



'TORAY'
Innovation by Chemistry

Annual Report 2006

April 1, 2005 – March 31, 2006

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Cautionary Statement with Respect to Forward-Looking Statements

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

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

Snapshot

We are well positioned for growth

Evolving...

To mark the 80th anniversary of its founding, Toray Group has revamped its long-term corporate vision, with a view to achieving sustainable development. The slogan of the new vision, "Toward a Global Top Company of Advanced Materials" and "Innovation by Chemistry," reflects our desire to create a "New Toray for the 21st Century." We intend to evolve into the world's top advanced materials company through technological innovations centering on chemistry.

▶ see [Toray's Long-Term Corporate Vision and Mid-Term Business Strategies on page 11](#)

Performance...

Consolidated net sales rose 9.9% to ¥1,427.5 billion, whereas operating income climbed 14.8% to ¥93.0 billion—both record highs for the second consecutive year. Net income jumped 37.8% to ¥47.4 billion, the highest figure in 16 years. Especially, IT-related Products Businesses and Carbon Fiber Composite Materials Businesses increased their operating income drastically, during the year under review and are clearly positioned to become profit growth drivers over the next five years.

▶ see [Review of Operations on page 26](#)

Innovation...

R&D represents an important part of our business strategy. Toray Group will focus on the 1) swift commercialization of Advanced Materials Projects and 2) intensive allocation of management resources to Toray's 40 top-priority R&D themes (APEX 40). The expansion of the advanced materials business is a major piece of IT-2010, Toray's Mid-Term Business Strategies.

▶ see [Research & Development on page 38](#)

Responsibility...

Toray Group regards corporate social responsibility as an important task of management. Toray intends to contribute in a proactive way to the creation of a sustainable society. In terms of corporate governance, Toray has established and rigorously upholds decision-making rules for top management to achieve self-sustaining corporate governance.

▶ see [Corporate Governance and CSR on page 42](#)

To Our Stockholders



Sadayuki Sakakibara

President, CEO and COO,
Representative Director

On behalf of
Toray Industries, Inc.,
I would like to thank
our stockholders for their
continued support.
This year marks
the 80th anniversary
of our founding.
In recognition
of this important milestone,
we announced
our new long-term
corporate vision, entitled
“AP-Innovation TORAY 21,”
and our new mid-term
business strategies, called
“Project Innovation TORAY
2010 (“IT-2010”).”
Both are outlined
in the following pages,
together with
our performance
in FY Mar/06.

Business Environment and Results

In the year under review, the world economy remained generally firm despite surging prices of fuel and raw materials. The U.S. economy, meanwhile, posted the highest growth rate among the industrialized nations, overcoming the effects of major hurricanes, and Asian economies continued to report strong growth, driven by China. The European economy showed moderate overall recovery, although performances differed from one country to another. After the completion of IT-related inventory adjustments in mid-2005, Japan’s economy is on a recovery trend, which was underpinned by favorable balances between internal and external demand, as well as between the household sector and the corporate sector.

Facing these conditions, Toray Group sought to expand its revenues and profits by reinforcing its constitution of company and reforming its business structures under “Project NT-II,” its mid-term management reform program that began in April 2004.

As a result, consolidated net sales for the year amounted to ¥1,427.5 billion, up 9.9% from the previous fiscal period. Operating income rose 14.8% to ¥93.0 billion, and we achieved record-high figures both in sales and profits for the second consecutive year. Net income jumped 37.8% to ¥47.4 billion, the highest figure in 16 years.

As of March 31, 2006, total assets stood at ¥1,537.4 billion, up ¥135.2 billion from a year earlier. Total stockholders’ equity grew ¥84.5 billion to ¥537.0 billion. Consequently, the equity ratio rose 2.6 percentage points to 34.9%.

Return on assets (ROA) increased 0.3 percentage points to 6.3%, and return on equity (ROE) was up 1.6 percentage points to 9.6%.

Free cash flow—the net of cash flow from operating and investing activities—was minus ¥9.7 billion, due to aggressive capital investments in growth areas.

HIGHLIGHT 1
Consolidated net sales rose 9.9% to ¥1,427.5 billion, while operating income climbed 14.8% to ¥93.0 billion. These amounts represented record-high figures for the second consecutive year. Net income jumped 37.8% to ¥47.4 billion, the highest figure in 16 years.

Progress of “Project NT-II”

Toray Group launched the “Project New TORAY21” (“NT21”) management reform program in April 2002. Building on the success of the program, we initiated “Project NT-II” in April 2004 as the second stage of reform, with the objective of building a dynamic and highly profitable corporate group.

“Project NT21,” which emphasized management reforms to reinforce the constitution of company, was defensive in nature. “Project NT-II,” by contrast, adopts a more aggressive stance aimed at expanding our business and boosting earnings through renewed structural reforms, while maintaining the defensive perspective. We are pleased to report that “Project NT-II” has brought about substantial results. In FY Mar/07, we will continue its relentless pursuit of ¥100 billion in consolidated operating income—which we hope to achieve at an early stage as dictated under “Project NT-II.”

Long-Term Corporate Vision: “AP-Innovation TORAY 21”

Toray celebrates its 80th anniversary in 2006. To mark the occasion, we formulated a long-term corporate vision, entitled “AP-Innovation TORAY 21,” which is designed to achieve major new progress by building on the accomplishments of the past “NT Reforms.”

The vision outlines the ideal image of Toray Group to be realized in 10 years and describes Group-wide actions required to make that image a reality. Guided by the vision, we will fulfill our corporate commitment, “Contributing to society through the creation of new value with innovative ideas, technologies and products.” Specifically, we will promote innovation across all of the Group’s business activities, in our quest to achieve dynamic progress and sustainable growth through the creation of new value.

Our basic strategy is to stabilize earnings from our “Foundation Businesses,” represented by Fibers & Textiles and Plastics & Chemicals. At the same time, we will seek to transform ourselves into a highly profitable group, driven by “Strategically Expanding Businesses” (IT-related Products and Carbon Fiber Composite Materials) and “Strategically Developing Businesses” (Life Science and water treatment). Meanwhile, we will strive to improve asset and capital efficiency as we target sustainable increases in ROA and ROE, targeting in excess of 10% for both benchmarks in the mid-term to long-term.

In Foundation Businesses, our goal is to establish a stable earnings base by advancing our operations globally, promoting “New Value Creator,” and developing our downstream and processing businesses. We will also promote greater sophistication of Foundation Businesses by expanding our involvement in advanced materials, including high-performance fibers such as polyphenylene sulfide (PPS) fiber, fluorofiber, microfiber and nanofiber, as well as high-performance resins and films, for which high market growth is expected in the future. In these ways, we will further stabilize our Foundation Businesses while boosting profits.

In Strategically Expanding Businesses, we will strengthen our responsiveness to growth-oriented applications and markets—including IT, automobiles and aircraft—and focus our managerial resources accordingly. By tactically and aggressively expanding our activities in these ways, we will position Strategically Expanding Businesses as a driver of mid-term and long-term earnings growth.

In Strategically Developing Businesses, our policy is to target strategic development and growth by prioritizing the allocation of managerial resources while seeking M&A and business alliances. We plan to build these businesses into our next earnings growth pillar.



HIGHLIGHT 2

In FY Mar/07, we will continue our relentless pursuit of ¥100 billion in consolidated operating income—which we hope to achieve at an early stage as dictated under “Project NT-II.”



By pursuing the basic policies outlined above, we will target threefold increases in revenues from Strategically Expanding Businesses and Strategically Developing Businesses over the next decade and will significantly change our business structure in the process.

Mid-Term Business Strategies: “IT-2010”

Building on the vision outlined in “AP-Innovation TORAY 21,” we announced new mid-term business strategies, called “Project Innovation TORAY 2010 (“IT-2010),” on May 10, 2006. Designed to realize our long-term corporate vision, “IT-2010” specifies Toray Group performance targets, key management issues, and basic strategies for the five-year period to around 2010—the first half of the period covered by “AP-Innovation TORAY 21.”

