticity equal to those of nylon and (2) heat-resistance films and ready shaping films with dimensional stability and chemical resistance. The new developed technologies, as well as our successful products, are to be grown with care so that their advantages are protected by the acquisition of patents on the related technologies.

For production capacity, we plan to invest more than 10 billion yen in three years as capital expenditures into such areas as projects that have already been decided. Particularly in our business of polyester films where highly functional products, such as optical films and heat-shrink polyester films for bottle labels are producing a favorable outcome, we continue to bolster our production capacity. In the operation of polyester biaxially oriented films with a production capacity of 10,000 tons per year, we started commercial production in October 2002. Further, it will be in full production and another line of 10,000 tons per year is slated to start up in autumn 2005.

Meanwhile, we established the Films Overseas Department in July 2002 to aggressively expand our overseas business, including exports. As a result, our exports grew by about 20% on a year-on-year basis. In our rapidly growing business of nylon films in the food-package markets of China and Southeast Asia. In fiscal 2005, Toyobo and Shanghai Zijiang Enterprise Group Co., Ltd., jointly established Shanghai Zidong Chemical Materials Co., Ltd.

Price declines and sudden raw-material price hikes in the business of general-purpose films had serious impacts on the business of biaxially oriented polypropylene films because of structural problems. As a solution, we implemented the remodeling of one operation line for polypropylene films at the Inuyama Plant so that production of specialized products, such as films for preserving the freshness of foods, pearl films for digital-camera printing, and shrinkable films, could be realized. The remodeling was completed in March 2004. We aim for an improvement in our profit structure by shifting our focus from general-purpose films to high-value-added films.

Based on the above strategies, we aim to reach 61,000 million yen (an increase of 6.8% from fiscal 2003) in our non-consolidated sales for fiscal 2004.

SPACECLEAN® is a heat-shrink polyester film used for PET bottle and beer bottle labels. Extremely transparent and glossy, it achieves bright color printing. It easily adheres to many different shapes due to the feature of heat shrinkage.

In recent years, many large drink companies have come to use SPACECLEAN® for their PET bottle labels for hot drinks, taking advantage of the heat resistance as a distinguishing feature of the polyester material.

SPACECLEAN®: Heat-Shrink Polyester Film

TEARFINE® is a polyester-based film easily torn by hand from all angles. Generally, a plastic film is not as easily torn by hand as paper or cellophane. Therefore, we need to make a small cut called a "notch" in the package for customers to open it. By combining our own polymer synthesis technology and filming technology, we succeeded in solving this problem.

This is used in packages for medicines, small bags of powdered soup, juice and teas (stick-type packages), and adhesive tapes. We expect great demand for these products in the future.

TEARFINE®: Polyester-Based Film Featuring Easy Tearing

ECOSYAR® deposits the two components of alumina (aluminum oxide) and silica (oxidized silicon) using nylon or polyester as a base film. The clear, colorless film with gas barrier and damp-proof features is often used in packaging films for snack foods, coffee beans, teas, pouch-packed foods, and microwaveable foods.

The polyvinyl chloride (K-Coat Film) film coating is a mainstream product corresponding to this use. The alternative transparent film with deposits of alumina or silica was weak in the barrier feature, and the deposits caused cracks when processed. ECOSYAR®, free from the technical problem of cracks and with a barrier feature superior to that of K-Coat Film, is an environmentally sensitive product that does not emit dioxin when burned.

ECOSYAR®: Transparent Deposition Barrier Film

Specialty Group Devoted to the Creation of "Something That Only Toyobo Can Produce"

Fumio Hotogi
Senior Managing Director
Head, High Functional Products Division

Our Strength

Research and Development in Pursuit of Customer Satisfaction based on Polymer Synthesis and Processing Technology

We aim to be a specialty group in pursuit of customer satisfaction. To realize our ideal, we manage our operations based on five policies: (1) product development based on original technology for satisfying customers; (2) business expansion through intensified sales activities that identify future business opportunities; (3) collection of market information and up-front reserve of research and knowledge;
(4) production base upholding the safety-first policy that fits well with our business environment; and (5) reinforcement of group management.

The division consists of diverse operations. Although each operation is seemingly distinct, the factor common to the operations is that their core is our own polymer synthesis and processing technology.

1. Highly Functional Resins: (1) resins for paints, adhesives, and electronic materials; (2) functional molding resins such as engineering plastics; and (3) photo sensitive print resins that enable photo development using water.
2. Acrylate-Based High-Functional Resins and Fibers.
3. Super Fibers: organic fibers such as DYNEEMA® and ZYLON® with the world's highest level of strength and elasticity .
4. Polyester Filaments for Non-Woven Fabrics (Spunbond) and Polyester Staple Fiber for Non-Woven Fabrics.
5. Separated Materials Using Fibrous Activated Carbon and Electret Fibers.

By collecting market information and implementing research and development through an up-front reserve of research and knowledge, we intend to expand our specialty business far beyond the positions of our competitors in pursuit of high added values.

Overview of Business Performance for Fiscal 2003

Active Demand of Digital Electric Appliances and Automobile-Related Industries Pushed Up Increases Both in Sales and Profit: The Super Fiber DYNEEMA® Produced a Favorable Outcome.

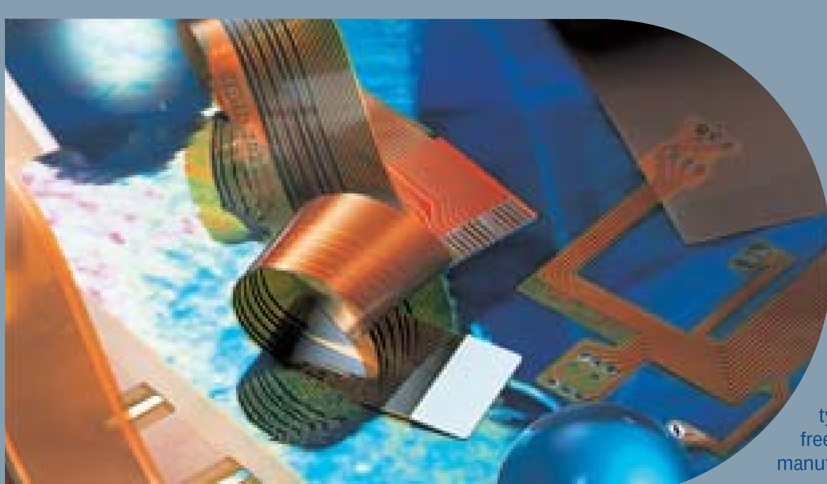
In the year ended March 2004 (fiscal 2003), due to launches of developed products to meet the active demand of digital electric appliances and automobile-related industries, we produced a satisfactory outcome achieving dramatic increases both in sales and profit.

The sales of our electronic materials business doubled owing to favorable results in circuit boards for plasma display TVs and mobile phones. In particular, sales of our flexible printed circuit board (FPC) VYLOFLEX® grew significantly to push up our entire business income. At Iwakuni Membrane Plant, we produce flexible copper-clad laminate plates (FCL); Cosmo Electronics Co., Ltd., our affiliate, fabricates them into FPC and sells FPC to our customers. This fiscal year, we bolstered the operations of our FCL production plant in Iwakuni Membrane Plant, an FPC production plant of Cosmo Electronics Co., Ltd. and an FPC fabrication plant in Shenzhen, China, which is one of our outsourcing plants for finishing products, in order to respond to growing demand.

Our copolymer polyester resin VYLON® generated an increase in income following the previous fiscal year. This was due to our aggressive sales activities for molding resins with a focus on the domestic and foreign automobile-related industries, on the back of an increase in sales for data recording items in the information technology (IT) equipment industry and adhesives.

Sales of DYNEEMA®, our super fiber whose strength and elasticity exceed those of aramid and steel and is light enough to float on water, dramatically increased, owing to steady growth in demand in the markets for protective gloves and tether ropes for towing boats. In the fiscal 2002, we doubled our production capacity from 510 tons/year to 1,020 tons/year in anticipation of the growth in demand. The capacity operating ratio is rising steadily, and we are reaching full capacity. Sales increased substantially for the acrylate high moisture absorbing exothermic fiber MOISCARE®, well accepted as a material for sportswear. Our air filters, solvent-recovery equipment, and Spunbond recorded slight increases in sales.

As a result of our research and development in fiscal 2003, we achieved the world's first development of an aluminum-based polyester polymerization catalyst. With the use of this catalyst, we are able to produce resins with transparency equal to that of a germanium-based catalyst and with color tone free of dullness and yellowing. It is expected to grow in the future as an ecologically friendly catalyst that does not



In the plasma display TV market, tough competition exists for development of thinner models. Our FPC VYLOFLEX® is used as the circuit board. VYLOFLEX® dispenses with adhesives that lessen the function of the FPC.

The FPC, wherein the circuit is made of copper foil directly coated with resin, excels at heat dimensional stability, chemical resistance, and high-voltage resistance compared with traditional-type FPC requiring adhesives. As an environmentally friendly product free of halogen or heavy metals, it is well accepted by many large manufacturers of electric appliances.

VYLOFLEX®: Third-Generation FPC

contain heavy metals. In addition, we launched CELLFINE® S, an acrylate fiber that excels at absorbing sulfur-containing chemical compounds in the air and prevents rust on metals. We are currently exploring the feasibility of its use for brass instruments, silver tableware, and distribution boards and other antirust materials. Consequently, our non-consolidated sales for fiscal 2003 amounted to 61,441 million yen (an increase of 8.2% from the previous year).

Strategies for Fiscal 2004

Accelerate Global Business Development through an Increase in Overseas Supply Bases and Export ExpansionReinforcement of Collaboration Among Research Sections with the Unique Polymerization Technology at the Core

Our basic policy is to develop something that only Toyobo can produce. Our bilayer FPC VYLOFLEX® that contributes to creation of thin plasma display TVs is one example. This is made from copper foil directly coated with resin without any adhesive in between. Compared with a three-layer FPC requiring adhesives, it excels at heat dimensional stability, chemical resistance, and high-voltage resistance. In recent years, polyamide-imide (PAI) resins, replacing polyimide (PI) resins, which are traditional-type coating materials, have been well accepted by the market. We are planning to bolster production capacity so that operations can start by the end of this year.

As in the business of molding resins, in order to respond to local procurement needs that arise from the overseas business expansion of automobile-parts suppliers and electric-parts or electronic-parts suppliers, we intend to contract with local compound (combining resins and other additives evenly before fusion in the production process of molding resins) manufacturers in China, Thailand, and the United States to provide molding resins as a full-scale OEM supply base of compounds during the next fiscal year.

In the operation of Spunbond, where we increased our production capacity from 8,000 tons/year to 14,000 tons/year in October 2002, we have solved the technical problems associated with the production of highly functional items and are ready to begin full-scale operations at last. In and after the next fiscal year, the launch of newly developed products for automobile and building materials along with the expansion of exports to Europe and the United States is expected to boost the business. In the related operations of non-woven fabrics, we have the following:
(1) Spunbond Department dealing with polyester filament; (2) AC Department dealing with separated materials, mainly fibrous activated carbon, for solvent recovery and air filtering; Toyobo Kankyo Techno Co., Ltd. (our affiliate company) dealing with bug filters; (3) Kureha, Ltd. (an affiliate) dealing with polyester staple fibers for non-woven fabrics; and (4) Yuho, Co., Ltd. (an affiliate) for supplying filters to the AC Department. We intend to reinforce our group management based on proper segregation of our business and restructuring of the current strategies.

In the previous year, we established the New Business Development Project Unit to utilize our diverse technology platform on a cross-sectional basis for our research and development. The unit successfully launched several development themes such as biodegradable polymers and nano composites as it accelerated its activities toward the business start-up.

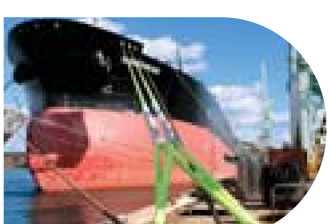
We established the Polymers Research Department in our Polymers Operating Department on April 1, 2004. This is for consolidation of the development of polymerization technology that had been controlled by each division and for centralization of control at our Polymers Research Department. We believe that this will lead to strengthening of polymerization technology, which is the core of our technology platform.

Moreover, as of the same date, we established the High Functional Plastics Research Center and the High Functional Materials Research Center in our High Functional Plastics Operating Department and High Functional Materials Operating Department, respectively. On the basis of the development of these divisions, we are actively committed to the expansion of existing businesses as well as the search for future enterprises and to proactive utilization of human resources.

These efforts shall be made through collaboration between the former and Polymers Research Department and between the latter and Chemical Fibers Development Department in the Fibers & Textiles Division. Based on the above strategies, we aim to reach 66,000 million yen (up 7.4% from fiscal 2003) in non-consolidated sales for fiscal 2004.

DYNEEMA® is our extended super high-molecular weight polyethylene manufactured by our gel spinning technology. It is a super fiber where the strength and elasticity exceed that of aramid and steel. Its specific gravity is 0.97; it is light enough to float on water. In addition, its various outstanding features such as chemical resistance, light resistance, shock absorption, and abrasion resistance, is widely used for tether ropes for towing boats, fishing twine, fishnets, fishing lines, rider helmets, protective gloves, and others.

Above all, with major contributions to weight saving, tether ropes for towing boats are expected to grow in future as an alternative to wire ropes.



DYNEEMA®: Ultra-high Molecular Weight Polyethylene Fiber

We provide three items in our CELLFINE® series: (1) CELLFINE® S, which absorbs sulfur-containing chemical compounds in the air; (2) CELLFINE® N, which absorbs amines and has ammonia absorbability 5–20 times that of traditional-type adhesives such as grained or fibrous activated carbon; and (3) CELLFINE® A, which absorbs acids and aldehyde-based substances in the air. According to the environment and the substances to be absorbed, it is possible to choose a suitable filter from the three different reformulation methods. In particular, for the absorption of sulfur-containing chemical compounds that cause rust on metals, the introduction of absorption agents with sufficient quality has long been sought. CELLFINE® S is expected to be widely used as an antirust material for precious metals, instruments and silver tableware, deodorant sheets for refrigerators, air filters for air conditioning equipment, and materials for daily living such as clothing, bed clothing, and sanitary items.

CELLFINE® Series: Acrylate-Based Fibers

Due to the recent trends in weight saving and multifunctional automobile parts, materials are rapidly being replaced by highly functional plastics.

VYLOPET®, our molding resin, where polyester demonstrating heat resistance, highly mechanical features, and electric properties, is processed by our own reformulation technology, and adds gloss to the surface of molded products. It is good for fine finishes, such as aluminum deposition, and enables the production of durable molded products in a complex form. It is also widely used for automobile parts and electric or electronic parts. Its use for a part of an automobile headlight called the sub-reflector has significantly grown over recent periods.