The fundamental objective of IT-2010 is to “build a new Toray” that emphasizes innovation across all Group activities and operates highly profitable businesses while maintaining a robust business constitution, thus delivering dynamic progress and growth. Specifically, we will target “Innovation” in five areas: (1) Innovation of business structure, by pursuing reforms and strategically expanding overseas operations; (2) Innovation of technologies, by promoting technological innovations and reinforcing manufacturing technologies; (3) Innovation of competitiveness, by further solidifying our business constitution; (4) Innovation of business awareness, by changing employees’ attitudes and ideas and by reforming organizations and systems; and (5) CSR innovation, by further promotion of CSR.

We have cited two basic strategies in “IT-2010.” The first is to transform ourselves into a highly profitable corporate group. Under “AP-Innovation TORAY 21,” we are targeting consistent annual net sales growth of 5% and operating income growth of 10% in our plan to create a highly profitable organization while achieving

HIGHLIGHT 3

As we marked our 80th anniversary in 2006, we formulated a new long-term corporate vision, targeting renewed progress in the future.

We also announced new mid-term business strategies, emphasizing innovation across all of our corporate activities.

sustainable business expansion. In Foundation Businesses (Fibers & Textiles, Plastics & Chemicals), we will increase our involvement in advanced materials while maintaining stable earnings. By maximizing added value in this way, we will achieve a higher level of sophistication. We will also focus managerial resources and aggressively broaden Strategically Expanding Businesses (IT-related Products, Carbon Fiber Composite Materials) as a profit growth driver. At the same time, we will nurture Strategically Developing Businesses (Life Science including Pharmaceuticals and Medical devices, as well as water treatment) as a future driver of the Group's earnings growth.

At present, Strategically Expanding Businesses and Strategically Developing Businesses together account for around 25% of net sales. We will realize business structural reform by doubling revenues from these businesses, so that they account for around 40% of net sales by around 2010. Over the same period, we also plan to double sales of advanced materials and to boost the share of these products in net sales from 30% to 50%.

The second basic strategy of "IT-2010" is to expand our advanced materials business across "four major growing business fields." Envisioning how social and operating environments will evolve over the next decade, we have identified four major growing business fields as growth markets on which to focus our business expansion efforts. These domains are (1) Information, Telecommunications, and Electronics; (2) Automobiles and Aircraft; (3) Life Science; and (4) Environment, Water-related and Energy. By utilizing and integrating our expertise in organic synthetic chemistry, polymer science, biotechnology and nanotechnology, we will actively provide advanced materials and solutions in these four major growing business fields and promote the business expansion. Over the five-year period from April 2006, we plan to make total capital investments of around ¥600 billion. We will allocate about ¥400 billion, or two-thirds of this amount, to areas

targeted for growth. In turn, we plan to invest ¥300 billion, or three-quarters of the latter figure, in Strategically Expanding Businesses and Strategically Developing Businesses. Depending on the management decision, we will allocate the funds for M&A activities separately from the ¥600 billion capital spending budget. Besides, we plan to make R&D investments of around ¥240 billion over the next five years. Around 80% of the investments will go to R&D on advanced materials.

Under "IT-2010," we are targeting consolidated net sales of over ¥1.6 trillion and operating income of over ¥120 billion for FY Mar/09. Our ultimate goal, set for around 2010, is to achieve net sales of ¥1.8 trillion and operating income of ¥150 billion.

Toward a Global Top Company of Advanced Materials

Motivated by its corporate slogan, "Innovation by Chemistry," Toray Group will strive to become the global top company of advanced materials by pursuing technological innovations based on chemistry. In addition to technological innovations, we will work to create new value by emphasizing innovation across all areas of our corporate activities. In these ways, we will proactively fulfill our roles with respect to social contributions and environmental protection. By achieving dynamic progress and sustainable development, moreover, we will continue serving as a good corporate group that is highly valued by all stakeholders.

June 2006



Sadayuki Sakakibara
President
CEO and COO
Representative Director



Toray's Long-Term Corporate Vision and Mid-Term Business Strategies

To mark the 80th anniversary of its founding, Toray Group has revamped its long-term corporate vision, with a view to achieving sustainable development and renewed progress in the future.

The slogan of the new vision, "Toward a Global Top Company of Advanced Materials" and "Innovation by Chemistry," reflects our desire to create a "New Toray for the 21st Century." We intend to evolve into the world's top advanced materials company through technological innovations centering on chemistry.

In addition, we will seek to create new levels of value and target dynamic progress and sustainable development by pursuing innovation across all segments of our operations.

Long-Term Corporate Vision: "AP-Innovation TORAY 21"

Toward a Global Top Company of Advanced Materials

I. Corporate Philosophy

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

Corporate Missions

For Our Customers: To provide new value to our customers through high-quality products and superior services

For Our Employees: To provide our employees with opportunities for self-development in a challenging environment

For Our Shareholders: To provide our shareholders with dependable and trustworthy management

For Society: To establish ties and develop mutual trust as a responsible corporate citizen

Corporate Guiding Principles

Safety and Environment

Placing top priority on safety, accident prevention and environmental preservation, ensuring the safety and health of our employees, our customers and local communities, and actively promoting environmental preservation.

Ethics and Fairness

Obtaining the trust of society and meeting the expectations by acting fairly while maintaining high ethical standards and a strong sense of responsibility and maintaining transparency in management.

Customer-focus

Providing customers with new values and solutions, and achieving sustainable growth together.

Innovation

Achieving continuous innovation in all corporate activities, and aiming for dynamic evolution and growth.

Fieldwork and Initiative

Strengthening fieldwork abilities and initiative, the foundations of our corporate activities, through consistently learning from one another and constant self-driven efforts.

Global Competitiveness

Pursuing competitiveness through global top quality standards and cost management, and achieving growth and expansion in the global marketplace.

Global Coalition

Developing global coalition through integrated internal linkages and strategic alliances with external partners.

Emphasis on Human Resources

Providing an environment where employees find value in their work, and building positive, energetic relationships between people and the organization.



II. Corporate Image in the 21st Century

TORAY is...

1. Advanced Materials
2. Dynamic Evolution
3. Global Expansion
4. Technological Innovation
5. Quality
6. Solid Corporate Structure
7. Customer-focus
8. Vitality
9. Safety and Environmental Stewardship
10. Corporate Social Responsibility

Please refer to http://www.toray.com/aboutus/html/abo_a001.html for more details.

III. Long-Term Business Prospects

BUSINESS CATEGORIES	BASIC STRATEGIES	BUSINESS SEGMENTS	FOCUSED MATERIALS
FOUNDATION BUSINESSES	Establish a stable profit base through 1) Global business development 2) Promoting "New Value Creator" 3) Downstream and processing business development Build a stable profit base and expand profits by promoting advances in Foundation Businesses through expanding advanced materials.	Fibers & Textiles Plastics & Chemicals	
STRATEGICALLY EXPANDING BUSINESSES	Achieve strategic and aggressive business growth and establish highly profitable businesses in the mid-term and long-term by focusing on investment in managerial resources and strengthening agility in growth markets including IT, automobiles and aircraft.	IT-related Products Carbon Fiber Composite Materials	
STRATEGICALLY DEVELOPING BUSINESSES	As the next pillar of profit growth beyond 2010, subsequent to IT-related Products and Carbon Fiber Composite Materials, strategically developing and expanding these businesses by increasing management resources intensively with consideration of M&A and strategic alliances with external parties.	Life Science & Other Businesses Environment & Engineering	

Basic Materials (▲) Advanced Materials (◆)

IV. Business Prospects for Toray Group in and around 2015

1. Transforming to a highly profitable business group

- Achieve the transformation to a highly profitable business group, while sustainably expanding business.
- Improve capital efficiency and continually improve ROA and ROE.

2. Expanding highly profitable businesses

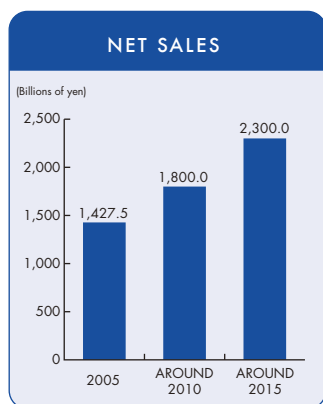
- Drive profit growth through Strategically Expanding Businesses and Strategically Developing Businesses while preserving stable profits through Foundation Businesses.

3. Advancing business structure reform

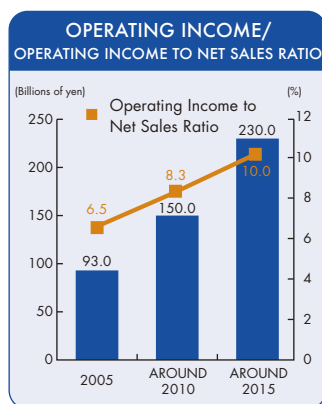
- Triple sales in Strategically Expanding Businesses and Strategically Developing Businesses over the next 10 years, and expand their ratio of net sales from the current 25% to 50%.

4. Expanding the advanced materials businesses

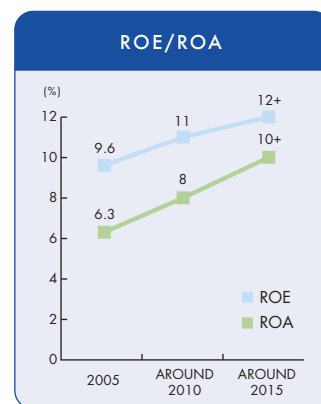
- Expand the advanced materials businesses in every segment, triple sales over the next 10 years and increase these businesses' ratio of net sales from the current 30% to 60%.



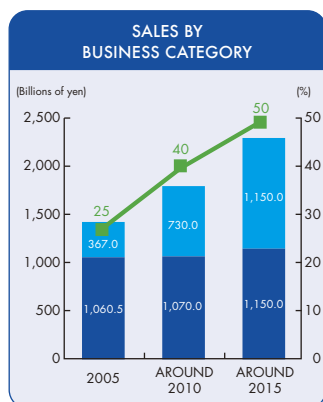
- 5% annual growth in consolidated net sales



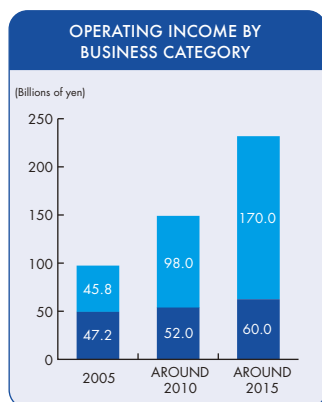
- 10% annual growth in consolidated operating income



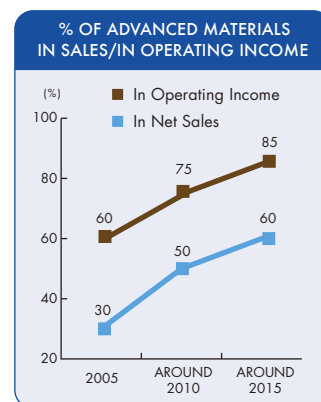
- ROA: above 10%
- ROE: above 12%



- Triple sales in Strategically Expanding Businesses and Strategically Developing Businesses



- Expand Strategically Expanding Businesses and Strategically Developing Businesses to 75% of operating income around 2015



- Expand advanced materials ratio to 60% of net sales around 2015

■ Foundation Businesses ■ Strategically Expanding Businesses and Strategically Developing Businesses ■ Strategically Expanding & Developing Businesses to Net Sales

Note: Foundation Businesses include Engineering and others.

Mid-Term Business Strategies: "Project Innovation TORAY 2010 (IT-2010)"

I. Basic Concept

Back in April 2002, Toray Group formulated a long-term management vision, entitled "AP-New TORAY 21," which was designed to transform the Group into a "New Toray for the 21st Century." Since that time, we have implemented various reforms (NT Reforms) under the "Project New TORAY21 (Project NT21)" and the subsequent "Project NT-II (NT-II)," through which we have comprehensively reinforced our business constitution and drastically reformed our business structure.

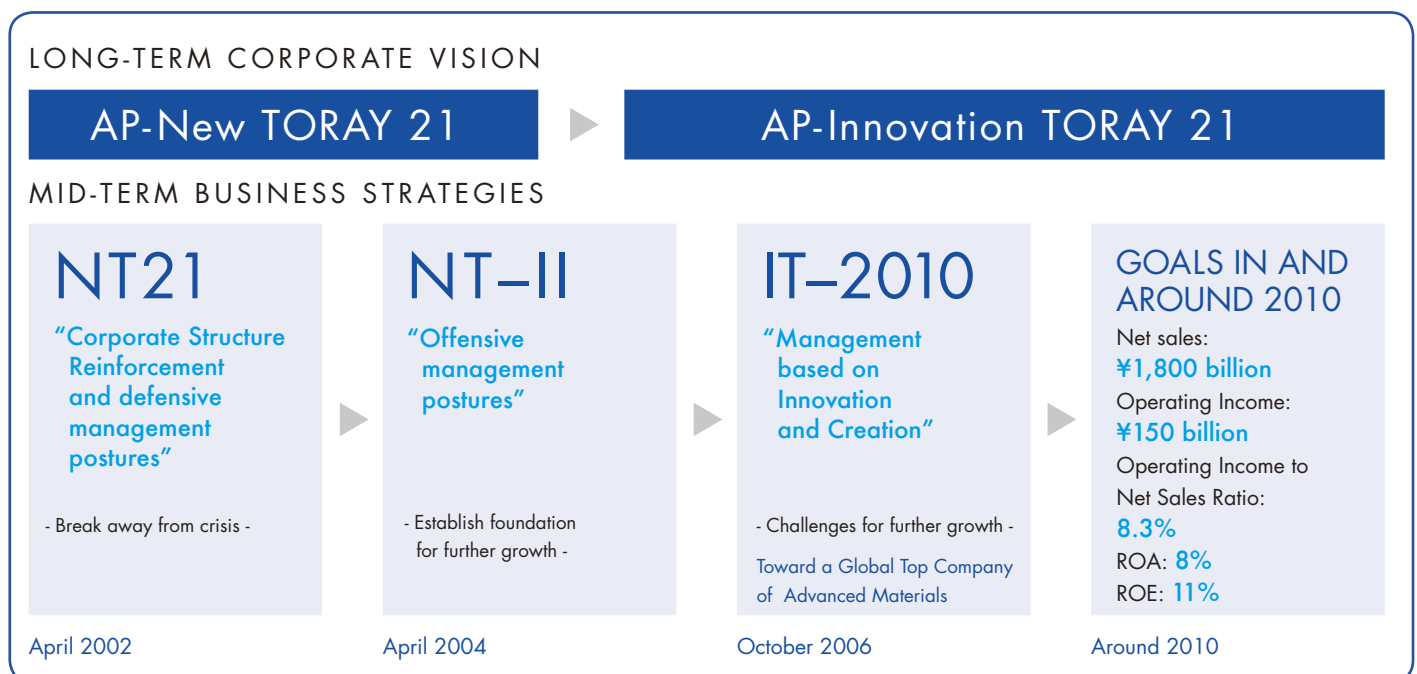
NT21 was launched in FY Mar/03—a crisis point in our history when our financial performance deteriorated significantly. For this reason, we initially emphasized a "defensive" management approach, centering on reinforcement of our business constitution and restoring our financial results. Building on the success of the program, in April 2004 we initiated NT-II, which adopts a more "offensive" approach, based on far-reaching