VYLOPET®: Thermoplastic Polyester Molding Resin

For Realization of Tailor-Made Medical Treatment and for an Increase in Market Share of Medical Membranes, and Desalination Membranes

Yoshihisa Kawamura
Director
Head, Bio-science & Medical Division

Our Strength

- **Biotechnology from the Disposal Technology of Waste Liquids from Pulp**
- **Focus on Four Businesses: Biotechnology, Pharmaceutical, Medical Membranes, and Desalination Membranes**

The division focuses on four businesses: (1) the biotechnology business, such as support of life science research and diagnostic reagents using enzymes and antibodies; (2) the pharmaceutical business for contract manufacturing formulation development and testing of pharmaceuticals, mainly of biopharmaceuticals; (3) the medical membrane business for production of hollow fiber membranes for artificial kidneys and various types of medical devices using materials for suppression of thrombus formation; and (4) the desalination membrane business using technology from hollow fibers for water filtration, pure water production and water desalination.

The operations of our biotechnology and pharmaceutical businesses were launched in the 1940's with the use of yeast in the disposal of waste liquids from pulp, a raw material of rayon. In 1970, we succeeded in depriving a material enzyme for a diagnostic reagent that measures uric acid from yeast and commercialized URICASE®. In 1991, we became the first company in Japan to receive approval for the manufacture of biopharmaceuticals using genetically engineered animal cells, after we expanded our operations starting with cell culture technology and usable protein refinement and shifting to genetic and cell engineering. Currently, we are developing our business in such advanced fields as genome drug discovery support and contract manufacturing of therapeutic antibodies.

The technology of hollow fiber membranes for artificial kidneys in our medical membrane business, as well as that of hollow fiber reverse osmosis membrane modules in our desalination membrane business, has its origin in the manufacturing technology for hollow fibers; this technology was developed for the luster of silk to be added to rayon. As for hollow fiber membranes for artificial kidneys, we hold about a 30% market share in Japan and about a 20% market share worldwide. We lead the global market in seawater desalination reverse osmosis modules, holding about a 50% share in the global market of large plants.

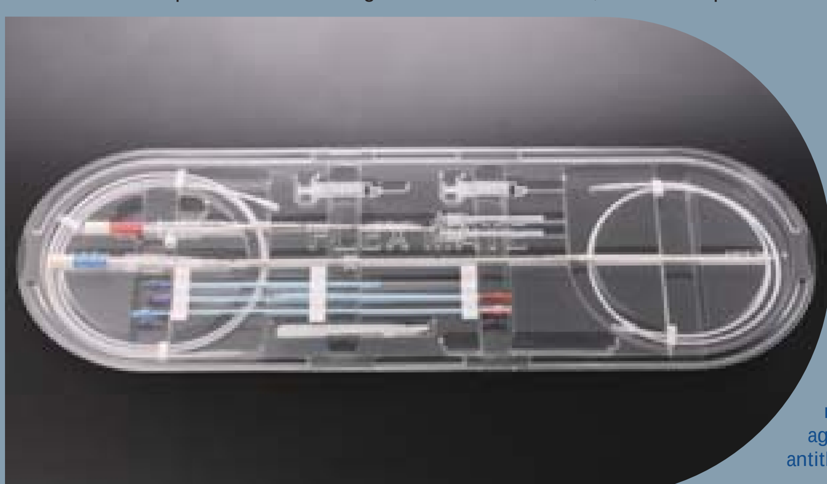
Overview of Business Performance for Fiscal 2003

- **Favorable Outcome in Enzymes for Measuring Blood Sugar and for Genetic Amplification**
- **Growth of Medical Devices Led by Market Cultivation**

Due to the government's restrictive policy on medical fees, conservative purchases before the university's migration to an independent agency and inventory cutback by our customers in the United States, our businesses of diagnostic reagents and hollow fiber membranes for artificial kidneys declined in the first half of fiscal 2003. However, in the second half of fiscal 2003, they made a full recovery to boost total sales for fiscal 2003 to a slight increase on a year-on-year basis.

In our biotechnology business, PQQ-GDH, an enzyme for measuring blood sugar, which is a glucose splitting enzyme using PQQ as a coenzyme, produced a favorable outcome. In recent years, owing to a rapid increase in diabetic patients, the demand for the said enzyme in user-friendly self-monitoring machines of blood sugar is growing to lead us to enjoy a yearly sales increase by 10%. In addition, due to the intensified analytic genetic research by domestic research agencies, enzymes for genetic amplification such as BRENDTAQ™, as well as contract genetic analytic research, were favorable in their performance.

In our medical membrane business, sales of our hollow fiber membranes for artificial kidneys in the first half of fiscal 2003 were almost the same as those of fiscal 2002, in the aftermath of an inventory cutback by our customers in the United States. The sales in the second half, however, are returning to where they were before the inventory cutback. Medical parts, such as cannulas and tubes for blood bypass of artificial hearts and lungs used for cardiovascular



In cardiac surgery, the patient's heart is temporarily stopped and blood is normally diverted to a cardiopulmonary bypass. The cardiopulmonary bypass consists of a pump to pump blood at a constant pressure, an artificial lung to supply oxygen to the blood and to extract carbon dioxide from blood, a filter to clean the blood, and a tube to connect these functions.

FLEXMATE® Cannula is a medical device that connects the patient's heart and an artificial cardiopulmonary bypass developed on the basis of our molding process technology. We offer products coating heparin, a physiologically active substance, which is biogenous and antithrombogenic (nature of preventing blood clotting). We provide customers the above artificial lungs and medical devices, such as catheters used for injection of medical agents and nutritional supplements to blood vessels, after this antithrombogenic process.

FLEXMATE® Cannula

surgical operations, along with ventricular assist devices, showed rapid growth in performance, owing to their high antithrombogenicity and to our fine-tuned customer responses well accepted by the market as a result of our successful sales activities.

Our desalination membrane business was successful because of the contribution made by HOLLOSEP®, our reverse osmosis membrane module, to the desalination plant (daily production volume will be 50,000 tons; the plant is scheduled to start operations in summer 2004) established in Yanbu City by the Royal Commission (a royal agency) of Saudi Arabia. Consequently, our non-consolidated sales for fiscal 2003 amounted to 18,119 million yen (up 5.0% from the previous year).

Strategies for Fiscal 2004

- **Accelerated Development of Reagents for Research of SNPs for Realization of Tailor-Made Medical Treatment**
- **Bolstered Production Capacity of Injectable Solutions in Advance of Deregulation**
- **Aggressive Business Expansion of Pure Water Production by Polysulfone Ultra Filtration Membrane**

In our biotechnology business, we continue to bolster the operation of reagents for life science research. The reagents, with which our research center reproduces genetic amplification and origination of proteins in human bodies, are essential for genetic research. Above all, the research of single nucleotide polymorphisms (SNPs: they are in gene sequences in the same position to fulfill the same function with one base replaced by another) is said to be a key to tailor-made medical treatment and a major theme of national projects such as Millennium Project and the Tokyo Bay Project. We have been actively committed to the development of reagents for research of SNPs since 1999. Beginning with the reagents for research of SNPs related to drug metabolizing enzymes launched in fiscal 2002, we aim to enrich the line-up of reagents for research of SNPs in the fields of diabetes and cardiac infarction in order to keep up with such trends.

We focus on reagents using immune reaction of antibodies as in diagnostic reagents. In this field, U.S. manufacturers lead the market, showing overwhelming strength in reagents for major diseases, such as incipient cancer, cardiac infarction, and diabetes. We intend to expand our business targeting allergic-state diagnosis and other segments peculiar to Japanese.

In our pharmaceutical business, we plan to double the production capacity of injectable solutions of our Otsu Pharmaceuticals Plant to make ourselves ready for the start-up in summer 2005. With the deregulation triggered by the revision to the Pharmaceutical Affairs Law in April 2005, we expect that contract production will be expanded by pharmaceutical manufacturers. PAC Biologics Inc., our affiliate company for manufacturing of therapeutic antibodies, has completed validation of the entire new plant of 4,000 liters. Developing domestic customers on a large scale, we are ready to start up full-fledged contract manufacturing of biopharmaceutical products.

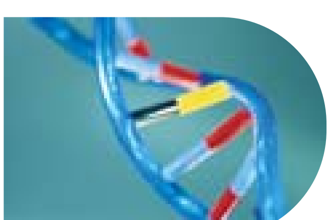
In our medical membrane business, we expect an expansion in hollow fiber membranes for artificial kidneys and medical devices. In the U.S. market, where the reuse of hollow fiber membranes for artificial kidneys has been mainstream, single use (one dialyser is used for each dialysis) is currently becoming popular from the aspects of good hygiene and safety as in the Japanese market. On the back of such trends, sales to the U.S. market are expected to grow in fiscal 2004. We aim to enrich the product line-up of medical devices using materials for suppression of thrombus formation, which finally grew in performance, with a view to expand our market share.

Finally, in our desalination membrane business, we expect a favorable outcome in fiscal 2004, predicting that our module delivery to a desalination plant in Fukuoka City is to be completed; the desalination plant is currently on a pilot run and expected to start operations in spring 2005. In the Middle East, we plan to utilize a base for sales activities and technical services, which was established in Riyadh, Saudi Arabia in fiscal 2002, for further business expansion. In China and Southeast Asia, where market expansion is expected, we plan to bolster our sales force. In fiscal 2003, as in the field of pure water production where we need to replace our existing degraded plant on a large scale, we succeeded in development of polysulfone ultra filtration membranes, which are effective for elimination of protozoa not killed by chlorine.

In the second half of fiscal 2004, we plan to start full-fledged sales activities to local government bodies and communities in this field. Based on the above strategies, we aim to reach 20,000 million (up 10.4% from fiscal 2003) in non-consolidated sales for fiscal 2004.

We have developed reagents for detecting SNPs peculiar to Japanese, which are in gene sequences to produce drug-metabolizing enzymes that decompose drugs inside the body.

The speed of the decomposition of drugs depends on the type of SNPs included in the genes for drug metabolizing enzymes. If the speed of metabolism is too slow, the side effects increase. On the other hand, if the speed of metabolism is too fast, the drug has low efficacy. SNP research related to drug-metabolizing enzymes is essential for setting dosages and avoidance of side effects and is also an important project for realization of tailor-made medical treatment.



Reagents for Research of SNPs Related to Drug Metabolizing Enzymes

PQQ is one of the vitamins* called pyrrolo-quinoline quinone discovered from germs in 1979. In 2003, the Institute of Physical and Chemical Research confirmed that is a vitamin.

PQQ-GDH, developed by us, is a glucose-splitting enzyme using PQQ as a coenzyme. When mixed with blood, blood sugar, which is glucose in blood, is decomposed and electricity is generated; the intensity of the electricity is used for measuring blood sugar.

* Vitamin: A series of organic compounds for creatures to ingest for maintaining normal physiological functions. Although the required amount is minute, creatures cannot generate or synthesize vitamins in their bodies.

PQQ-GDH: Enzyme for Measuring Blood Sugar

Our seawater desalination reverse osmosis membrane module is the core of our desalination plant by using of reverse osmosis of hollow fiber membranes.

In 1979, we became the world's first company to start commercial production of this module. Since then, we have produced a great deal of successful outcomes proven by delivery to the world's largest desalination plants in Yanbu City and in Jeddah City, Saudi Arabia. A new desalination center in Fukuoka (daily production volume: 50,000 tons), which is scheduled to start operations in spring 2005 and to become the largest plant in Japan, has adopted HOLLOSEP®. Our reverse osmosis membrane technology, which eliminates dissolved ions and filters water only, takes an active role in the production of high-purity water for cleaning of precision electronic components and medical treatment.

HOLLOSEP®: Seawater Desalination Reverse Osmosis Membrane Module

Research and Development Activities

Activities of Toyobo Research Center Co., Ltd.

With the Three Core Technologies of Polymer Synthesis, Polymer Processing, and Bio-science and Medicals, we target the four markets of Life Science, Environment and Energy, Information and Recording, and Comfort and Safety.

Toyobo Research Center Co., Ltd., (hereinafter referred to as "Research Center") is the research and development division that became an independent corporation in April 2000. The division aims to enhance research efficiency and expedite commercialization of the research outcomes.
We set our research domains on the two-axes matrix, which consists of the technology axis of polymer synthesis, polymer processing, and bio-science and medicals, and the growing market axis of life science, environment and energy, information and recording, and comfort and safety. With a focus on these domains, we intend to implement expansion of existing businesses and creation of new businesses more swiftly. Based on such fundamental policies, we are focusing on development of new products and new technologies, which will lead to large-scaled businesses in the future. The following are our major research achievements in fiscal 2003.

New Polyester Polymerization Catalysts

For the present polyester polymerization catalysts, antimony catalysts are the most commonly used. However, because the environmental effects such as heavy metal disposal problems are currently being reviewed, development of alternative catalysts is eagerly anticipated. Titanium, mainly used for development of new catalysts, is still not free of problems because the use of titanium makes resins turn yellow.

We succeeded in developing a new aluminum catalyst using our own approach for the first time in the world. This catalyst is eco-friendly since it does not contain heavy metals; it produces highly transparent resins free of yellowing, which is the problem in titanium catalysts.

We have already completed development of polymerization technology now being considering the use in bottles, films, fibers and so forth. We have also started an operation for technology licensing.

* Back in above photo is a resin by titanium (system) catalyst, the middle is a resin by antimony (system) catalyst, and the front is a resin by catalyst of our product.

Ion Exchange Membranes for Fuel Cells

By adding our originally created feature to the molecular structure, we successfully developed an ion exchange membrane for which the methanol permeability is significantly lower than that of traditional membranes without lowering proton conductivity.

It is used for a direct methanol fuel cell (DMFC), which draws attention as the remarkable next-generation small battery cell. Conceptually, the energy density of a DMFC is ten times that of a lithium ion secondary cell. However, as the methanol permeability of traditional membranes is high, we were not able to fully utilize the potential because of its low energy efficiency.

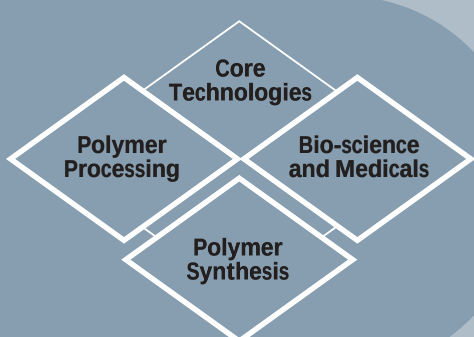
The ion exchange membrane that we have successfully developed is a key material for DMFCs that enable laptop computers to work for 70 hours on one battery charge, video cameras free of battery blow out, and mobile phones that do not require recharging the battery for more than one month.

Measurement Technology of In-Car and Indoor Climates

We have developed sense measurement technology for product development such as clothing and bedding. Based on this method, we developed equipment and technology to measure comfort associated with the properties of heat and moisture in cars and rooms.

With this equipment, the following are measured: (1) humid sense on car seats; (2) in-car or indoor moisture control and prevention of dew on wall surfaces and interior materials; (3) micro-climate inside clothing when environmental temperature or humidity changes rapidly as people enter and leave a room. The experimental data obtained from this equipment shows that the use of our moisture absorbent materials as modified acrylic fiberis effective for increasing comfort. We provide more effective product designs for customers by the use of this measurement method precisely based on customer behavior.

Framework of Research Domains



Life Science

We developed environmental stress resistant plants using genetic engineering, and besides, we underwent new research and development using our enzyme technology.

Information and Recording

We developed unique polymeric materials suitable for electronic materials and information recording materials using our photosensitive technology fostered in the development process of printing boards.