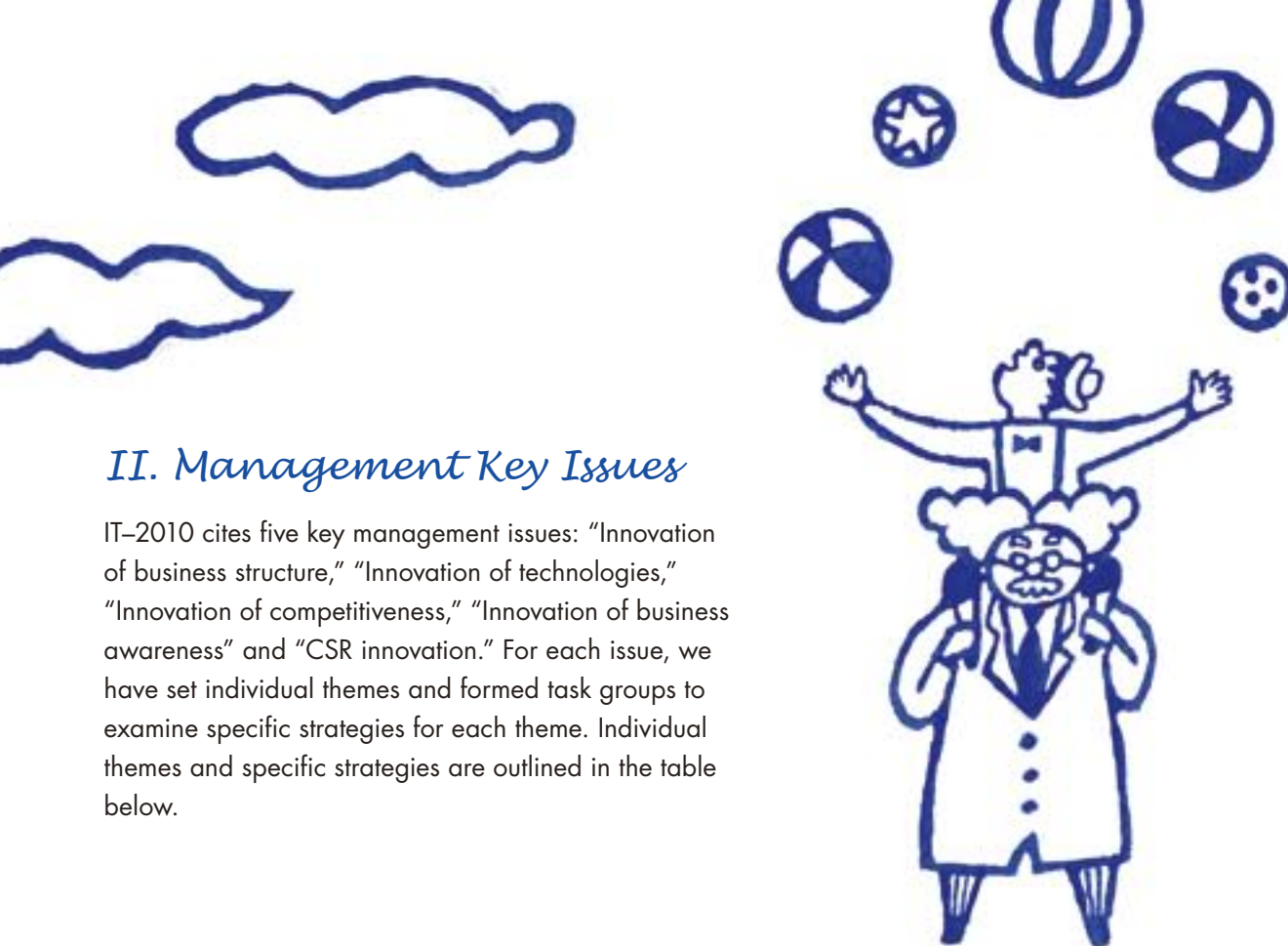
structural reforms. Under NT-II, we set a goal to achieve consolidated operating income of ¥100 billion at an early stage.

As we approach this target, which is set for FY Mar/07, we deemed it appropriate to tackle the next stage of our program, which calls for "challenges for further growth." To this end, we formulated our new mid-term business strategies, called "Project Innovation TORAY 2010 (IT-2010)," which provides a basic framework specifying performance targets, key management issues and basic strategies.

Under this basic framework, we have devised individual strategies to address management issues, as well as a specific action plan and business strategies for each operating division. These are all embodied in IT-2010, which is scheduled for launch in October 2006.

Management Reform Project Road Map





II. Management Key Issues

IT-2010 cites five key management issues: "Innovation of business structure," "Innovation of technologies," "Innovation of competitiveness," "Innovation of business awareness" and "CSR innovation." For each issue, we have set individual themes and formed task groups to examine specific strategies for each theme. Individual themes and specific strategies are outlined in the table below.

In view to kick off in the second half of FY2006, Toray started examination of specific strategies by task team.

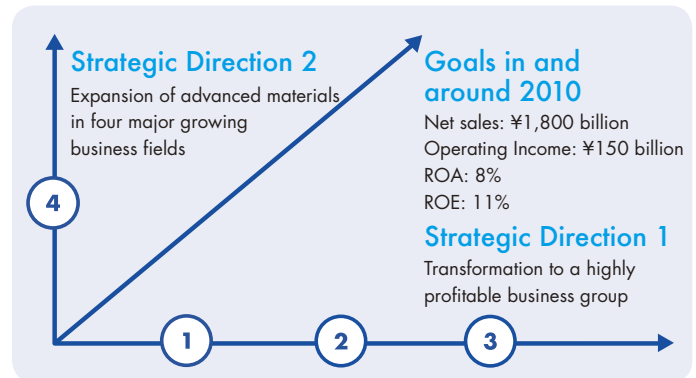
KEY MANAGEMENT ISSUES ON INNOVATION	SPECIFIC STRATEGIES
Business structure <ul style="list-style-type: none"> Promotion of business structure reform Strategic expansion of overseas businesses 	<ul style="list-style-type: none"> Human resource investments (recruitment, strategic staffing and enhancing development) Capital expenditures (optimal size and strategic allocation) Creation of new businesses (new businesses and M&A) Expansion of businesses outside Japan <KP Project> (large projects and new sites)
Technologies <ul style="list-style-type: none"> Technological innovations Strengthening manufacturing technologies 	<ul style="list-style-type: none"> Expansion of advanced materials businesses <SZ Project> (promoting commercialization) Strengthening of R&D capabilities (promotion of major R&D themes and strategic intellectual property activities) Strengthening of manufacturing technology capabilities (technological succession, Six Sigma, high-quality)
Competitiveness <ul style="list-style-type: none"> Further strengthening of business constitution 	<ul style="list-style-type: none"> Radical cost-reduction measures (reduction of variable costs, equipment expenses VA) Response to concerned businesses (radical measures, restructuring/integration, liquidation) Strengthening marketing and sales (promotion of solution provider approach) Strengthening brand strategies (corporate brand, product brand)
Business Awareness <ul style="list-style-type: none"> Innovations in attitudes and ideas Reformation of organization and systems 	<ul style="list-style-type: none"> Corporate organization (response to growth and expansion and corporate-structure reinforcement) Management system (review of profit control system, etc.) Personnel system (follow-up)
CSR <ul style="list-style-type: none"> Promotion of CSR 	<ul style="list-style-type: none"> Promotion of CSR (promotion system, action program)



III. Strategies for Growth

We have cited two basic strategies in IT-2010. The first is to transform ourselves into a highly profitable business group and the second is to expand our advanced materials business across “four major growing business fields.”

By implementing the basic strategies outlined in our long-term management vision, we will transform ourselves into a highly profitable business group.



Strategic Direction 1: Transformation to a highly profitable business group

1) In order to transform ourselves into a highly profitable business group while generating sustainable growth, we devised our “5–10 Growth Plan,” which calls for 5% annual growth in net sales and 10% annual growth in operating income. Meanwhile, we will emphasize ongoing improvements in capital and asset efficiency, with the aim of achieving ROA of 8% or higher and ROE of 11% or higher in and around 2010.

2) Under our plan to become a highly profitable business group, we will target growth of our growth driver “Strategically Expanding Businesses” (IT-related Products and Carbon Fiber Composite Materials) while nurturing

our future growth driver “Strategically Developing Businesses” (which include Life Science, water treatment and environmentally friendly products). At present, our Strategically Expanding Businesses and Strategically Developing Businesses together account for around 25% of net sales. Our plan is to double revenues from these businesses, so that they account for around 40% of net sales in and around 2010.

3) Over the same period, we plan to double sales of advanced materials, thus boosting the share of these products in net sales from 30% to 50%.

Strategic Direction 2: Expansion of advanced materials in four major growing business fields

Envisioning how social and operating environments will evolve over the next decade, we have identified four major growing business fields as growth markets on which to focus our business expansion efforts. These business fields are (1) Information, Telecommunications and Electronics; (2) Automobiles and Aircraft; (3) Life Science; and (4) Environment, Water-related, and Energy. We will grow our business by actively providing advanced materials and solutions in these four major growing business

fields, including through cross-divisional initiatives. In the meantime, we will utilize and integrate our technological foundation, drawing on our expertise in such areas as organic synthetic chemistry and polymer science, as well as biotechnology and nanotechnology.

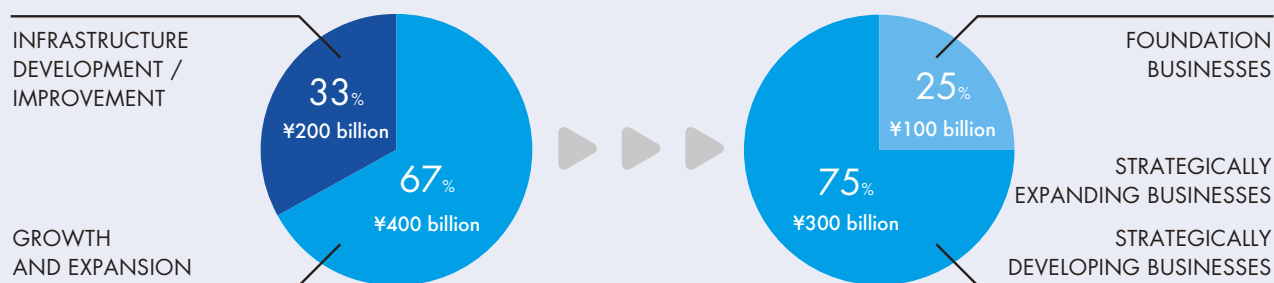
IV. Capital Expenditures and R&D Investment Strategies

Over the five-year period from April 2006, we plan to make total capital investments of around ¥600 billion—80% higher than the ¥339.3 billion spent in the previous five years. We will allocate about ¥400 billion, or two-thirds of this amount, to areas targeted for growth. In turn, we plan to invest ¥300 billion, or three-quarters of the

latter figure, in Strategically Expanding Businesses and Strategically Developing Businesses.

Funds for M&A activities will be allocated separately from the ¥600 billion capital spending budget and used as deemed appropriate.

¥600 billion of capital expenditures in five years (from FY 2006 to FY 2010)

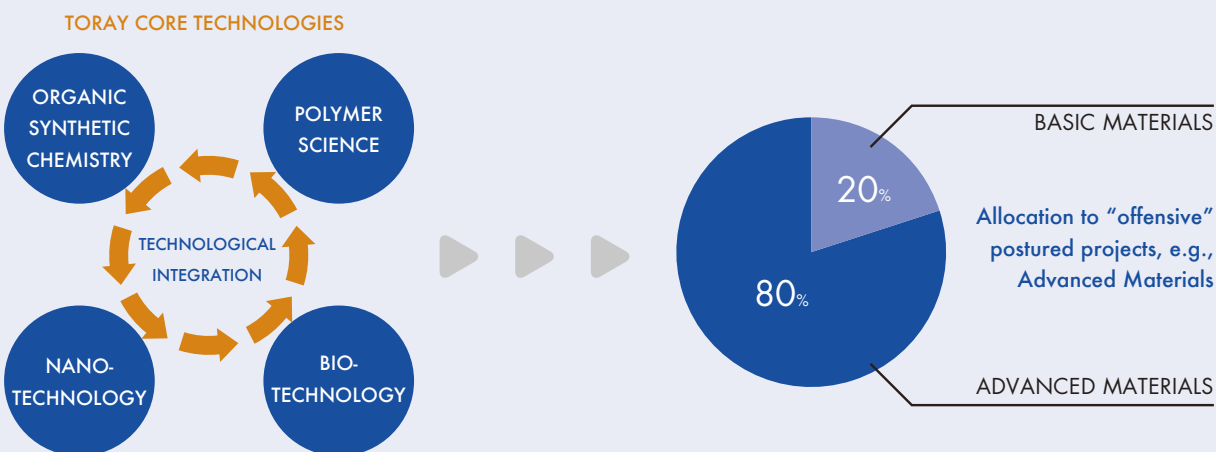


Infrastructure development/improvement = environment, safety, accident prevention, optimization of head count, rationalization, preservation expenditures, etc.

In addition, we plan to make R&D investments of around ¥240 billion over the next five years, up around 20% from the past five-year period, when we spent ¥192.2 billion. Around 80% of this will go to R&D on

advanced materials, where Toray integrates leading-edge technologies with its core technologies, thus further expediting the “innovation” process.

¥240 billion of R&D investment in five years



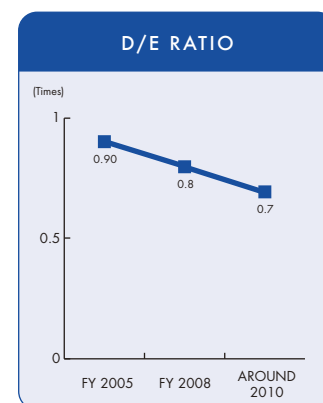
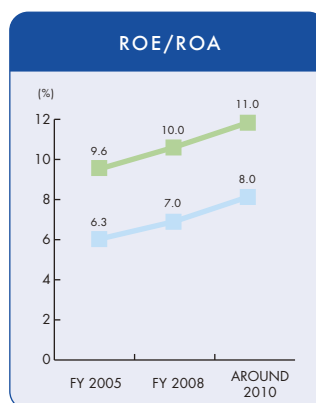
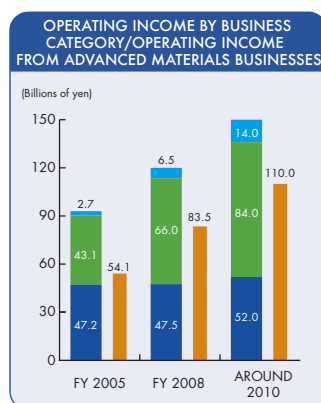
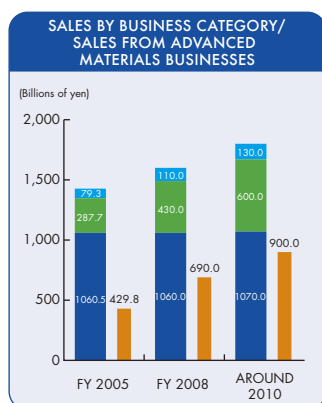
V. Performance Target

Under the IT-2010 plan, we are targeting consolidated net sales of more than ¥1.6 trillion and operating income of more than ¥120 billion for FY Mar/09. Our ultimate goal, set for around 2010, is to achieve net sales of ¥1.8 trillion and operating income of ¥150 billion.

Together, our Strategically Expanding Businesses and Strategically Developing Businesses currently account for around 25% of net sales. Our plan is to raise this share to 40% of net sales by around 2010. Over the same period, we plan to boost the share of advanced materials in net sales to 50% from the present level of 30%.

(Billions of yen)

	FY 2005 (ACTUAL)	FY 2008 (INTERIM TARGET)	AROUND 2010 (FINAL TARGET)
NET SALES	1,427.5	1,600.0 +	1,800.0
OPERATING INCOME	93.0	120.0 +	150.0
NET INCOME	47.4	60.0 +	75.0
ROA (%)	6.3	7.0	8.0
ROE (%)	9.6	10.0	11.0
D/E RATIO (times)	0.90	0.8	0.7