Environment and Energy

We developed ion exchange membranes for fuel cells, which attracted attention as the next-generation clean energy device, and a new aluminum catalyst for polyester polymerization, which is good for the environment.

Comfort and Safety

We developed the next-generation super fibers with increased strength compared to currently available products and also various comfortable materials based on our sense measurement technology.

Reform of Research and Development Structure

Beyond the organizational border between research for the business divisions and for the corporation, we bolstered the function of planning and implementing company-wide research and development strategies for speeding up the creation of new products and new businesses.

Toyobo Research Center Co., Ltd., has been in charge of the development of new products and new technologies (corporate research), which will lead to our future large-scaled businesses from a mid-and-long-term point of view. Meanwhile, the Research Planning Department, which deals with the subjects of products for commercialization in a relatively short period through direct connections with each division, contributed to prompt development of products for the market. It is essentially for the division to create new products and new businesses to maintain increases in both sales and profits. To that end, we need to further bolster our development capacity immediately.

Accordingly, we changed the names of the Corporate R&D Planning Department to the Corporate R&D Planning Office on July 1, 2004, and bolstered the function of planning and implementing company-wide research and development strategies beyond the borders of research for the business divisions and for the corporation.

The missions of the Corporate R&D Planning Office are as follows: (1) interface of research and development between the business divisions and the corporation; (2) optimal allocation of all research and development resources; (3) efficiency and acceleration of research and development through collaboration with the research and development departments of each division; (4) drafting and implementation of business interface subjects; (5) schedule control of company-wide unitary business subjects; (6) structuring and management of training for fostering research and development staffs; and (7) the gathering of useful technical information through exchanges with domestic and foreign private companies and public agencies, and the search, drafting, proposal, technical cooperation, and technology imports based on the information.

The heads of the research and development departments directly controlled by the divisions, as well as the corporate research and development departments, serve concurrently in the Corporate R&D Planning Office so that the above missions are fulfilled efficiently. Based on established consistent management where the lines of production, sales, and development work closely together, each division has strengthened our core technologies and built its structure to implement research and development beyond organizational borders.

The technology of chemical fibers is one of our core technologies that serve as the backbone of the Fibers and Textiles Division and the High Functional Products Division, dealing with our super fiber, spunbond and fibrous activated carbon. Therefore, we changed the Chemical Fibers Production Technology Department to the Chemical Fibers Production Technology & Development Operating Department and assigned more roles to the new department. Also, we established the Chemical Fibers Production Technology Department and Chemical Fibers Development Department (new) under the control of the Chemical Fibers Production Technology & Development Operating Department in order to bolster our capacities of production technology and research and development (April 1, 2004). In addition, we installed the Polymers Research Department for consolidation of development units of polymerization technology, which had been controlled by each division, and for centralization of control at the Polymers Operating Department (April 1, 2004).

The Functional Products Research Department (High Functional Materials Research Center), where research and development related to the High Functional Products Division, was reorganized the High Functional Plastics Research Center and High Functional Materials Research Center to be controlled by the High Functional Plastics Operating Department and the High Functional Materials Operating Department, respectively (April 1, 2004).

The Chemical Fibers Development Department and the High Functional Materials Research Center implement research and development and personnel exchange beyond organizational borders as units dealing with technologies for chemical fibers, focusing on research and development related to the Chemical Fibers Operating Department and the High Functional Materials Operating Department, respectively. We also control the Polymers Research Department and the High Functional Plastics Research Center in the same way as the units of polymerization technology.

As for the Bio-science & Medical Division, we newly established the Biotechnology Development Department in the Biotechnology Operating Department for bolstering our development capacity in collaboration with Tsuruga Institute of Biotechnology (July 1, 2004). In this context, our diagnostic reagent and diagnosis system operations, and life science operations concerning genetic and cell engineering, which have been the missions of the Biochemical Operations Department, are to be upgraded from the current level of group operation to department operation and will be controlled by the three department: Biochemical Department, Diagnostic System Department, and Life Science Department.

Development of Environmental Stress Resistant Plants

As the global food problem grows more serious, major crop yields are estimated to drop to about 20% of the record yields because of environmental stresses. To solve this problem, we focused our attention on polyamine, a physiologically active substance that exists in living organisms and successfully developed environmental stress resistant plants by improvement of polyamine contents using genetic engineering.

Although some reports have been made on several environmental stress resistant plants so far, there has been no report on plants combining seven environmental stress resistances including low-temperature, salinity, and drought resistance like the ones we have developed. We plan to utilize this technology as the core of our licensing business from now on.

* Photo showing evaluation of the resistance to cold stress of Arabidopsis. Wild strains (left) and genetically-engineered organisms (center and right) developed by our company on day 5, which return to atmospheric temperature after the freezing process (the left is dying, the center and right are surviving).

Overseas Network

Principal Overseas Subsidiaries and Affiliates

* Consolidated Subsidiaries and Affiliates

7 Erawan Textile Co., Ltd.*
Thailand
Telephone: 66-2-394-5314
Facsimile: 66-2-384-1618
Spinning and weaving of cotton and polyester/cotton

7 Toyobo Industrial Material (Thailand) Ltd.*
Thailand
Telephone: 66-2-661-7250
Facsimile: 66-2-661-7253
Sale of airbag fabrics and other industrial use fabrics

6 Perak Textile Mills Sdn. Bhd.*
Malaysia
Telephone: 60-5-7761810
Facsimile: 60-5-7764877
Spinning and weaving of cotton

6 Toyobo Textile (Malaysia) Sdn. Bhd.*
Malaysia
Telephone: 60-5-7761810
Facsimile: 60-5-7764877
Spinning and weaving of cotton

6 Toyobo Wool (Malaysia) Sdn. Bhd.*
Malaysia
Telephone: 60-4-4212746
Facsimile: 60-4-4220788
Spinning of worsted

5 P.T. Unilon Textile Industries*
Indonesia
Telephone: 62-22-5940841
Facsimile: 62-22-5940859
Spinning, weaving, and finishing of cotton and polyester/cotton

5 PT. Shinko Toyobo Gistex Garment
Indonesia
Telephone: 62-22-7798893
Facsimile: 62-22-7798894
Sewing of shirts and knits

5 P.T. Toyobo Knitting Indonesia*
Indonesia
Telephone: 62-21-8902544
Facsimile: 62-21-8902543
Knitting, dyeing and sale of knit fabrics

9 Shanghai Kehua Dongling Diagnostic Products Co., Ltd.
China (Shanghai)
Telephone: 86-21-64850537
Facsimile: 86-21-64851044
Manufacture, sale, and service of biochemical diagnostic reagents

9 Shanghai TYB Trading Co., Ltd.
China (Shanghai)
Telephone: 86-21-58693850
Facsimile: 86-21-58694122
Sale of knitted wear

9 Toyobo (Shanghai) Biotech Co., Ltd.
China (Shanghai)
Telephone: 86-21-58794900
Facsimile: 86-21-58794901
Sale and manufacture of research reagents and equipment for life sciences research

8 Santoyoko (Hong Kong) Co., Ltd.
China (Hong Kong)
Telephone: 852-23145939
Facsimile: 852-27302892
Sale of engineering plastics

11 Korea TYB Trading Co., Ltd.
Korea
Telephone: 82-2-555-6353
Facsimile: 82-2-555-6370
Sale of knitted wear

1 Toyobo America, Inc.
U.S.A. (New York)
Telephone: 1-212-317-9245
Facsimile: 1-212-317-9280
Sales promotion activities in North America for products including textile materials, textile products, chemical synthetic products, biochemical products, medical products and functional materials

2 Toyobo Kureha America Co., Ltd.
U.S.A. (Cincinnati)
Telephone: 1-513-771-6788
Facsimile: 1-513-771-6799
Manufacture and sale of non-woven fabrics for engine filter

3 Industrias Unidas, S.A.*
El Salvador
Telephone: 1-503-295-0555
Facsimile: 1-503-295-0836
Spinning, weaving, finishing, and yarn dyeing of cotton and polyester/cotton

4 Toyobo do Brasil Industria Textil Ltda.*
Brazil
Telephone: 55-11-5509-7813
Facsimile: 55-11-5505-5990
Holding company of Toyobo do Brasil Ltda. / Rental of real estate properties

4 Toyobo do Brasil Ltda.*
Brazil
Telephone: 55-11-5509-7813
Facsimile: 55-11-5505-5990
Spinning, weaving, finishing, and yarn dyeing of cotton and polyester/cotton, raw materials for biotechnology products

The following four companies are controlled by Shinko Sangyo Co., Ltd.

Shinko American Inc.*
Shinko Sangyo (Thailand) Co., Ltd.*
Shinko Sangyo (Hong Kong) Ltd.*
Shinko Sangyo Machinery (Taiwan) Co., Ltd.*

Toyobo Industrial Material (Thailand) Ltd. steadily bolsters operations to satisfy the growing demand for airbags.

In recent years, the use of automobile airbags has spread to Asia, Eastern Europe, and South America, as well as Japan, Europe, and the U.S.A. As customers are becoming more safety-oriented, airbags are used for driver and passenger seats as a matter of course and side airbags and knee airbags are now being installed in cars for greater safety.

In response to such active demand, Toyobo Industrial Material (Thailand) Ltd., was established as a base fabric manufacturing and sales company in September 2001 in Thailand, which is a supply base for automobile parts to Southeast Asia and China. In fiscal 2003, we increased production capacity from 6 million meters/year to 10.8 million meters/year. By the end of fiscal 2005, we plan to double the capacity to 21.6 meters/year.

Establishment of Nylon Film Joint Venture Company, Shanghai Zidong Chemical Materials Co., Ltd.

Toyobo and Shanghai Zijiang Enterprise Group Co., Ltd., have concluded a contract to jointly establish a nylon film manufacturing and sales company, Shanghai Zidong Chemical Materials Co., Ltd., in Shanghai, China.

We currently respond to the domestic and foreign demand by fully utilizing our nylon film production capacity of 15,000 tons/year at the Inuyama Plant. Meanwhile, in the Chinese market of films used mainly for food packaging, there is a demand for about 20,000 tons/year, and the market is growing by 20% annually. Under such circumstances, as Shanghai Zijiang Enterprise Group Co., Ltd., one of the leading package material manufacturers in China, showed considerable concern for a promising patent relative to our nylon filming technology and requested cooperation in their business, Toyobo and Shanghai Zijiang Enterprise Group Co., Ltd., came to an agreement. Production is scheduled to start at the end of fiscal 2005 with production capacity of 6,000 tons/year in one operation line. We plan to increase it to four operation lines in a few years.

Domestic Network

Principal Domestic Subsidiaries and Affiliates by Equity Method

Fibers and Textiles

Kyushu Toyo Knitting Co., Ltd.
Telephone: 81-995-72-0521
Facsimile: 81-995-72-0520
Manufacture of swimwear and sportswear

Sakae Mfg. Co., Ltd.
Telephone: 81-795-88-9730
Facsimile: 81-795-88-9733
Manufacture of sportswear, ladies clothing and children's wear

Sundia, Inc.
Telephone: 81-6-6266-2708
Facsimile: 81-6-6266-2712
Manufacture and sale of jeans and casual wear

Suntomic Co., Ltd.
Telephone: 81-3-3667-2301
Facsimile: 81-3-3667-2305
Manufacture and sale of fashionable uniforms

Daido Maruta Finishing Co., Ltd.
Telephone: 81-75-681-4157
Facsimile: 81-75-661-5224
Roller printing and screen printing

Dia Keito Co., Ltd.
Telephone: 81-727-27-6600
Facsimile: 81-727-27-6650
Sale of hand knitting yarns, handicraft yarns and products

Toyo Shirts Manufacturing Co., Ltd.
Telephone: 81-3-3653-0351
Facsimile: 81-3-3654-8864
Manufacture and sale of dress shirts

Toyo Dyeing Industry Co., Ltd.
Telephone: 81-58-387-4381
Facsimile: 81-58-388-3243
Processing and mercerizing of fabric

Toyobo Interiors Co., Ltd.
Telephone: 81-6-6263-0527
Facsimile: 81-6-6263-0529
Planning, sale, design and installment of room interiors

Toyobo Technowool Co., Ltd.
Telephone: 81-6-6348-1131
Facsimile: 81-6-6348-1301
Manufacture, processing and sale of wool yarn and wool textiles

Toyobo Fairtone Co., Ltd.
Telephone: 81-6-6263-0501
Facsimile: 81-6-6263-0507
Sale of carpets, rugs and other indoor furnishings

Toyobo Sewing Threads Co., Ltd.
Telephone: 81-6-6264-5666
Facsimile: 81-6-6264-5661
Sale of sewing thread and accessories

Toyo Knitting Co., Ltd.
Telephone: 81-593-21-3363
Facsimile: 81-593-22-1210
Manufacture of swimwear and sportswear

Japan Exlan Co., Ltd.
Telephone: 81-6-6348-3431
Facsimile: 81-6-6348-4170
Manufacture and sale of acrylic fiber "EXLAN®" and acrylate fiber products

Mizushima Aroma Co., Ltd.
Telephone: 81-86-446-4570
Facsimile: 81-86-444-7087
Manufacture and sale of terephthalic acid and pure terephthalic acid

Miyuki Holdings Co., Ltd.
Telephone: 81-52-509-1600
Facsimile: 81-52-509-1620
Manufacture, processing and sale of various industrial textile products / Business management of Miyuki group companies by stockholdings

Plastics

Kureha Elastomer Co., Ltd.
Telephone: 81-6-6271-8292
Facsimile: 81-6-6263-2035
Manufacture, processing and sale of various rubber and resin products

Cosmo Electronics Co., Ltd.
Telephone: 81-593-49-1120
Facsimile: 81-593-49-1141
Assembly and testing of electrical components and equipment

Tsuruga Film Co., Ltd.
Telephone: 81-770-22-0352
Facsimile: 81-770-22-7694
Manufacture of cast polypropylene film

Toyo Kasei Kogyo Co., Ltd.
Telephone: 81-6-6346-6700
Facsimile: 81-6-6346-6715
Manufacture and sale of carbon disulfide, ethylene glycol, FRP tank and plastics

Toyo Cloth Co., Ltd.
Telephone: 81-724-83-6101
Facsimile: 81-724-82-8718
Manufacture and sale of bookbinding cloth, vinyl leather, synthetic leather, and plastic films

Toyoshina Film Co., Ltd.
Telephone: 81-263-72-7300
Facsimile: 81-263-72-1549
Manufacture of biaxially oriented polypropylene film

Nippon Magphane Co., Ltd.
Telephone: 81-3-3666-7761
Facsimile: 81-3-3666-7051
Sale of polyester-based films for audio and video tapes

Japan Unipet Co., Ltd.
Telephone: 81-3-3662-2461
Facsimile: 81-3-3664-2054
Manufacture and sale of polyester resins for bottles

Japan U-Pica Co., Ltd.
Telephone: 81-3-3503-3981
Facsimile: 81-3-3503-3983
Sale of the unsaturated polyester resin "U-PICA®"

Yuho Co., Ltd.
Telephone: 81-6-6348-4311
Facsimile: 81-6-6348-4309
Spinning of cotton and synthetic fiber/ Manufacture and sale of non-woven fabrics and AC filters