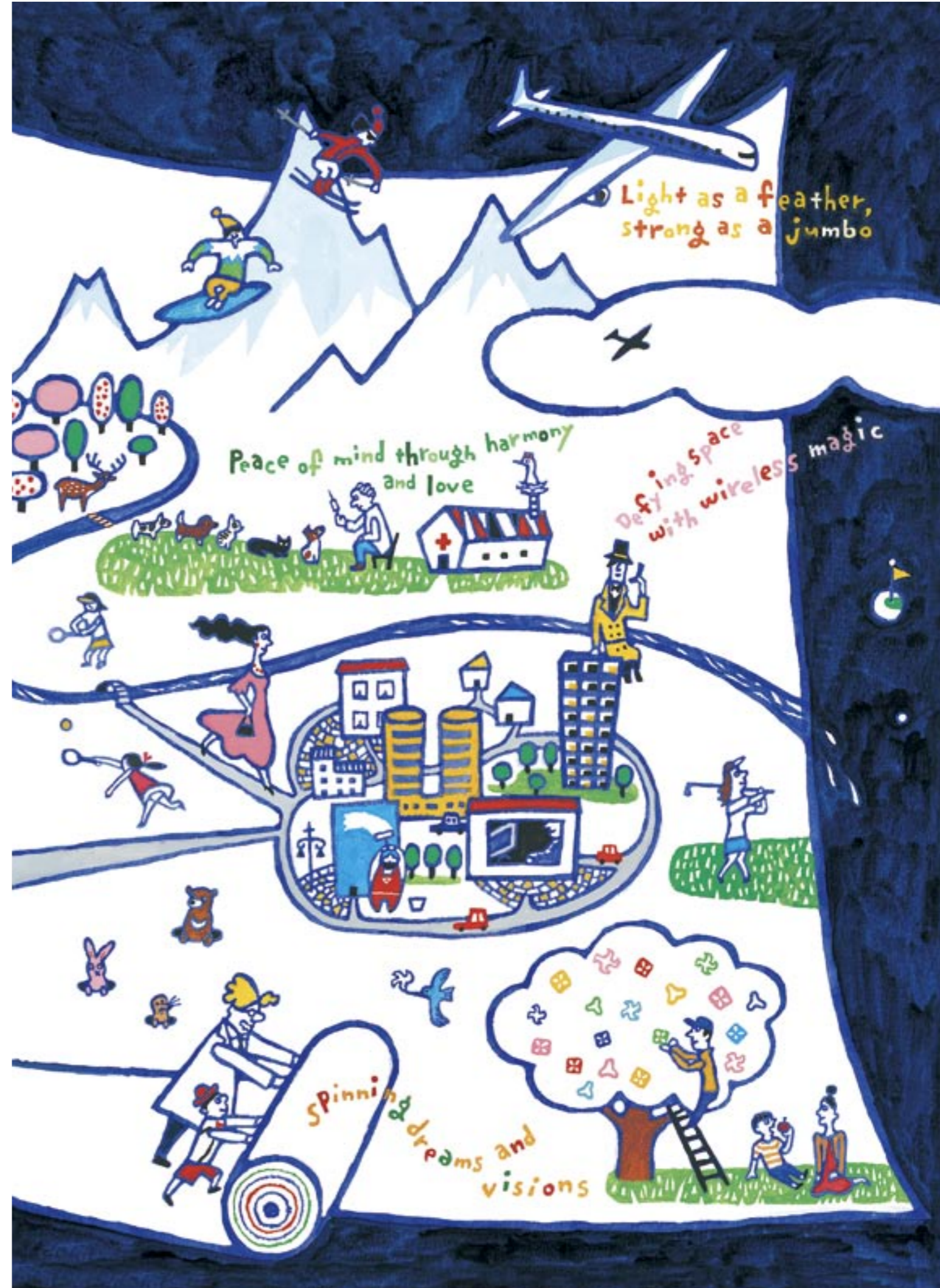


■ Foundation Businesses ■ Strategically Expanding Businesses ■ Strategically Developing Businesses ■ Advanced Materials Businesses ■ ROE ■ ROA

Toray Group is committed to contributing to society through the creation of new value with innovative ideas, technologies and products.

Guided by this commitment, we will relentlessly pursue innovation across all of our operations, with particular

focuses on "Innovation and Creation," "Competition and Cooperation" and "Dialogue and Cooperation with Society." By increasing our corporate value in these ways, we will seek to become a global leader in advanced materials.



Fibers & Textiles



MAIN PRODUCTS

Filament yarns, staple fibers, and woven and knitted fabrics of nylon, polyester, and acrylic fibers, etc.; non-woven fabrics, man-made suede, apparel products

MAIN APPLICATIONS

- Automobiles (car seats: polyester woven/knitted fabrics, airbags: nylon woven/knitted fabrics, seatbelts: nylon fiber)
- Women's and men's clothes (coats: man-made suede, apparel products, dress shirts: polyester-cotton blend fabric, swimwear, stockings: nylon yarn)
- Sportswear
- Furniture (sofas: man-made suede, carpets: BCF nylon, curtains: halogen-free, fire-resistant materials)
- Disposable diapers: polypropylene filament yarn non-woven fabric
- Tents: polyester fabric

BUSINESS ENVIRONMENT

Concerns about further price rises of raw materials and fuels

ACTION PLANS FOR FY MAR/07

- Improve earnings at Chinese subsidiaries
- Establish new supply chain with Japanese SPA and overseas mega retailers

Plastics & Chemicals



MAIN PRODUCTS

Nylon, ABS, PBT, PPS and other resins and molded products, polyolefin foam; polyester, polypropylene, PPS and other films and processed film products; raw materials for synthetic fibers and other plastics; gypsum; zeolite catalysts; fine chemicals for pharmaceuticals and agrochemicals; veterinary medicine (excludes film and resin covered in IT-related Products segment)

MAIN APPLICATIONS

- Automobiles (radiator tanks: nylon resin, intake manifold: nylon resin, door handles: PBT resin, hybrid car engine: polypropylene film)
- Home appliances (housing for washing machines, dehumidifiers, air conditioners: ABS resin)
- Electric equipment (lawnmower housing: ABS resin)
- Helmets (nylon resin)
- Solar battery panels (PET film)
- Veterinary medicine (for dogs and cats)
- Sandwich bags (polypropylene film)

BUSINESS ENVIRONMENT

Concerns about further price rises of raw materials and fuels

ACTION PLANS FOR FY MAR/07

- Expand sales of products in growing areas such as solar cells, films for hybrid cars, etc.
- Expand sales of plastics for automobiles
- Establish global supply system for plastics businesses

IT-related Products



MAIN PRODUCTS

Films and plastic products for information and telecommunications related products; electronic circuits and semiconductor-related materials; color filters for LCDs and related materials and equipment; materials for plasma display panels; magnetic recording materials; graphic materials and related equipment

MAIN APPLICATIONS

- PDP televisions
- PCs (circuit materials, PET film, polyimide coatings)
- Cellular phones (color filters, LCP resin, circuit materials, PET film)
- Printing (waterless printing plate, relief printing, printing equipment)
- Digital video camera recording film (PET film)
- In-vehicle multimedia LANs (optical fiber)

BUSINESS ENVIRONMENT

IT-related product (FPD, etc.) market is expanding
Continuous strong pressure for price reduction

ACTION PLANS FOR FY MAR/07

- Expand sales of optical films for FPDs and processed film products
- Expand sales of circuit materials
- Expand sales of IT-related film/circuit materials at South Korean subsidiaries

Carbon Fiber Composite Materials



MAIN PRODUCTS

Carbon fibers, carbon fiber composite materials and their molded products

MAIN APPLICATIONS

- Aircraft structure (carbon fiber composite materials)
- Bridge pier reinforcement (carbon fiber composite materials)
- PC chassis (carbon fiber molded products)
- Wind-power generator blade (carbon fibers)
- Marine vessels (carbon fibers)

BUSINESS ENVIRONMENT

Stable demand in all applications
Especially aircraft and industrial applications are expected to expand drastically

ACTION PLANS FOR FY MAR/07

- Respond to full-scale expansion of aircraft applications
- Expand capacity and sales at U.S. subsidiaries
- Develop downstream market (strengthen prepregs and composites)

Environment & Engineering



MAIN PRODUCTS

Comprehensive engineering; condominiums; industrial equipment and machinery; environment-related equipment; water treatment membranes and related equipments; materials for housing, building and civil engineering applications

MAIN APPLICATIONS

- Seawater desalination facilities (water treatment membranes and equipment)
- Sewage and waste-water treatment facilities (water treatment membranes and equipment)
- Condominiums
- Pavements (porous-ceramic paving materials)
- Plants and manufacturing facilities (comprehensive engineering services)

BUSINESS ENVIRONMENT

Demand for seawater desalination and wastewater reuse systems are expected to expand

ACTION PLANS FOR FY MAR/07

- Expand water treatment businesses in China
- Expand Integrated Membrane Systems businesses through combination of various membrane technologies
- Strengthen partnership with Suido Kiko

Life Science & Other Businesses



MAIN PRODUCTS

Pharmaceuticals and medical products; analysis, physical evaluation and research services

MAIN APPLICATIONS

- Pharmaceuticals (natural interferon-beta drugs, prostacyclin)
- Medical treatment devices (hemodialyzers, artificial dialysis equipment)
- Analytical services

BUSINESS ENVIRONMENT

Price reduction of drugs
Reduction of reimbursement prices of medical devices

ACTION PLANS FOR FY MAR/07

- Expand Feron* sales through new indications (treatment of hepatitis C compensated cirrhosis)
- Expand sales of dried Toraysulfone*(Toraylite*)

<CHANGES IN BUSINESS SEGMENTS>

The Company changed its business segments starting from this fiscal year to the following. "Carbon Fiber Composite Materials" was separated from "New Products and Other Businesses" to a new segment as the size of the business expanded. The size of "Pharmaceuticals and Medical Products" business became relatively small and therefore was merged into "New Products and Other Businesses" and the entire segment was renamed as "Life Science and Other Businesses." Furthermore, "Housing and Engineering" segment was renamed as "Environment and Engineering" to reflect the contents of that business more appropriately. The figures for the fiscal 2004 were modified to show the results according to the new business segments.