Japan Exlan Co., Ltd.
Its moisture-absorbing heat-emitting fiber [EKS®] gains public attention

Toyobo Engineering Co., Ltd.
Offers total engineering from plant construction to system development

Toyo Kasei Kogyo Co., Ltd.
Operates "fine chemical" business such as pharmaceutical intermediates with its unique synthesis technology

Kureha Ltd.
Provides people's lives high-quality non-woven fabric products such as filters for air-conditioning

Bio, Medical and Functional Materials and Products

Kureha Ltd.
Telephone: 81-77-553-5660
Facsimile: 81-77-553-5610
Manufacture and sale of non-woven fabrics

Toyobo Kankyo Techno Co., Ltd.
Telephone: 81-6-6486-1500
Facsimile: 81-6-6359-1500
Processing and sale of textiles/ Manufacture, processing and sale of parts for filtering equipment

Toyobo Gene Analysis Co., Ltd.
Telephone: 81-6-6348-3333
Facsimile: 81-6-6348-3833
DNA-based analysis and other specialized diagnostic services

Commerce

Shinko Sangyo Co., Ltd.
Telephone: 81-6-6266-6271
Facsimile: 81-6-6266-1559
General trading centering on fibers and textiles

Other Businesses

Ashimori Industory Co., Ltd.
Telephone: 81-6-6533-9250
Facsimile: 81-6-6533-9291
Manufacture and sales of automotive seatbelts, air bags, child safety seats, various industrial textile materials, fire hoses and disaster equipment

Toyobo Engineering Co., Ltd.
Telephone: 81-6-6348-3935
Facsimile: 81-6-6348-1717
Proliferation of buildings and equipments/ Sale of information devices and scientific apparatuses

Toyobo Sunliving, Inc.
Telephone: 81-72-723-5111
Facsimile: 81-72-723-5110
Sale, design, installment, and supervision of furniture and room interior products

Toyobo Information System Create, Inc.
Telephone: 81-6-6348-3067
Facsimile: 81-6-6348-3125
Provision of information systems and consultation

Toyobo G.M.S Co., Ltd.
Telephone: 81-6-6348-3094
Facsimile: 81-6-6348-3149
Real estate leasing and brokerage

Toyobo Jitsugyo Co., Ltd.
Telephone: 81-6-6357-7122
Facsimile: 81-6-6357-7128
Manufacture and sale of frozen foods/ Canteen service/ Operating restaurants

Toyobo Research Center Co., Ltd.
Telephone: 81-77-571-0020
Facsimile: 81-77-571-0023
Contract research and development

Toyobo G.F.A Co., Ltd.
Telephone: 81-6-6348-3139
Facsimile: 81-6-6348-3149
Financial services and factoring for associated companies/ Securities and investment holdings

Toyobo Real Estate Co., Ltd.
Telephone: 81-6-6348-4045
Facsimile: 81-6-6348-1668
Real estate leasing and brokerage/ Insurance brokerage

Toyobo Living Service Co., Ltd.
Telephone: 81-6-6401-1381
Facsimile: 81-6-6489-1956
Linen supply/ Sale of linen products/ Dyeing of woolen products and blankets

Toyobo Logistics Co., Ltd.
Telephone: 81-6-6348-3401
Facsimile: 81-6-6348-3407
Procurement and inspection of raw materials and final products/ Supply of inspected goods to the customer

Nippei Toyama Corporation
Telephone: 81-3-5471-7701
Facsimile: 81-3-5471-7711
Manufacture and sale of machine tools and other machinery

PAC Biologics Inc. starts full-scale contract manufacturing of therapeutic antibodies

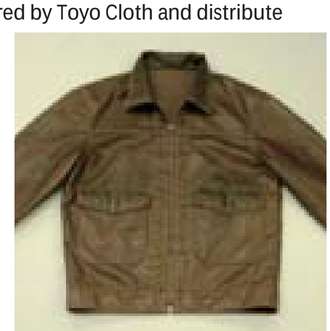
PAC Biologics Inc., our wholly owned subsidiary, has a 4,000-liter cell culture tank, which is Japan's largest contract manufacturing equipment for therapeutic antibody products*. PAC's production system conforms to the cGMP of the United States Food and Drug Administration (FDA), which is the global standard for production of pharmaceutical products.
By the end of June 2004, all validations (validations of production equipment and operational procedure specified in GMP) were completed and development of antibody pharmaceuticals by large domestic companies has become active. On the back of such trends, we will start the full-scale contract manufacturing. Although foreign pharmaceutical companies currently have the lead in development of antibody pharmaceuticals, it is anticipated that the domestic market will also be in short supply of production equipment in future, and the full-scale contract manufacturing business in Japan has eagerly been awaited.

* In the human body, there are proteins called antibodies that have the ability to protect the body by recognizing and attacking foreign substances (antigens) such as viruses and toxins. Therapeutic antibodies are pharmaceuticals that contain antibodies as an active ingredient, and they are obtained by refinement and cultivation of mammalian cells. With the creation of these cells, the antibody is produced by recombinant DNA technology.

Reinforcement of Extensive Collaboration by Acquisition of Toyo Cloth Co., Ltd.

In April 2004, we purchased the public stock of Toyo Cloth Co., Ltd., which had been our equity method affiliate, and Toyo Cloth became our consolidated subsidiary.

Toyo Cloth processes raw materials supplied by us to binding cloth for books and bank passbooks and to highly functional artificial leather for clothing and furniture by leveraging its coating technology. For instance, a new type of artificial leather, which has now been placed on the market, represents a unique design with the classic “washed” look (see picture). Toyo Cloth developed the material using a new processing technology for wet-type artificial leather mixed with special polyurethane resins and pigments on a high level. We purchase such highly functional materials developed and manufactured by Toyo Cloth and distribute them to our customers. By the acquisition, we intend to reinforce extensive collaboration and enhance the competitiveness of the entire Toyobo Group.



Corporate Governance

As of July 1, 2004

President

Junji Tsumura

Executive Vice President

Koichi Yamagata
Assistant of President
Controlling Supervisor of Credit and Audit Department and Administration Office of Subsidiaries & Affiliates

Senior Managing Directors

Chikao Ito
Controlling Supervisor of Personnel & Labor Department, General Administration Department, Law Department, Tokyo General Administration Department, Tokyo Branch, and Nagoya Branch

Fumio Hotogi
Head, High Functional Products Division
Head, Bio-Science & Medical Division
Controlling Supervisor of Iwakuni Plant
Commissioned Manager, Iwakuni Plant

Daijirou Tsujii
Head, Fibers & Textiles Division
Controlling Supervisor of Tsuruga Center

Managing Directors

Hironobu Furusawa
Controlling Supervisor of Corporate R&D Planning Office and Research Center
Commissioned Senior General Manager, Corporate R&D Planning Office

Masahiko Hachimaru
Head, Films Division

Directors

* Outside Director

Ryuzou Sakamoto
Commissioned Senior General Manager, Corporate Planning Office

Fumishige Imamura
In charge of Control Department and Finance Department

Yasuo Abe
Commissioned Senior General Manager , Textiles Operating Sector, Textiles Operating Department I, and Textiles & Fibers Combination Department

Kenji Hayashi
In charge of Personnel & Labor Department, General Administration Department, and Law Department
Commissioned Senior General Manager, General Administration Department and Tokyo Branch

Shigeaki Kogamo
In charge of Planning & Administration Office of Films
Commissioned Senior General Manager, Films Operating Department II

Yoshihisa Kawamura
Deputy Head, Bio-Science & Medical Division
Commissioned Senior General Manager, Medical & Membrane Operating Department

Kunihiro Ashida*

Statutory Auditors

* Outside statutory auditor

Shigemitsu Ito

Akichika Taki

Hitoshi Kuroda*

Chugoro Yamaura*

Board of Directors and Business Operation Structure

In the fiscal 2002, the number of directors was reduced 13. In July 2003, associate directors and deputy directors (general managers) in charge of business operations started to provide business operation reports at the monthly Board of Directors meetings so that all the directors would develop a clear understanding of operations other than their duties, and the supervisory function of the Board of Directors would be further strengthened.

We have placed the Executive Board as a body to discuss proposals submitted to the Board of Directors and to make decisions on business operations delegated by the Board of Directors. Under the Executive Board, we placed the Corporate Planning Committee and the Financial Control Committee where projects related to important capital expenditure, new businesses and loan and investment are discussed and reported to the Executive Board.

In July 2004, we appointed one outside director to further enhance the transparency and fairness of management.

Internal Control and Group Management

For adequate internal control of the Toyobo Group, our Audit Group of the Credit and Audit Department currently conducts internal audits of the entire Group including our affiliated companies. From now on, we plan to further bolster our internal auditing functions for the entire Group by intensifying audits of our affiliated companies conducted by auditors dispatched from us.

As for corporate governance of affiliated companies, in October 2003, we connected the affiliated companies to each division and built a structure where our group management would be further reinforced. Meanwhile, we revised the regulations of the Board of Directors, and so forth, in January 2004 on important decision making for affiliated companies. Thereby, the range of our commitment was clarified pursuant to the Commercial Code.

Risk Management and Compliance Structure

We have committees for Global Environment and Safety, Product Liability Prevention, Export Reviewing, and Information for construction of a framework to cope with the risks related to these issues. As for compliance issues, the Corporate Ethics Committee (headed by the president) and its subordinate agency, EC (Ethics and Compliance) Committee, of which meetings had been held every time there was an issue to discuss, became standing committee in January 2003. In April 2004, we promoted the former Law Group of General Administration Department to the Law Department and also established the new Law Department Compliance Group.

We established the “Guidelines for Corporate Activities” and “Standards of Staff Behavior” in 1998 and 2000, respectively, in order to emphasize compliance with legal regulations and corporate ethics.

Committees (Permanent)

Research & Development Committee
Chairman **Hironobu Furusawa (Managing Director)**

Global Environment & Safety Committee
Chairman **Ichiji Masaki (Senior Associate Director)**

Product Liability Prevention Committee
Chairman **Ichiji Masaki (Senior Associate Director)**

Export Reviewing Committee
Chairman **Koichi Yamagata (Executive Vice President)**

Information Committee
Chairman **Koichi Yamagata (Executive Vice President)**

Corporate Ethics Committee
Chairman **Junji Tsumura (President)**

* Ichiji Masaki, a senior associate director, is controlling supervisor of the Environment & Technological Department, Engineering Department, Purchasing Department, and Logistics Department.

Organization of Corporate Auditors

We guarantee the right of statutory auditors to attend the meetings of the Board of Directors, the Excutive Boards, the Corporate Planning Committee, the Financial Control Committee, and other committees and to express frank opinions therein. Our statutory auditors contribute to sound internal control for the entire Group through tight collaboration with the consolidated subsidiary companies.

Financial Review

This section is a review of Toyobo's consolidated financial statements.

Overview

The Japanese economy during the year ended March 2004 (from April 1, 2003 to March 31, 2004) started to recover after the recession bottomed out on the strength of the steady performance of exports to the United States and Asian countries, as well as an increase in capital expenditure. Business recovery of private companies and an upturn in the economy pushed up stock prices. However, consumer spending remained weak, and deflation was not stopped while the yen appreciation developed and price hikes for raw materials and fuels remained strong. Thus, the economic recovery remained uncertain without any sustainability.

Under such circumstances, we attempted to attain higher business efficiency and profitability as a Multi-Specialty Company.

In Fibers and Textiles segment, we shifted our focus to high-value added products such as functional clothing by implementing the following: (1) an aggressive expansion of industrial materials operations; (2) a retreat from unprofitable operations; (3) a further scale-down of common textiles; and (4) closing of three domestic spinning and looming mills. In non-textile segment of Plastics Products and, Bio, Medical and Functional Materials and Products, we attempted to further strengthen and expand our unique operations by developing and offering high functional or high-value added products that would satisfy market needs.

Consequently, consolidated sales for this fiscal year were 373,066 million yen, a decrease of 3,311 million yen (down 0.9%) on a year-over-year basis. However, consolidated net income was 8,762 million yen, a dramatic increase of 15,728 million yen from the consolidated net loss of 6,966 million yen of the previous fiscal year. Thus, we recorded a surplus for the first time in three years since fiscal year 2000.

Sales

Consolidated sales for this fiscal year amounted to 373,066 million yen, a decrease of 3,311 million yen (down 0.9%) on a year-over-year basis. This was because sales of common textiles decreased while sales of plastics products increased. In addition, sales of bio-science and medical products in Bio, Medical and Functional Materials and Products segment saw sluggish growth.

In Fibers and Textiles segment, our industrial materials, particularly base fabrics for automobile airbags, produced a favorable outcome. However, total sales ended up at 168,356 million yen, a decrease of 14,635 million yen (down 8.0%) on a year-over-year basis, owing to the continued scaling down of common textiles and to the retreat from unprofitable operations, as well as the appreciation of the yen.

In our Plastics segment, all of the films, resins, and electronic materials marked a steady increase in sales pushing up the total sales of plastics products to 123,825 million yen, a drastic increase of 11,317 million yen (up 10.1%) over the previous fiscal year.

In Bio, Medical and Functional Materials and Products segment, the sales performance of enzymes for measuring blood sugar, enzymes for genetic amplification, and antithrombogenic coating materials was favorable. Furthermore, a large-scale project for our seawater desalination reverse osmosis membrane module was launched in the Middle East, which contributed to increased sales along with our ultra-strong polyethylene fiber, DYNEEMA®, the sales of which jumped significantly. However, due to the government's restrictive policy on medical fees and tough competition in overseas markets, we saw sluggish growth in the sales of diagnostic reagents and hollow fiber membranes for artificial kidneys, which led the entire sales for the segment to 46,520 million yen, a decrease of 332 million yen (down 0.7%) over the previous fiscal year.

In our Other Businesses segment, all of the operations and services in the fields of real estate and information processing services produced a satisfactory outcome. Sales in Other Businesses segment increased by 339 million yen (up 1.0%) on a year-over-year basis. The sales in our non-textile segment exceeded those of textile for the first time since our foundation. For this fiscal year, it covered 54.9% of the total sales increase by 3.5% from 51.4% of the previous fiscal year. Overseas sales amounted to 60,427 million yen, representing 16.2% of total sales (up 1.2% over the previous fiscal year).

Consolidated Five-year Summary

TOYOBO CO., LTD AND CONSOLIDATED SUBSIDIARIES
Fiscal year ended March 31, 2004, 2003, 2002, 2001, and 2000

	Millions of yen, except per share figures				
	2004	2003	2002	2001	2000
For the year:					
Net sales	**¥373,066**	¥376,377	¥383,078	¥402,876	¥414,863
Cost of sales	**291,440**	299,488	307,298	321,069	334,925
Selling, general and administrative expenses	**55,770**	57,167	59,448	61,638	64,039
Operating income	**25,856**	19,722	16,332	20,169	15,899
Other expenses	**9,457**	36,119	39,131	11,652	28,663
Income (loss) before income taxes	**16,399**	(16,397)	(22,799)	8,517	(12,764)
Provision for income taxes	**7,326**	(9,681)	(9,428)	2,489	(1,223)
Net income (loss)	**8,762**	(6,966)	(13,362)	5,662	(11,785)
Net income (loss) per share (yen) (1)	**¥12.63**	¥ (10.11)	¥ (19.34)	¥ 8.19	¥ (17.06)
At the end of the year:					
Total current assets	**¥195,080**	¥200,266	¥222,552	¥246,013	¥269,233
Property, plant and equipment	**216,409**	232,917	244,863	154,198	155,407
Total assets	**495,969**	537,315	589,065	540,114	556,322
Total long-term liabilities	**152,086**	165,969	167,031	112,781	156,071
Total stockholders' equity	**104,033**	84,025	96,261	63,053	79,465

(1) In the fiscal year ended March 31, 2003, the Company applied the Accounting Standards Related to Accounting for Net Income per Share (Corporate Accounting Standard No. 2) and Guidelines for Applying Accounting Standards Related to Net Income per Share (Guideline No. 4 for Applying Corporate Accounting Standards) to calculate net income (loss) per share. Prior year amounts of net income per share have not been restated.

Cost of Sales, Selling, General and Administrative Expenses

The cost of sales for this fiscal year amounted to 291,440 million yen, a decrease of 8,048 million yen (down 2.7%) on a year-over-year basis, primarily due to a reduction of fixed costs by the closing of three domestic spinning and looming mills in our textile business. The ratio of cost of sales to total sales improved to 78.1% from 79.6% of the previous fiscal year.

Selling, general, and administrative expenses were 55,770 million yen, a decrease of 1,397 million yen (down 2.4%) on a year-over-year basis. This was the result of an increase of 316 million yen in our research and development expenses, a decrease of 423 million yen in retirement benefit expenses, and a decrease in shipping and storage expenses and other selling expenses. Consequently, the ratio of selling, general, and administrative expenses to total sales improved to 14.9% by 0.2% from the 15.2% of the previous fiscal year.

Operating Income and Non-operating Expenses

Thus, consolidated operating income for this fiscal year was 25,856 million yen, an increase of 6,134 million yen (up 31.1%) over the previous fiscal year.

The operating income generated from Fibers and Textiles segment amounted to 5,648 million yen, an increase of 2,404 million yen (up 74.1%) on a year-over-year basis. This was mainly owing to the reduction of fixed costs and the scaling down of our unprofitable operations. The operating income generated from Plastics segment was 14,245 million yen, an increase of 3,384 million yen (up 31.2%) triggered by a sales expansion. In the Bio, Medical and Functional Materials and Products segment, we proactively sought a reduction of fixed costs, which resulted in operating income of 6,558 million yen, an increase of 616 million yen (up 10.4%). The operating income generated from our Other Business segments was 2,368 million yen, a decrease of 126 million yen (down 5.1%).

The ratio of operating income to total sales was 6.9%, an increase of 1.7% over the previous fiscal year. The return (operating income) on total assets improved to 5.2%, an increase of 1.5% from 3.7% on a year-over-year basis (the reduction of the total assets is to be described later). Non-operating income (net amount) ended up with a loss of 9,458 million yen, an improvement of 26,661 million yen (up 73.8%) on a year-over-year basis. The major factors were that the loss from revaluation of securities decreased to 768 million yen by 20,400 million yen over the previous fiscal year and that the profit on sale of securities increased to 11,088 million yen by 10,129 million yen (up 1,056.2%), in consequence of the upturn in stock prices. These covered a loss of substitutional portion of the government's welfare pension insurance scheme and restructuring-related expenses.

Net Income

The consolidated income before income taxes totaled 16,399 million yen, an increase of 32,796 million yen from the net loss of 16,397 million yen of the previous fiscal year.

The total amount of corporate tax, local inhabitant tax, and business tax was 2,801 million, an increase of 1,185 million yen (up 73.3%) on a year-over-year basis.

As a result of an increase in deferred income taxes, which amounted to 4,525 million yen and an increase of 15,822 million yen from –11,296 million yen of the previous fiscal year, the income tax after the application of the rule for tax effect accounting was 7,326 million yen, an increase of 17,007 million yen. The tax rate under the rule was 44.7%, exceeding the legally effective tax rate of 42.0%.

The minority stockholder income was increased by 61 million yen to 311 million yen on a year-over-year basis.

Consequently, consolidated net income totaled 8,762 million yen. Recovering from the deficits of two consecutive years, the net loss of 13,362 million yen for the fiscal year before the previous and that of 66,966 million yen for the previous fiscal year, we recorded a surplus for the first time in three years. The return (net income) on total assets was 1.8%, and the net income per share was 12.63 yen (the reduction of the total assets is to be described later).

Cash Flows and Source of Funds

The cash flows provided by operating activities for this fiscal year amounted to 27,736 million yen, a decrease of 8,479 million yen (down 23.4%) on a year-over-year basis. The income before income taxes improved drastically to 16,399 million yen from the net loss of the previous fiscal year. However, it was offset by a jump to 10,182 million yen in the gain on sale of securities and write-down of investment securities from the net loss of the previous fiscal year, because such profit is generally deducted from the operating cash flow. In addition, in the accounts receivable, which contributed to the operating cash flow of the previous fiscal year, decreased.

The cash flows provided used in investing activities amounted to 42,213 million yen. This was an increase of 48,702 million yen from the cash disbursement of 6,489 million yen of the previous fiscal year. The major factor was the gain on sale of securities (34,900 million yen) and property, plant and equipment (18,041 million yen) for enhancement of our financial strength.

The cash flows used in financial activities amounted to 71,511 million yen, an increase of 44,051 million yen (up 160.4%) from 27,460 million yen of the previous fiscal year. This was primarily attributable to the fact that we repaid our short-term debt and long-term debt by 40,827 million yen and 21,323 million yen, respectively, and that we redeemed debentures by 15,000 million yen for enhancement or our financial strength.

Consequently, the balance of cash and cash equivalents at end of year totaled 13,948 million yen, a decrease of 1,044 million yen (down 7.0%) from 14,992 million yen as of the end of the previous fiscal year.

Assets, Liabilities, and Stockholders' Equity

The total assets as of the end of this fiscal year totaled 495,969 million yen, a decrease of 41,346 million yen (down 7.7%) from 537,315 million yen as of the end of the previous fiscal year. This was mainly due to cutbacks in our total assets from the sale of assets, of which profit performance had been low, for improvement of our balance sheet.

The current assets as of the end of this fiscal year totaled 195,080 million yen, a decrease of 5,186 million yen (down 2.6%) on a year-over-year basis. This was primarily because of the following: (1) the balance of notes and accounts receivable was 91,144 million yen, a decrease of 4,214 million yen (down 4.4%); and (2) the balance of inventories was 74,306 million yen, a decrease of 1,562 million yen (down 2.1%). Thereby, the receivables* turnover period (on the basis of the average inventories as of this year-end and the previous year-end) against sales for this fiscal year was 93.0 days, an improvement of 10.3 days (10.0%) from the 103.3 days of the previous fiscal year. The inventory turnover period (the same as above) against cost of sales was 94.0 days, shortened by 2.7 days from 96.7 days of the previous fiscal year.

The investments and other assets as of the end of this fiscal year totaled 81,258 million yen, a decrease of 19,625 million yen (down 19.5%). The major factors were due to decreases of net loss carried over and of deferred income taxes related to write-down of investment securities: (1) the deferred income taxes became 11,118 million yen decreased by 16,554 million yen (down 59.8%) from the end of the previous fiscal year; and (2) the investment securities decreased to 61,317 million yen by 2,685 million yen (down 4.2%) from the end of the previous fiscal year.

Tangible fixed assets as of the end of this fiscal year totaled 216,410 million yen, a decrease of 16,507 million yen (down 7.1%) from the end of the previous fiscal year. As a result of our efforts in sales and disposal of property, plant and equipment decreased by 11,473 million yen to 318,409 million yen (down 3.5%) from the end of the previous fiscal year, land decreased by 7,399 million yen to 110,877 million yen (down 6.3%), and buildings and structures decreased by 16,132 million yen to 103,232 million yen (down 13.5%). Intangible fixed assets as of the end of this fiscal year totaled 3,222 million yen, a decrease of 73 million yen on a year-over-year basis.

Current liabilities as of the end of this fiscal year totaled 236,816 million yen, a decrease of 47,171 million yen (down 16.6%) on a year-over-year basis. This was mainly due to a decrease in our short-term debt by 36,063 million yen (down 22.2%) to 126,425 million yen for debt reduction. Long-term liabilities totaled 152,086 million yen, a decrease of 13,883 million yen (down 8.4%) from 165,969 million yen as of the end of the previous fiscal year. This was primarily caused by the fact that the long-term debt due after one year decreased by 15,160 million yen to 87,545 million yen (down 14.8%) due to a decrease in long-term loans by 5,160 million yen to 66,645 million yen (down 7.2%) and to a decrease of debentures by 10,000 million yen to 20,900 million yen (down 32.4%). Accordingly, the total debt as of the end of this fiscal year totaled 388,902 million yen, a decrease of 61,054 million yen (down 13.6%) on a year-over-year basis. Interest bearing loans totaled 240,755 million yen, a decrease of 59,139 million yen (down 19.7%) from 299,894 million yen as of the end of the previous fiscal year.

Stockholders' equity as of the end of this fiscal year increased by 20,008 million yen to 104,033 million yen (up 23.8%) on a year-over-year basis. This was due to an increase in retained earnings by 12,056 million yen to 2,017 million yen from –10,039 million yen as of the end of the previous fiscal year, as well as to an increase in the differences in revaluation of securities because of high stock prices.

The return on stockholders' equity improved by 5.4% to 21.0 % from 15.6% of the previous fiscal year due to the reduction of total assets and to an increase in stockholders' equity.

* Accounts Receivable: Total of Notes Receivable, Accounts Receivable, Notes Discounted and Notes Endorsed

Risk Factors

Toyobo is exposed to the following risks that may affect its operating results and financial status. The future matters specified in the following are based on information that was available as of the end of this fiscal year and certain assumptions that serve as the basis of rational judgments.

(1) Political & Economic Situations

We produce and offer a variety of fibers and textiles, plastic products, bio, medical and functional materials and products to domestic and foreign markets. In the event of political turmoil or a serious economic recession in our production bases or in major markets, our operating results or financial status may be seriously influenced by such events through the impact on our production and sales.

(2) Decline of Retail Prices

Price cuts of our competitors may cause a decline in our retail prices or a decrease in our sales volume. In our medical business, our retail prices may drop due to lowered official price standards. Our operating results or financial status may be seriously influenced by such circumstances through a sales decrease.

(3) Business Downturn or Retreat by Major Customers

We provide certain of our products to specific customers. In the event that such customers face a downturn in business, retreat from business, cut back inventories significantly, claim drastic rate reductions, or request production adjustments, our operating results or financial status may be seriously influenced by such events through a sales decrease.

(4) Credit

We have made provisions for bad debt losses based on past results and strive to minimize our credit risk under the credit management regulation. However, in the event of the bankruptcy of our major customers due to economic recession, our operating results or financial status may be seriously influenced by such events through bad debt loss.

(5) Product Defects

For prevention of product defects, we produce a variety of products in accordance with specific quality control standards and are covered by product liability insurance. However, it is not guaranteed that all of our products are free from all defects, that there would be no defective product at all in future, or that compensatory payment is fully covered by the insurance. Accordingly, in case of material product defects, our operating results or financial status may be seriously influenced by compensatory payment or loss of credit.

(6) Purchase of Raw Materials

We purchase raw materials from various suppliers. Although the major materials are provided by a number of suppliers to some extent, there is a risk that we may not be able to purchase sufficient volume in case the suppliers have problems. Even if we can purchase such materials, purchase prices may rise suddenly. Our operating results or financial status may be seriously influenced under such circumstances by cost increases.

(7) Intellectual Properties

We endeavor to build and protect technology and know-how differentiated from those of our competitors' products. However, there is a risk in certain areas that we may not be able to prevent the production and sale of similar products, the violation of a patent, or the imitation of confidential business information by a third party due to insufficient protection. Although we develop products and technology while paying full attention to the intellectual property rights of other companies, we are not free from the possibility that we might infringe the intellectual property rights of other companies. Thus, in the event that our intellectual property rights are infringed or we infringe the rights of other companies, our operating results or financial status may be seriously influenced by a sales decrease or compensatory payment.

(8) Development of New Products and New Usages

We invest our research and development spending in the business domain of high functional products for the development of new products and new uses. However, it is not fully guaranteed that our development will be successful at all times. Our operating results or financial status may be seriously influenced under such circumstances by a decline in our future growth and profitability.

(9) Public Regulations

We operate our business under various public regulations on business licenses, tax and environment-related issues in domestic or foreign areas where our business sites are located. In case water restrictions or legal regulations on environment-related issues become tighter in the area where our major business sites are located, our operating results or financial status may be seriously influenced by restrictions imposed on our production activities.

(10) Litigation

We and our non-consolidated subsidiary company in the U.S.A. are defendants in a damage suit brought before a U.S. court by a plaintiff seeking compensation for imperfect product features in bulletproof jackets using our products. We and our subsidiary are rejecting the plaintiff's argument as defendants and claim that the argument is not correct. However, in case we or our subsidiary lose the case, our operating results or financial status may be seriously influenced by compensatory payment.

(11) Foreign Exchange Rate Fluctuation

Our operations include production and sales of our products in foreign areas. In case we suffer substantial fluctuations in the foreign exchange rate, our operating results or financial status may be seriously influenced by a sales decrease, cost increase, or lowered price competitiveness after conversion to yen.

(12) Interest Rate Fluctuation

In case the current level of interest rates goes up sharply, our operating results or financial status may be seriously influenced by such cases through significant increases in interest costs. In case the current level of interest rates goes down significantly, our operating results or financial status may be seriously influenced by increases in retirement benefit liability and retirement benefit expenses (expenses for differences of implicit costs).

(13) Stock Price Volatility

We hold a considerable amount of marketable securities. In case stock market prices decline substantially, our operating results or financial status may be seriously influenced by a decrease in the value of the securities.

(14) Substantial Decline of Land Prices

We own a great deal of land, most of which has already been revaluated pursuant to the Land Revaluation Law. In case land prices decline substantially, our operating results or financial status may be seriously influenced by a loss in value.

(15) Downgrade in Rating

In case credit rating agencies downgrade our issued debentures, our operating results or financial status may be seriously influenced by the impact on funding.

(16) Casualties

We carry out strict plant control and strive to prevent damages caused by casualties at our business sites. However, in case of massive earthquakes, wind and flood damage, snow damage, and other natural disasters, our operating results or financial status may be seriously influenced under such circumstances as our production activities may be interrupted.