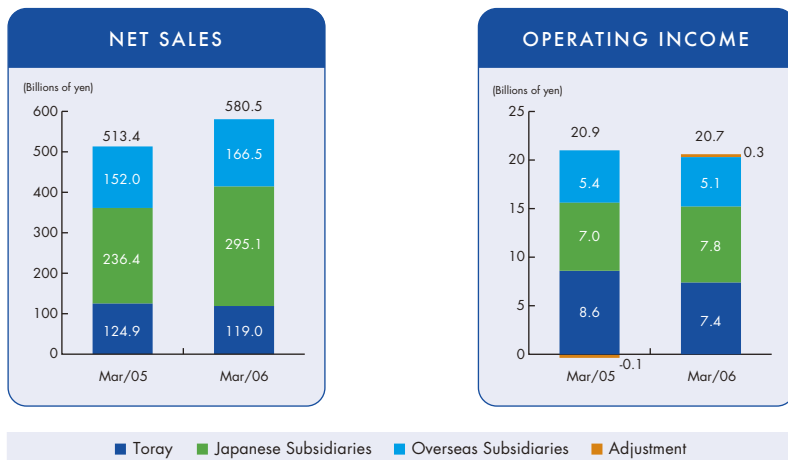
Review of Operations

Fibers & Textiles

In domestic, overall sales of nylon fibers increased, as we expanded sales for new applications and shifted to high value-added products in apparel, despite the transfer of a part of the business for industrial-use nylon yarns for airbag applications to a Thai subsidiary. Overall sales of *Tetoron** polyester fiber declined, as sales of filament yarns were affected by a stock adjustment in supply chains and sales of staple fibers were hit by sluggish demand for spinning. On the other hand, sales of high-performance fibers and garment businesses increased and, together with addition of Chori Co., Ltd., which joined Toray Group as a consolidated subsidiary in the latter half of the previous fiscal year, contributed to marked gains in overall domestic sales.

Overseas sales of the segment also rose, helped by increases at staple fiber and filament textile businesses in Thailand, filament textile businesses in China and spunbond businesses in South Korea.

At the same time, in response to the steep rise in global raw materials and fuel prices, Toray Group made efforts to transfer the cost increases to the selling price.



TOPICS

Production of Airbag Textiles Started in the Czech Republic

In April 2006, Toray Textiles Central Europe, s.r.o. (TTCE), Toray's textile manufacturing subsidiary in the Czech Republic, commenced the production of textiles for automotive airbags. Initial annual production of around 600,000 meters will be increased to around 4 million meters by FY Mar/2010.

The worldwide market for airbags is expected to grow at an annual rate of 8% amid increasingly global activities by automobile manufacturers. Meanwhile, leading manufacturers of airbag components are setting up operations in central and eastern Europe, where automobile manufacturers have established production facilities. Consequently, there is strong demand in the region for high-quality, locally produced base fabric.

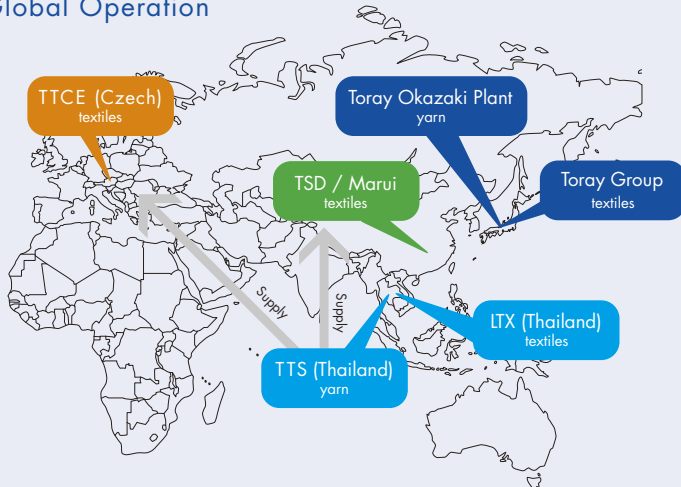
By taking advantage of the location of its Czech fabric production base, situated in the center of the European market, Toray plans to build a system to supply textiles to meet the demands of component manufacturers in central and eastern Europe.

Through the globalization of our airbag business, which is operated by Toray in Japan, Thailand, China and the Czech Republic, we plan to expand the total production of base fabric to 30 million meters by FY Mar/2011.

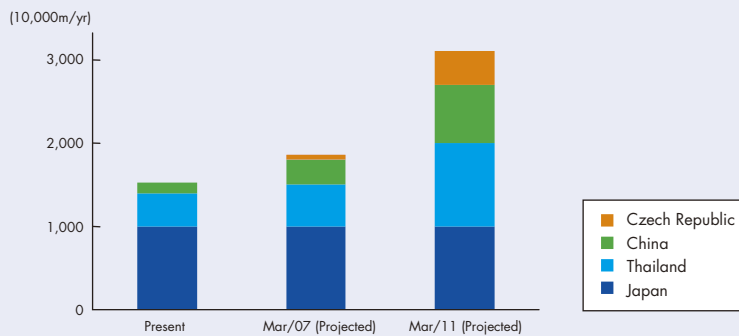
New Cotton-Blended Polyester Textiles Company Established in China

During the year, Toray established a company in China to make and sell cotton-blend polyester and 100% cotton textiles, in a joint venture with a Qingdao-based company. The new company, Toray JIFA

Toray Global Operation



Toray Group Production Capacity of Textiles for Airbags



(Qingdao) Textile Company Limited (TJQ), began production at a new plant in the Jifa Industrial Complex in Jimo City, Shandong Province, in April 2006. With an integrated production system that incorporates spinning, weaving and dyeing, the plant has an initial monthly production capacity of 2 million meters. This represents the first phase in the project, with plans to boost monthly production capacity to 4 million meters in the near future. We plan further expansion of capacity in line with growing demand.



Appearance of Toray JIFA (Qingdao) Textile Company Limited (TJQ)

OUTLOOK

Fibers and textiles businesses have benefited from various positive factors. These include the severe 2005–2006 winter, which boosted sales of winter apparel, and the Japanese government–led “Cool Biz” campaign—an anti–global warming drive aimed at reducing the use of air conditioners by dressing more casually. By contrast, there are a number of negative factors, such as the prolonged high costs of raw materials and fuel, as well as an ongoing oversupply of polyester filament yarn in China. The business environment for the fibers and textiles industry, therefore, remains challenging.

Under these circumstances, Toray will maintain steady earnings by transferring the cost increase to the selling price and improving its product lineup through an emphasis on high value-added items. At the same time, we will strive to expand our business, by increasing our involvement in advanced materials and customized products, establishing a new supply chain with Japanese SPA (specialty store retailer of private label apparel) and overseas “mega-brands,” and broadening sales of airbags and other items for automotive applications. We will also seek to improve profitability by reforming the business structure of our Chinese subsidiaries.

As a result of these measures, we plan to increase overall revenue and earnings in this segment in FY Mar/07.