Consolidated Balance Sheets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Current assets:			
Cash and cash equivalents (Notes 2 and 9)	**¥ 14,913**	¥ 15,332	**$ 141,101**
Notes and accounts receivable:			
Trade:	**91,144**	95,358	**862,371**
Other	**5,152**	4,386	**48,746**
Allowance for doubtful receivables	**(1,708)**	(1,285)	**(16,160)**
	94,588	98,459	**894,957**
Inventories (Note 5)	**74,306**	75,868	**703,056**
Deferred income taxes (Note 6)	**4,504**	4,136	**42,615**
Other current assets (Note 9)	**6,769**	6,471	**64,046**
Total current assets	**195,080**	200,266	**1,845,775**
Investments and noncurrent assets:			
Investment securities (Notes 3 and 9):			
Unconsolidated subsidiaries affiliates	**18,044**	19,265	**170,726**
Other	**43,273**	44,737	**409,433**
Loans	**2,882**	3,579	**27,268**
Deferred income taxes (Note 6)	**11,118**	27,672	**105,194**
Other investments and noncurrent receivables	**9,027**	9,336	**85,410**
Allowance for doubtful receivables	**(3,086)**	(3,706)	**(29,198)**
	81,258	100,883	**768,833**
Property, plant and equipment (Note 9):			
Land	**110,877**	118,276	**1,049,078**
Buildings and structures	**103,232**	119,364	**976,743**
Machinery and equipment	**318,409**	329,882	**3,012,669**
Tools, furniture and fixtures	**20,366**	20,843	**192,696**
Construction in progress	**5,148**	2,751	**48,708**
	558,032	591,116	**5,279,894**
Less accumulated depreciation	**341,623**	358,199	**3,232,311**
	216,409	232,917	**2,047,583**
Other assets:			
Intangible assets	**3,222**	3,149	**30,485**
Excess of cost over net assets acquired, net	**—**	100	**—**
	3,222	3,249	**30,485**
Total assets	**¥ 495,969**	¥ 537,315	**$ 4,692,676**

See accompanying notes.

LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Current liabilities:			
Short-term borrowing (Notes 7 and 9)	**¥ 126,425**	¥ 162,488	**$ 1,196,187**
Long-term debt due within one year (Notes 7 and 9)	**26,785**	34,701	**253,430**
Notes and accounts payable:			
Trade	**54,694**	54,258	**517,494**
Other	**11,290**	11,693	**106,822**
	65,984	65,951	**624,316**
Employees' savings deposits	**6,064**	6,567	**57,375**
Customers' deposits (Note 9)	**3,136**	7,661	**29,672**
Accrued employees' bonuses	**4,273**	4,239	**40,430**
Accrued income taxes	**2,094**	796	**19,813**
Deferred income taxes (Note 6)	**130**	95	**1,229**
Other current liabilities	**1,925**	1,489	**18,214**
Total current liabilities	**236,816**	283,987	**2,240,666**
Long-term liabilities:			
Long-term debt due after one year (Notes 7 and 9)	**87,545**	102,705	**828,319**
Employees' severance and retirement benefits (Note 8)	**22,946**	18,974	**217,107**
Director's and statutory auditors' retirement benefits	**2,031**	2,062	**19,216**
Deferred income taxes on land revaluation (Note 13)	**28,189**	34,074	**266,714**
Deferred income taxes (Note 6)	**5,177**	1,209	**48,983**
Excess of net assets acquired over cost, net	**336**	—	**3,179**
Other long-term liabilities	**5,862**	6,945	**55,464**
Total long-term liabilities	**152,086**	165,969	**1,438,982**
Contingent liabilities (Note 10)			
Minority interest in consolidated subsidiaries	**3,034**	3,334	**28,706**
Stockholders' equity:			
Common stock			
Authorized - 2,000,000,000 shares			
Issued - 699,027,598 shares in 2004			
and 691,000,323 shares in 2003	**43,341**	43,341	**410,076**
Capital surplus	**15,882**	14,387	**150,270**
Retained earnings (deficit)	**2,017**	(10,039)	**19,084**
Land revaluation excess (Note 13)	**39,652**	48,075	**375,173**
Revaluation excess – foreign (Note 14)	**6,333**	6,336	**59,921**
Net unrealized holding gains (losses) on securities	**12,185**	(2,577)	**115,290**
Foreign currency translation adjustments	**(14,975)**	(15,129)	**(141,688)**
Less treasury stock, at cost			
(2,311 thousand shares in 2004			
and 2,150 thousand shares in 2003)	**(402)**	(369)	**(3,804)**
Total stockholders' equity	**104,033**	84,025	**984,322**
Total liabilities, minority interests and stockholders' equity	**¥ 495,969**	¥ 537,315	**$ 4,692,676**

See accompanying notes.

Consolidated Statements of Operations

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Net sales (Note 12)	**¥ 373,066**	¥ 376,377	**$ 3,529,813**
Cost of sales	**291,440**	299,488	**2,757,498**
Gross profit	**81,626**	76,889	**772,315**
Selling, general and administrative expenses	**55,770**	57,167	**527,675**
Operating income (Note 12)	**25,856**	19,722	**244,640**
Other income (expenses)			
Interest and dividend income	**3,777**	2,443	**35,737**
Interest expense	**(3,807)**	(4,479)	**(36,020)**
Gain on sale of securities	**11,088**	959	**104,911**
Loss on sale of securities	**(138)**	(2,883)	**(1,306)**
Gain on sale of property, plant and equipment	**8,263**	926	**78,181**
Loss on disposal of property, plant and equipment	**(7,454)**	(2,122)	**(70,527)**
Gain on securities contributed to employee retirement benefit trust	**1,602**	—	**15,158**
Special loss on restructuring of businesses (Note 15)	**(5,036)**	(1,970)	**(47,649)**
Write-down of investment securities	**(768)**	(21,168)	**(7,267)**
Special allowance for doubtful receivables	**—**	(481)	**—**
Equity in loss of unconsolidated subsidiaries and affiliates	**(24)**	(176)	**(227)**
Retirement benefits for employees for prior periods	**(1,879)**	(3,191)	**(17,778)**
Salaries paid to dispatched employees	**(1,590)**	(1,771)	**(15,044)**
Losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	**(7,707)**	—	**(72,921)**
Other, net	**(5,784)**	(2,206)	**(54,726)**
	(9,457)	(36,119)	**(89,478)**
Income (loss) before income taxes	**16,399**	(16,397)	**155,162**
Provision for income taxes (Note 6)			
Current	**2,801**	1,616	**26,502**
Deferred	**4,525**	(11,297)	**42,814**
	7,326	(9,681)	**69,316**
Minority interest in income of consolidated subsidiaries	**(311)**	(250)	**(2,943)**
Net income (loss)	**¥ 8,762**	¥ (6,966)	**$ 82,903**

	Yen		U.S. dollars (Note 1)
Net income (loss) per share	**¥ 12.63**	¥ (10.11)	**$ 0.120**
Cash dividends applicable to the year	**5.00**	5.00	**0.047**

See accompanying notes.

Consolidated Statements of Stockholders' Equity

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Common stock:			
Opening balance	**¥ 43,341**	¥ 43,341	**$ 410,076**
Closing balance	**¥ 43,341**	¥ 43,341	**$ 410,076**
Capital surplus:			
Opening balance	**¥ 14,387**	¥ 14,387	**$ 136,125**
Stock issued in exchange of shares	**1,494**	—	**14,136**
Gain on sale of treasury stock	**1**	—	**9**
Closing balance	**¥ 15,882**	¥ 14,387	**$ 150,270**
Retained earnings			
Opening balance	**¥ (10,039)**	¥ 4,263	**$ (94,985)**
Net income (loss)	**8,762**	(6,966)	**82,903**
Adjustments for the effects of changes in consolidated subsidiaries	**21**	(1,788)	**198**
Adjustment for changes in investments accounted for by the equity method	**—**	(1,464)	**—**
Appropriations:			
Cash dividends – ¥ 5 per share	**(3,453)**	(3,454)	**(32,671)**
Adjustments for merger	**(122)**	(4,377)	**(1,154)**
Adjustments for reversal of revaluation of land	**8,430**	3,747	**79,761**
Adjustments for additional acquisition	**(1,582)**	—	**(14,968)**
Closing balance	**¥ 2,017**	¥ (10,039)	**$ 19,084**
Land revaluation excess			
Opening balance	**¥ 48,075**	¥ 50,990	**$ 454,868**
Reversal of land revaluation excess	**(8,423)**	(3,747)	**(79,695)**
Increase in land revaluation excess due to change in tax rate	**—**	832	**—**
Closing balance	**¥ 39,652**	48,075	**$375,173**
Revaluation reserve – foreign			
Opening balance	**¥ 6,336**	¥ 6,413	**$ 59,949**
Adjustments for the effects of currency exchange	**(3)**	(77)	**(28)**
Closing balance	**¥ 6,333**	¥6,336	**$ 59,921**
Net unrealized holding gains (losses) on securities			
Opening balance	**¥ (2,577)**	¥ (10,718)	**$ (24,383)**
Decrease in holding losses	**14,762**	8,141	**139,673**
Closing balance	**¥ 12,185**	¥ (2,577)	**$ 115,290**
Foreign currency translation adjustments			
Opening balance	**¥ (15,129)**	¥ (12,067)	**$ (143,145)**
Foreign currency translation adjustments	**154**	(3,062)	**1,457**
Closing balance	**¥ (14,975)**	¥ (15,129)	**$ (141,688)**
Treasury stock			
Opening balance	**¥ (369)**	¥ (348)	**$ (3,491)**
Treasury stock purchased	**(33)**	(21)	**(313)**
Closing balance	**¥ (402)**	¥ (369)	**$ (3,804)**
Number of shares of common stock authorized (thousands)	**2,000,000**	2,000,000	
Number of shares of common stock issued (thousands)			
Opening balance	**691,000**	691,000	
Stock issued in exchange of shares	**8,027**	—	
Closing balance	**699,027**	691,000	

See accompanying notes.

Consolidated Statements of Cash Flows

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	**2004**
Cash flows provided by operating activities:			
Income (loss) before income taxes	**¥ 16,399**	¥ (16,397)	**$155,162**
Depreciation and amortization	**15,425**	16,471	**145,946**
Amortization of consolidation difference	**(16)**	50	**(151)**
Retirement benefits, net	**3,972**	2,807	**37,581**
Allowance for doubtful receivables, net	**(198)**	(874)	**(1,873)**
(Gain) loss on sale and disposal of property, plant and equipment, net	**(809)**	1,196	**(7,654)**
(Gain) loss on sale of securities	**(10,951)**	1,924	**(103,615)**
Write-down of investment securities	**768**	21,168	**7,267**
Equity in income of unconsolidated subsidiaries and affiliates	**24**	176	**227**
Interest and dividend income	**(3,777)**	(2,443)	**(35,737)**
Interest expense	**3,807**	4,479	**36,020**
Special loss on restructuring of businesses	**4,954**	1,888	**46,873**
Decrease in trade notes and accounts receivable	**5,348**	18,364	**50,601**
(Increase) decrease in inventories	**(114)**	5,421	**(1,079)**
Decrease in trade notes and accounts payable	**(1,527)**	(10,648)	**(14,448)**
Other, net	**(1,197)**	(3,124)	**(11,326)**
Total	**32,108**	40,458	**303,794**
Special loss on restructuring of businesses	**(2,868)**	(1,791)	**(27,136)**
Income taxes paid	**(1,504)**	(2,452)	**(14,230)**
Net cash provided by operating activities	**27,736**	36,215	**262,428**
Cash flows used in investing activities:			
Purchase of property, plant and equipment	**(13,699)**	(18,622)	**(129,615)**
Proceeds from disposal of property, plant and equipment	**18,041**	9,771	**170,697**
Purchase of investment securities	**(386)**	(8,259)	**(3,652)**
Proceeds from sale of investment securities	**34,900**	6,657	**330,211**
Interest and dividend income excluding unconsolidated subsidiaries and affiliates	**3,036**	2,439	**28,726**
Dividend income from equity method affiliates	**599**	2,486	**5,667**
Other, net	**(278)**	(961)	**(2,630)**
Net cash provided (used) in investing activities	**42,213**	(6,489)	**399,404**
Cash flows used in financing activities:			
Cash dividends	**(3,453)**	(3,454)	**(32,671)**
Cash dividends to minority interests	**(121)**	(219)	**(1,145)**
Decrease in short-term bank loans	**(40,827)**	(18,434)	**(386,290)**
Decrease in commercial paper	**—**	(5,000)	**—**
Proceeds from long-term debt	**13,247**	33,099	**125,338**
Repayment of long-term debt	**(21,323)**	(14,416)	**(201,750)**
Issuance of unsecured bonds	**—**	600	**—**
Payment of bonds	**(15,000)**	(15,000)	**(141,925)**
Payment of interest	**(4,034)**	(4,591)	**(38,168)**
Increase in treasury stock	**0**	(45)	**0**
Net cash used in financing activities	**(71,511)**	(27,460)	**(676,611)**
Adjustment for foreign currency translation	**19**	(1,173)	**180**
Net increase (decrease) in cash and cash equivalents	**(1,543)**	1,093	**(14,599)**
Cash and cash equivalents at beginning of year	**14,992**	13,824	**141,849**
Increase resulting from changes in consolidated subsidiaries	**499**	75	**4,721**
Cash and cash equivalents at end of year	**¥ 13,948**	¥14,992	**$ 131,971**

See accompanying notes.

Notes to Consolidated Financial Statements

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1 Basis of Presenting Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Securities and Exchange Law and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

In the year ended March 31, 2004, the Company did not adopt early the new accounting standard for impairment of fixed assets ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003). The new accounting standard is required to be adopted in periods beginning on or after April 1, 2005, but the standard does not prohibit earlier adoption. The Company has begun its analysis of possible impairment of fixed assets. The Company cannot currently estimate the effect of adoption of the new standard, because the Company has not yet completed its analysis. However, adoption of the new standard could have a material effect on the Company's financial statements. The new standard must be adopted by the year ended March 31, 2006.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2004, which was ¥105.69 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2 Significant Accounting Policies

Consolidation

The consolidated financial statements include the accounts of the Company and its 55 (54 in 2003) significant substantially controlled subsidiaries. Investments in 18 (18 in 2003) non-consolidated subsidiaries and affiliates, for which the Company has significant influence, are accounted for by the equity method. Intercompany transactions and accounts have been eliminated. Significant differences between the cost of investments and the equity in their net assets at dates of acquisition are amortized over five years.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The accounts of 15 consolidated subsidiaries are included on the basis of their fiscal years, which end on December 31 (January 31 for 2, February 28 for 4 and March 20 for 3 other subsidiaries). These subsidiaries do not prepare, for consolidation purposes, statements for the period, which corresponds with the fiscal year of the Company. When there are significant transactions between their respective fiscal year ends and the Company's year end, necessary adjustments are made to reflect such transactions properly in the accompanying consolidated financial statements.

Allowance for doubtful receivables

With respect to normal trade accounts receivable, the allowance is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

Inventories

Inventories are principally stated at cost. Cost is determined principally by the periodic weighted average method.

Property, plant and equipment

Property, plant and equipment are principally carried at cost. Depreciation is provided principally on the declining-balance method over estimated useful lives, except that certain machinery and equipment are depreciated on the straight-line method.

Overseas consolidated subsidiaries principally use the straight-line method.

Software

The Company includes software in intangible assets and depreciates it using the straight-line method over the estimated useful of five years.

Research and development

Expenses relating to research and development activities are charged to income when incurred. Research and development expenses were ¥9,043 million ($ 85,562 thousand) and ¥8,760 million, respectively, for the years ended March 31, 2004 and 2003.

Bond issuance costs

Bond issuance costs are charged to income when incurred.

Finance leases

Finance leases which do not transfer ownership and do not have bargain purchase provisions are accounted for in the same manner as operating leases under Japanese GAAP.

Bonuses

The Company and its domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. The Company and its domestic subsidiaries accrue the estimated amounts of employees' bonuses at the balance sheet date, based on estimated amounts to be paid in the subsequent period. Bonuses to directors and statutory auditors, which are subject to approval at the stockholders' meeting, are accounted for as an appropriation of retained earnings.

Stockholders' equity

Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its Board of Directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid – in capital, which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid – in capital equals 25% of common stock. The total amount of legal reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal reserve. The legal reserve and additional paid – in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid – in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by resolution of stockholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Japanese Commercial Code.

On May 15, 2003, the Company concluded exchange-of-shares contracts for making two consolidated subsidiaries, Shinko Sangyo Co., Ltd. and Daido-Maruta Finishing Co., Ltd., wholly owned subsidiaries on August 1, 2003.

Based on the contracts, the Company issued 0.43 shares of common stock for each share held by minority stockholders of Shinko Sangyo Co., Ltd. Also, the Company issued 0.28 shares of common stock for each share held by minority stockholders of Daido-Maruta Finishing Co., Ltd.

As a result, issued shares increased by 8,027,275 shares and capital surplus increased by ¥1,494 million ($ 14,136 thousand).

Income taxes

The Company provides income taxes at the amounts currently payable and deferred income taxes pertaining to timing differences between financial statements and tax reports and in respect of the elimination of unrealized intercompany profits and other adjustments for consolidation purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Employees' severance and retirement benefits

Under the terms of the Company's and its domestic consolidated subsidiaries' retirement plans, substantially all employees are entitled to lump-sum payments at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement.

The Company also has a contributory funded pension plan which covers substantially all employees.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is being recognized in expenses in equal amounts primarily over fifteen years (for certain consolidated subsidiaries, five years) commencing with the year ended March 31, 2001. Prior service costs are recognized in expenses in equal amounts over ten years (within the average of the estimated remaining service lives of the employees), and actuarial gains and losses are recognized in expenses using the straight-line method over ten years (within the average of the estimated remaining service lives) commencing with the following period.

Directors' and statutory auditors' retirement benefits
The Company and its domestic consolidated subsidiaries accrue the estimated amounts of directors' and statutory auditors' retirement benefits equal to management's estimate of the amounts payable to them at the balance sheet dates if they retired at those dates. Amounts payable to directors and statutory auditors upon retirement are subject to the approval of stockholders.

Translation of foreign currencies
Accounts denominated in foreign currencies: Cash and receivables and payables denominated in foreign currencies are translated at year-end exchange rates.

Foreign currency financial statements: Assets and liabilities are translated at year-end exchange rates. Stockholders' equity is translated at historical exchange rates. Income and expenses are translated at year-end exchange rates. Resulting translation adjustments are reflected in the consolidated financial statements as "Foreign currency translation adjustments." and in minority interests.

Derivatives and hedge accounting
The Company states derivative financial instruments at fair value and recognizes changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of operations in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:
Forward foreign exchange contracts
Interest rate swap contracts
Hedged items:
Future transactions denominated in foreign currencies
Foreign currency receivables and payables
Interest expense on borrowings

The Companies evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

Cash and cash equivalents
In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The reconciliations of cash and cash equivalents in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2004, and 2003 are as follows.

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Cash and cash equivalents in the balance sheet	**¥14,913**	¥15,332	**$141,101**
Time deposits maturing after three months	**(965)**	(340)	**(9,130)**
Cash and cash equivalents in the cash flow statement	**¥13,948**	¥14,992	**$131,971**

Net income (loss) per share
Computations of net income (loss) per share of common stock are based on the weighted average number of shares outstanding during each period.

Effective April 1, 2002, the Company adopted the new accounting standard for earnings per share and related guidance (Accounting Standards Board Statement No. 2, "Accounting Standard for Earnings Per Share" and Financial Standards Implementation Guidance No. 4, "Implementation Guidance for Accounting Standard for Earnings Per Share", issued by the Accounting Standards Board of Japan on September 25, 2002). The effect on earnings per share of the adoption of the new accounting standard was not material.

3 Securities

The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2004 and 2003 :

Available-for-sale securities

	Millions of yen					
	2004			2003		
	Acquisition cost	**Book value**	**Difference**	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs :						
Equity securities	**¥ 17,280**	**¥ 37,024**	**¥19,744**	¥ 5,518	¥ 8,328	¥ 2,810
Securities with book values not exceeding acquisition costs :						
Equity securities	**¥ 843**	**¥ 734**	**¥ (109)**	¥ 37,252	¥ 30,085	¥ (7,167)
Other	**5**	**5**	**—**	270	260	(10)
Total	**¥ 848**	**¥ 739**	**¥ (109)**	¥ 37,522	¥ 30,345	¥ (7,177)

	Thousands of U.S. dollars		
	2004		
	Acquisition cost	**Book value**	**Difference**
Securities with book values exceeding acquisition costs :			
Equity securities	**$ 163,497**	**$ 350,308**	**$ 186,811**
Securities with book values not exceeding acquisition costs :			
Equity securities	**$ 7,976**	**$ 6,945**	**$ (1,031)**
Other	**47**	**47**	**—**
Total	**$ 8,023**	**$ 6,992**	**$ (1,031)**

The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2004 and 2003 :

	Book value		
	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Non-listed equity securities	**¥ 5,424**	¥ 5,907	**$ 51,320**
Cash equivalents	**4**	4	**38**
Total	**¥ 5,428**	¥ 5,911	**$ 51,358**

The following table summarizes available-for-sale securities sold in the years ended March 31, 2004 and 2003:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Total sales of available-for-sale securities	**¥ 34,901**	¥ 6,560	**$ 330,220**
Related gains	**11,088**	959	**104,911**
Related losses	**¥ 138**	¥ 2,883	**$ 1,306**

4 Derivatives and Hedge Accounting

The Company and its consolidated subsidiaries enter into forward foreign exchange and interest rate swap transactions to control risks related to foreign currencies and interest rates. Forward foreign exchange contracts are used to hedge the risk of fluctuations in foreign currency exchange rates with respect to foreign currency receivables and payables and future transactions denominated in foreign currencies resulting from import and export transactions, and the interest rate swap transactions are used to reduce financing costs and to hedge the risk of fluctuations in interest rates as to short-term borrowings and long-term debt. Hedging derivative financial instruments used by the Companies and items hedged are summarized at Significant Accounting Politics. The Company and its consolidated subsidiaries deal with highly rated international financial institutions as counterparty to these transactions to minimize credit risk exposure. Derivative transactions related to normal operations are entered into by each operational division, and the processing of the transactions, such as settlements, are controlled by the finance division. Derivative transactions related to financial transactions are entered into by the operational division in accordance with established policies approved by the Board of Directors. Outstanding positions of derivative transactions are controlled by the finance division and the actual results of derivative transactions are reported to the Board of Directors.

At March 31, 2004 and 2003 hedge accounting has been applied to all derivatives, so outstanding positions as of March 31, 2004 and 2003 are not disclosed.

5 Inventories

Inventories at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Finished goods	**¥ 51,960**	¥ 52,241	**$ 491,626**
Work in process	**5,569**	6,819	**52,692**
Raw materials	**14,694**	14,539	**139,029**
Supplies	**2,083**	2,269	**19,709**
	¥ 74,306	¥ 75,868	**$ 703,056**

6 Income Taxes

The Companies are subject to a number of taxes based on income, which, in the aggregate, indicated a statutory income tax rate in Japan of approximately 42% for 2004 and 2003.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the year ended March 31, 2004:

	2004
Statutory tax rate	**42.0%**
Non-taxable dividend income	**(0.2)**
Non-deductible expenses	**1.4**
Income of equity method affiliates	**0.2**
Unrealized income	**2.0**
Valuation allowance	**7.7**
Investment in subsidiaries	**(6.3)**
Other	**(2.2)**
Effective tax rate	**44.7%**

Since the Companies recorded a net loss in the accompanying consolidated statements of operations for the year ended March 31, 2003, the table of differences in the statutory and effective income tax rates is not disclosed.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2004 and 2003 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Accrued employees' bonuses	**¥ 1,718**	¥ 1,333	**$ 16,255**
Accrued enterprise tax	**107**	52	**1,012**
Employees' severance and retirement benefits	**8,605**	5,943	**81,417**
Directors and statutory auditors' retirement benefits	**833**	845	**7,882**
Allowance for doubtful receivables	**855**	780	**8,090**
Write-down of investment securities	**466**	526	**4,409**
Tax losses carried forward	**3,621**	13,090	**34,261**
Unrealized income	**9,359**	9,705	**88,551**
Investment in subsidiaries	**1,034**	—	**9,783**
Net unrealized holding losses on securities	**—**	1,818	**—**
Buildings acquired through merger	**290**	290	**2,744**
Securities acquired through merger	**765**	2,895	**7,238**
Other	**961**	995	**9,093**
Total deferred tax assets	**28,615**	38,272	**270,745**
Valuation allowance	**(2,051)**	(4,620)	**(19,406)**
Net deferred tax assets	**26,564**	33,652	**251,339**
Deferred tax liabilities:			
Net unrealized holding gains on securities	**(8,038)**	—	**(76,053)**
Reserve for deferred gain on sale of property	**(828)**	(747)	**(7,834)**
Undistributed earnings of overseas subsidiaries and affiliates	**(342)**	(295)	**(3,236)**
Consolidation adjustment for allowance for doubtful receivables	**(269)**	(117)	**(2,545)**
Valuation difference of subsidiaries	**(46)**	(131)	**(435)**
Land acquired through merger	**(1,858)**	(1,858)	**(17,580)**
Tax deffered gains on assets transferred to a new company	**(2,580)**	—	**(24,411)**
Tax deffered gains on spin-off	**(2,288)**	—	**(21,648)**
Total deferred tax liabilities	**(16,249)**	(3,148)	**(153,742)**
Net deferred tax assets	**¥ 10,315**	¥ 30,504	**$ 97,597**

Reconciliiation to Balance Sheet accounts	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Current assets	**¥ 4,504**	¥ 4,136	**$ 42,615**
Investments and noncurrent assets	**11,118**	27,672	**105,194**
Current liabilities	**(130)**	(95)	**(1,230)**
Long-term liabilities	**(5,177)**	(1,209)	**(48,983)**
Total	**¥ 10,315**	¥ 30,504	**$ 97,597**

The aggregate statutory income tax rate will be reduced for the years commencing on April 1, 2004 or later due to the revised local tax law. At March 31, 2003, the Company and consolidated domestic subsidiaries applied the reduced aggregate statutory income tax rate of 41 % for calculating deferred tax assets and liabilities that are expected to be recovered or settled in the years commencing on April 1, 2004 or later. As a result, for the year ended March 31, 2003, deferred taxes assets decreased by ¥ 302 million, provision for deferred income taxes increased by ¥ 258 million and net unrealized holding losses on securities increased by ¥ 44 million compared with what would be reported using the currently applicable tax rate of 42 %.

7 Short-Term Borrowings and Long-Term Debt

Short-term borrowings at March 31, 2004 and 2003 consisted of short-term notes, generally for 365 days, bearing interest at average of 0.82% and 0.84% respectively. Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Unsecured:			
2.45% to 2.65% bonds due 2003	**¥ —**	¥ 15,000	**$ —**
2.30% bonds due 2004	**10,000**	10,000	**94,616**
0.44% bonds due 2005	**300**	300	**2,839**
0.86% to 0.92%bonds due 2006	**10,300**	10,300	**97,455**
0.72% bonds due 2007	**300**	300	**2,839**
1.3 % bonds due 2008	**10,000**	10,000	**94,616**
Long-term loans, principally maturing through 2040			
at the weighted average rate of 1.24% as of March 31, 2004	**20,035**	22,319	**189,564**
Secured	**63,395**	69,187	**599,820**
Unsecured	**114,330**	137,406	**1,081,749**
Total	**26,785**	34,701	**253,430**
Less amount due within one year	**¥ 87,545**	¥ 102,705	**$ 828,319**

The aggregate annual maturities of long-term debt outstanding as of March 31, 2004 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2005	**¥ 26,785**	**$ 253,430**
2006	**16,490**	**156,022**
2007	**42,556**	**402,649**
2008	**8,662**	**81,957**
2009	**13,850**	**131,044**
Thereafter	**5,987**	**56,647**
	¥ 114,330	**$1,081,749**

The Company has an overdraft contract and credit commitments from three banks in order to perform efficient financing.
Total unused credit available to the Company at March 31, 2004 was ¥21,000 million ($198,694 thousand).

8 Employees' Severance and Retirement Benefits

The liability for severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2004 and 2003 consists of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Projected benefit obligation	**¥ 68,156**	¥125,078	**$ 644,867**
Fair value of pension assets	**(16,874)**	(43,618)	**(159,656)**
Employee retirement benefit trust	**(2,684)**	—	**(25,395)**
Unrecognized net transition obligation	**(18,195)**	(36,546)	**(172,154)**
Unrecognized actuarial differences	**(9,727)**	(30,466)	**(92,033)**
Unrecognized prior service costs	**2,270**	4,526	**21,478**
Liability for severance and retirement benefits	**¥ 22,946**	¥ 18,974	**$ 217,107**

Included in the consolidated statement of operations for the years ended March 31, 2004 and 2003 are severance and retirement benefit expenses comprised of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service costs – benefits earned during the year	**¥ 2,451**	¥ 3,379	**$ 23,190**
Interest cost on projected benefit obligation	**1,813**	3,545	**17,154**
Expected return on plan assets	**(261)**	(1,679)	**(2,469)**
Amortization of net transition obligation	**2,072**	3,364	**19,605**
Amortization of actuarial differences	**1,751**	2,781	**16,567**
Amortization of prior service costs	**(332)**	(546)	**(3,141)**
Losses on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme	**7,707**	—	**72,921**
Employees' severance and retirement benefit expenses	**¥15,201**	¥10,844	**$143,827**

The discount rates used by the Companies are 2.0% to 2.5% and 2.5% to 3.0% for the years ended March 31, 2004 and 2003, respectively. The rates of expected return on plan assets used by the Companies is 2.5% to 3.5% for the years ended March 31, 2004 and 2003. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognized as an expense in equal amounts over ten years, and actuarial gains/losses are recognized in statement of operations using the straight-line method over ten years.

Based on the newly enacted Defined Benefit Corporate Pension Law, the Company decided to restructure its Employees' Pension Fund and was permitted by the Minister of Health, Labor and Welfare on April 15, 2003 to be released from its future obligation for payments for the substitutional portion of the Welfare Pension Insurance Scheme.

The Company applied the transitional provisions as prescribed in paragraph 47-2 of the JICPA Accounting Committee Report No. 13, "Practical Guideline for Accounting of Retirement Benefits (Interim Report)", and recorded the effect of transferring the substitutional portion on the date permission was received from the Ministry of Health, Labor and Welfare. As a result, in the year ended March 31, 2004, the Company recorded a loss on the release from the substitutional portion of the government's Welfare Pension Insurance Scheme amounting to ¥7,707 million ($ 72,921 thousand). The amount of pension plan assets expected to be transferred back to the government approximated ¥32,922 million ($ 311,496 thousand) as of March 31, 2004.

9 Assets Pledged as Collateral

At March 31, 2004, assets pledged as collateral for secured long-term debt of ¥20,035 million ($189,564 thousand), short-term debt of ¥8,621 million ($81,569 thousand) and customers' deposits of ¥1,202 million ($11,373 thousand) were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and cash equivalents	¥ 12	$ 114
Investment securities	39	369
Property, plant and equipment-net of accumulated depreciation	43,626	412,773
Other current assets	204	1,930
	¥ 43,881	$ 415,186

10 Contingent Liabilities

At March 31, 2004, the Companies were contingently liable as follows:

	Millions of yen	Thousands of U.S. dollars
As endorser of notes discounted	¥ 1,534	$ 14,514
As guarantor of indebtedness of:		
Unconsolidated subsidiaries and affiliates	¥ 6,323	$ 59,826
Other companies	544	5,147
Employees (housing loans)	¥ 942	8,913
	7,809	$ 73,886

11 Leases

Lease payments for finance leases which do not transfer ownership and do not have bargain purchase provisions were ¥531 million ($5,024 thousand) and ¥721 million for the years ended March 31, 2004 and 2003, respectively. Future minimum lease payments for the remaining lease periods, as of March 31, 2004, including interest, were ¥519 million ($4,911 thousand) due within one year and ¥842 million ($7,967 thousand) due beyond one year.

Original lease obligations, accumulated payments and remaining payments of leased properties were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Machinery and equipment:			
Original lease obligation	¥ 539	¥ 1,073	$ 5,100
Payments made	329	578	3,113
Remaining payments	¥ 210	¥ 495	$ 1,987
Tools, furniture and fixtures			
Original lease obligation	¥ 1,872	¥ 1,946	$ 17,712
Payments made	1,088	1,178	10,294
Remaining payments	¥ 784	¥ 768	$ 7,418
Intangible assets			
Original lease obligation	¥ 754	¥ 644	$ 7,134
Payments made	387	325	3,662
Remaining payments	¥ 367	¥ 319	$ 3,472

Future minimum lease payments under operating leases for the remaining lease periods, as of March 31, 2004, were ¥17,907 million ($169,429 thousand), of which ¥2,185 million ($20,674 thousand) is due within one year.

Future minimum lease receipts as lessor under operating leases for the remaining lease periods, as of March 31, 2004, were ¥4,282 million ($40,515 thousand), of which ¥372 million ($3,520 thousand) is due within one year.

12 Segment Information

The Companies' operations are classified into four industry segments as follows:

Fibers and Textiles: Man-made fibers, natural fibers and textile goods
Plastics: Films and resins for various industrial applications
Bio, medical and functional materials and products: Biochemistry articles, medical supplies, functional materials and products, biomedical products
Other business: Plant equipment and engineering, real estate, information processing service, logistics service and other

Year ended March 31, 2004	Millions of yen							
	Net sales to external customers	Intersegment net sales or transfer amounts	Net sales	Operating costs and expenses	Operating income	Identifiable assets	Depreciation and amortization	Capital expenditure
Fibers and textiles	**¥168,356**	**¥ 406**	**¥168,762**	**¥163,113**	**¥ 5,649**	**¥177,939**	**¥ 5,778**	**¥ 4,087**
Plastics	**123,825**	**120**	**123,945**	**109,700**	**14,245**	**123,802**	**5,214**	**3,760**
Bio, medical and functional materials and products	**46,520**	**—**	**46,520**	**39,962**	**6,558**	**48,050**	**2,178**	**3,007**
Other businesses	**34,365**	**8,937**	**43,302**	**40,933**	**2,369**	**66,058**	**751**	**1,579**
Total	**373,066**	**9,463**	**382,529**	**353,708**	**28,821**	**415,849**	**13,921**	**12,433**
Elimination or Corporate	**—**	**(9,463)**	**(9,463)**	**(6,498)**	**(2,965)**	**80,120**	**1,504**	**897**
Consolidated	**¥373,066**	**¥ —**	**¥373,066**	**¥347,210**	**¥25,856**	**¥495,969**	**¥15,425**	**¥13,330**

Year ended March 31, 2003	Millions of yen							
	Net sales to external customers	Intersegment net sales or transfer amounts	Net sales	Operating costs and expenses	Operating income	Identifiable assets	Depreciation and amortization	Capital expenditure
Fibers and textiles	¥ 182,991	¥ 463	¥ 183,454	¥ 180,210	¥ 3,244	¥ 197,311	¥ 6,530	¥ 4,243
Plastics	112,508	50	112,558	101,697	10,861	114,389	4,997	5,826
Bio, medical and functional materials and products	46,852	—	46,852	40,910	5,942	47,396	2,337	3,672
Other businesses	34,026	10,355	44,381	41,887	2,494	76,694	1,046	730
Total	376,377	10,868	387,245	364,704	22,541	435,790	14,910	14,471
Elimination or Corporate	—	(10,868)	(10,868)	(8,049)	(2,819)	101,525	1,561	1,385
Consolidated	¥ 376,377	¥ —	¥ 376,377	¥ 356,655	¥ 19,722	¥ 537,315	¥ 16,471	¥ 15,856

Year ended March 31, 2004	Thousands of U.S. dollars							
	Net sales to external customers	Intersegment net sales or transfer amounts	Net sales	Operating costs and expenses	Operating income	Identifiable assets	Depreciation and amortization	Capital expenditure
Fibers and textiles	**$1,592,923**	**$ 3,841**	**$1,596,764**	**$1,543,315**	**$ 53,449**	**$1,683,594**	**$ 54,669**	**$ 38,670**
Plastics	**1,171,587**	**1,135**	**1,172,722**	**1,037,941**	**134,781**	**1,171,369**	**49,333**	**35,576**
Bio, medical and functional materials and products	**440,155**	**—**	**440,155**	**378,106**	**62,049**	**454,631**	**20,607**	**28,451**
Other businesses	**325,148**	**84,559**	**409,707**	**387,293**	**22,414**	**625,017**	**7,106**	**14,940**
Total	**3,529,813**	**89,535**	**3,619,348**	**3,346,655**	**272,693**	**3,934,611**	**131,715**	**117,637**
Elimination or Corporate	**—**	**(89,535)**	**(89,535)**	**(61,482)**	**(28,053)**	**758,065**	**14,231**	**8,487**
Consolidated	**$3,529,813**	**$ —**	**$3,529,813**	**$3,285,173**	**$244,640**	**$4,692,676**	**$145,946**	**$126,124**

Corporate operating costs and expenses of ¥3,027 million ($28,640 thousand) and ¥2,963 million for the years ended March 31, 2004 and 2003, respectively, mainly consist of administrative and fundamental research department expenses. Corporate assets of ¥110,025 million ($1,041,016 thousand) and ¥131,864 million at March 31, 2004 and 2003, respectively, mainly consist of cash, marketable securities and assets of the administrative and fundamental research departments.

Overseas sales which include overseas subsidiaries' sales to overseas third parties as well as the Company's and domestic subsidiaries' export sales to third parties, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Southeast Asia	**¥ 35,900**	¥ 31,781	**$ 339,673**
Other Areas	**24,527**	24,637	**232,065**
Total	**¥ 60,427**	¥ 56,418	**$ 571,738**

Principal countries and areas in each segment are:
Southeast Asia············China, Korea, Taiwan, Malaysia, Indonesia, Thailand
Other Areas·················America, Germany, Brazil, Saudi Arabia

13 Revaluation Excess

Applying the law on revaluation of land, the Company, two consolidated subsidiaries and an affiliate accounted for by the equity method, revaluated their land for business use on March 31, 2002 and included the increase in land value, net of income taxes and minority interests, in stockholders' equity. The current value of the land on March 31, 2004, fell ¥9,059 million ($85,713 thousand) in comparison with the book value of the land after revaluation.

Also, applying the law on revaluation of land, a consolidated subsidiary, revaluated its land for business use on March 31, 2000 and included the increase in land value, net of income taxes and minority interests, in stockholders' equity. The current value of the land on, March 31, 2004 fell ¥1,295 million ($12,253 thousand) in comparison with the book value of the land after revaluation.

14 Revaluation Excess - Foreign

Applying the local company law, two consolidated subsidiaries in Brazil and their unconsolidated subsidiary, accounted for by the equity method, revaluated their land, buildings and structures, and included the increase in their assets value in stockholders' equity.

As accounting principles and practices generally accepted in Brazil are different from the accounting and disclosure requirements under Japanese GAAP, the two consolidated subsidiaries in Brazil did not record deferred income taxes on their revaluations. As a result, in the years ended March 31, 2004 and 2003, respectively, deferred income taxes of ¥ 1,356 million ($12,830 thousand) and ¥ 1,231 million were not recorded.

15 Special Loss on Restructuring of Businesses

During the year ended March 31, 2004, the Company incurred special losses for additional severance payments for early retirement of ¥ 1,925 million ($18,214 thousand), losses in the fiber business of ¥485 million ($4,589 thousand), losses due to restructuring in the cotton fiber business of ¥576 million ($5,450 thousand), and in the fiber business a write-down of inventories of ¥2,050 million ($19,396 thousand) , which are included in total restructuring losses of ¥5,036 million ($47,649 thousand) in the consolidated statements of operations.

During the year ended March 31, 2003, the Company incurred special losses for additional severance payments for early retirement of ¥1,179 million, losses in the fiber business of ¥286 million, and losses due to restructuring in the cotton fiber business of ¥505 million, which are included in total restructuring losses of ¥1,970 million in the consolidated statements of operations.

16 Lawsuit

In the U.S., lawsuits have been filed by users of bulletproof vests etc. against makers alleging that performance of the bulletproof vests is inadequate. The American bulletproof vest makers manufactured and sold the products using "ZYLON®" fiber, a product of the Company. In some of the lawsuits, the Company and TOYOBO AMERICA, INC., an unconsolidated subsidiary in the U.S., are defendants, and in other lawsuits, the Company received the delivery of a complaint, based on the Hague Convention, which is under dispute. The Company maintains that the other parties claims are wrong and is defending itself.

17 Subsequent Events

At the ordinary stockholders' meeting of the Company held on June 29, 2004, appropriations of retained earnings for the year ended March 31, 2004 were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥5.00 ($0.047) per share	**¥ 3,493**	**$ 33,049**

Independent Auditors' Report

**To the Board of Directors of
Toyobo Co., Ltd.:**

We have audited the accompanying consolidated balance sheets of Toyobo Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the period ended March 31, 2004, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall 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 Toyobo Co., Ltd. and subsidiaries as of March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for each of the years in the period ended March 31, 2004, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Osaka, Japan
June 29, 2004

KPMG AZSA & Co.

KPMG AZSA & Co.

Corporate Data (Non - consolidated)

Head office
2-8 Dojima Hama 2-chome,
Kita-ku, Osaka 530-8230, Japan
Telephone: 81-6-6348-3191
Facsimile: 81-6-6348-3206

Established
May 1882

Incorporated
June 1914

Number of employees
3,151 (As of March, 2004)

Branches
Tokyo Branch:
Toyobo Building, 17-9 Nihonbashi, Koami-cho, Chuo-ku, Tokyo 103-8530, Japan
Telephone: 81-3-3660-4800

Nagoya Branch:
Nikko Shoken Building, 2-3 Sakae 3-chome, Naka-ku, Nagoya 460-0008, Japan
Telephone: 81-52-261-1311

Research Center
1-1 Katata 2-chome, Otsu,
Shiga 520-0292, Japan
Telephone: 81-77-571-0006

Plants and mills (As of July, 2004)
Chemical fibers manufacturing:
Tsuruga Fiber Plant
Iwakuni Fiber Plant

Cotton and chemical fibers spinning, weaving and dyeing:
Nyuzen Mill
Inami Mill
Shogawa Mill

Films manufacturing:
Inuyama Plant
Tsuruga Films Plant

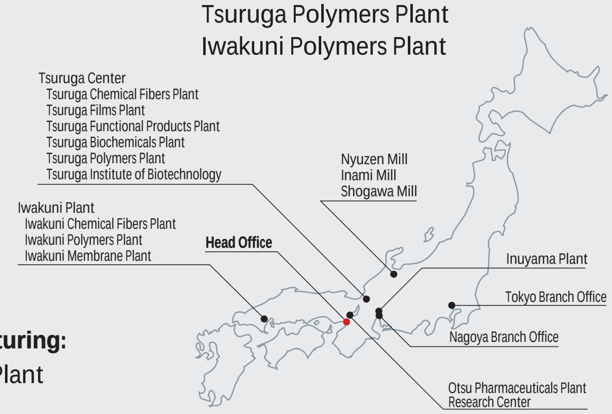
Functional products manufacturing:
Tsuruga Functional Products Plant

Biochemicals manufacturing:
Tsuruga Biochemicals Plant

Functional membrane manufacturing:
Iwakuni Membrane Plant

Pharmaceuticals manufacturing:
Otsu Pharmaceuticals Plant

Polymers manufacturing:
Tsuruga Polymers Plant
Iwakuni Polymers Plant



Subsidiaries and affiliates
Securities Exchange Law base

(As of March, 2004)

		Domestic	Overseas	Total
Subsidiaries	Direct	(Consolidated) 46 (33)	(Consolidated) 14 (6)	**60**
	Indirect	33 (10)	11 (5)	**44**
Affiliated Companies	Direct	(Applying Equity Method) 14 (10)	(Applying Equity Method) 4 (2)	**18**
	Indirect	15 (3)	6 (2)	**21**
Total		108	35	**143**

Investor Information

(As of March, 2004)

Stock listings
Tokyo, Osaka

Transfer agent
The Chuo Mitsui Trust and Banking Co., Ltd. Osaka Branch,
2-21 Kitahama, Chuo-ku, Osaka 541-0041, Japan
Telephone: 81-6-6202-7361

Independent auditors
KPMG AZSA & Co.
3-6-5, Kawara-machi, Chuo-ku, Osaka 541-0048, Japan
Telephone: 81-6-7731-1000

Common stock
Authorized 2,000,000,000 shares
Issued 699,027,598 shares

Paid-in capital
¥43,341 million

Number of stockholders
101,409

Major stockholders *(Ten largest stockholders)*

	Number of shares held (thousands)	Percentage of voting rights (%)
Japan Trustee Services Bank, Ltd. (Trust Account)	58,437	8.48
The Master Trust Bank of Japan, Ltd. (Trust Account)	43,416	6.30
Mizuho Corporate Bank, Ltd.	27,022	3.92
Nippon Life Insurance Company	24,250	3.52
Meiji Yasuda Life Insurance Company	13,129	1.90
Sumitomo Mitsui Banking Corporation	13,034	1.89
Toyukai (Contractor Share Holding)	10,926	1.58
The Bank of Tokyo-Mitsubishi,Ltd.	10,740	1.56
Toyobo Employees Stockholders' Association	10,602	1.54
Japan Trustee Services Bank, Ltd.	9,054	1.31

(Employee Pension Trust Account, The Chuo Mitsui Trust and Banking Co., Ltd.)

TOYOBO CO., LTD.

2-8, Dojima Hama 2-chome,
Kita-ku, Osaka 530-8230, Japan

Telephone: +81-6-6348-3191
Facsimile: +81-6-6348-3206

URL http://www.toyobo.co.jp

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