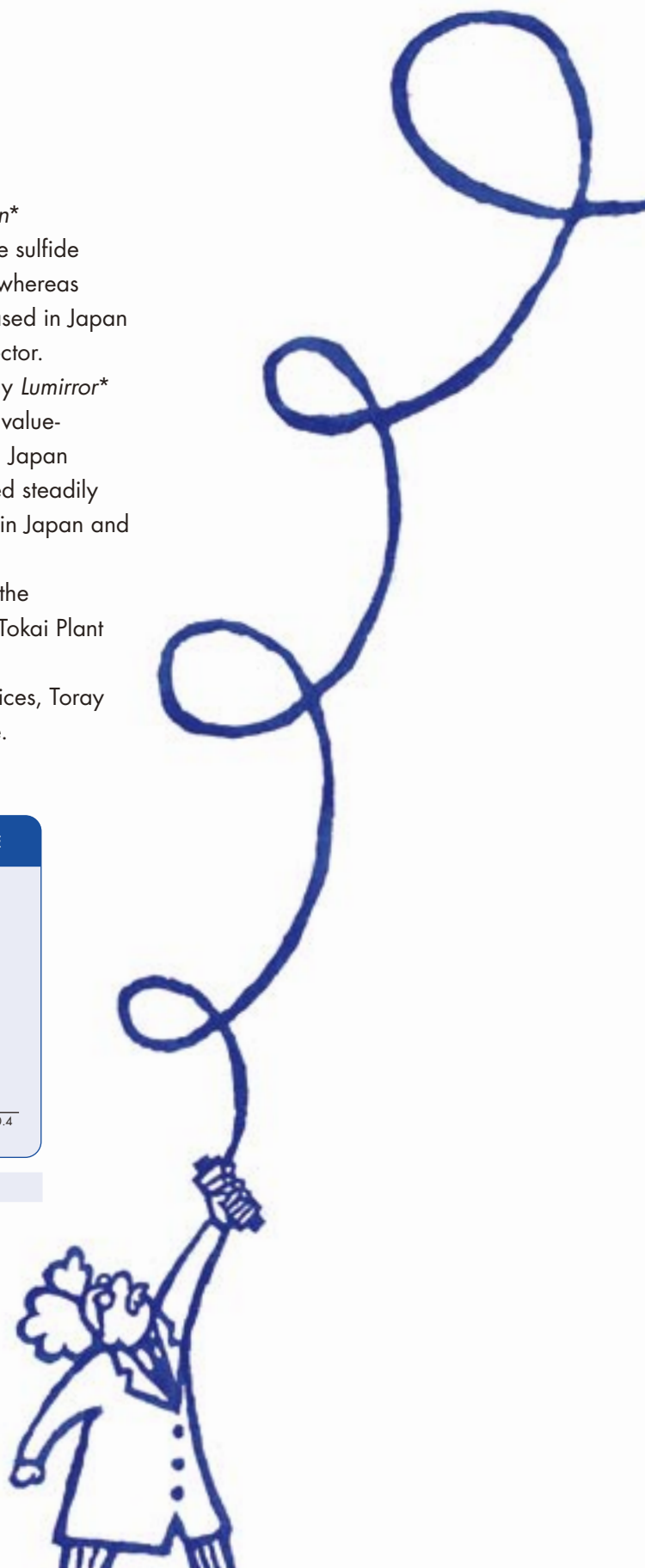
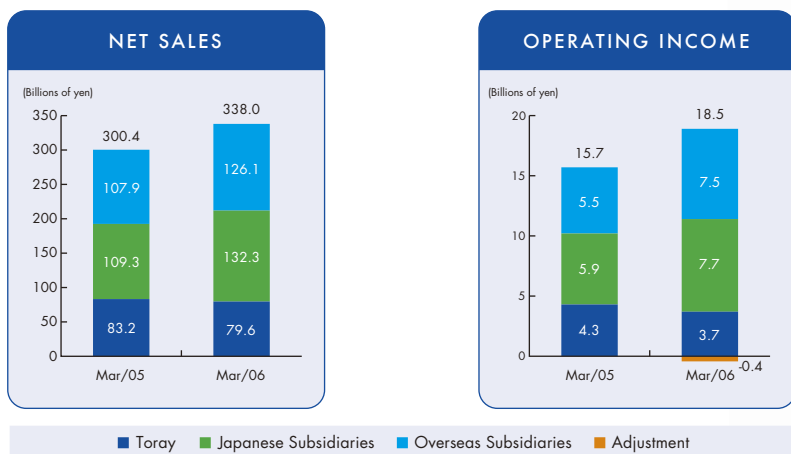
Plastics & Chemicals

Sales of engineering plastics such as *Amilan** nylon resin, *Toraycon** polybutylene terephthalate (PBT) resin and *Torelina** polyphenylene sulfide (PPS) resin saw strong growth especially in the automobile sector, whereas sales of *Toyolac** acrylonitrile butadiene styrene (ABS) resin increased in Japan and overseas, contributing to overall sales growth in the plastics sector.

Overall sales of films businesses increased. Sales of the mainstay *Lumirror** polyester (PET) film continued to advance, reflecting a shift to high value-added products in packaging and industrial application markets in Japan and overseas. Sales of *Torayfan** polypropylene film also expanded steadily thanks to higher demand in packaging and industrial applications in Japan and overseas.

Sales in chemicals declined, mainly due to the consolidation of the caprolactam (a raw material for nylon) production system into the Tokai Plant and the cutback of less profitable exports.

In response to the steep rise in global raw materials and fuel prices, Toray Group made efforts to transfer the cost increase to the selling price.





TOPICS

Expanded Plastics Businesses in China

In China, demand for engineering plastics is expected to grow dramatically as manufacturers of automotive and electrical and electronic components for IT applications, home appliances and OA systems expand their business activities. Toray has established operations in northern, eastern and southern China to meet such demand with speed and precision.

In southern China, we are steadily expanding our business. In April 2005, for example, we integrated our sales and production operations into two operations: Toray Plastics (Hong Kong) Ltd. (TPHK) and Toray Plastics (Shenzhen) Ltd. (TPSZ).

We are also active in eastern China. Back in 1994, we established Shanghai Mitsui Plastic Compounds Ltd. (SMPC). In April 2006, we set up Toray Jixiang Plastics (SuZhou) Co., Ltd. (TJPS).

In northern China, we established Tianjin Pigment Engineering Plastics Co., Ltd., in March 2006. The new company is a joint venture between Nippon Pigment Co., Ltd., Toyota Tsusho Corporation and Toray Industries (China) Co., Ltd. With the establishment of these companies, we are strengthening our local supply of resin compounds in China.

Looking ahead, we plan to expand the production and sales functions of these operations and make full use of Toray Fibers & Textiles Research Laboratories (China) Co., Ltd. (TFRC), which is engaged in polymer research. Through these activities, we aim to promote global operations of our plastics businesses and achieve renewed growth in this dynamic market.

Full-Scale Commercialization of Ecodear* PLA Film

Toray recently entered the polylactic acid (PLA) film and sheet business on a full-scale basis. PLA is an environmentally friendly material made from plant based raw materials. Having resolved quality- and cost-related problems unique to PLA, Toray will build a mass-production facility for PLA sheets at its South Korean subsidiary. This is the first step in the Group's plans to expand its PLA film business under the Ecodear* brand.

A new production facility will be installed to make non-oriented (NO) film sheets at the Gumi No. 3 Plant of Toray Saehan Inc., a subsidiary located in Gumi City, Kyunsangbuk Province, South Korea. The plant will have an annual production capacity of 5,000 tons. Toray will invest ¥1.0 billion in the new production facility, which is scheduled to start operation in January 2007.



PLA Film Ecodear*

OUTLOOK

Overall demand for engineering plastics is steady thanks to growing vehicle production and the rising use of plastic in each vehicle, as well as large-scale capital investments by home appliance manufacturers. Meanwhile, the Asian market for film is expanding, especially in China and India. We also expect growth in new demand for such applications as backsheets for solar batteries and film capacitors for hybrid vehicles. However, there are fears of an oversupply of commodity films due to expansion of production facilities in China, India and Taiwan. In addition, the high cost of raw materials in FY Mar/07 is expected to continue.

Under these circumstances, we will maintain steady profitability in the plastics businesses by passing on extra raw material costs to our customers. Using our global supply system, we will continue expanding our activities in the Asian engineering plastics market, centering on automobiles and home appliances. In our films businesses, we will pursue sales expansion in growth areas, such as film for use in solar batteries and film capacitors for hybrid cars. Here, too, we will maintain profitability by passing on higher raw material costs to our customers. For the segment, we forecast growth in overall revenue and earnings.

IT-related Products

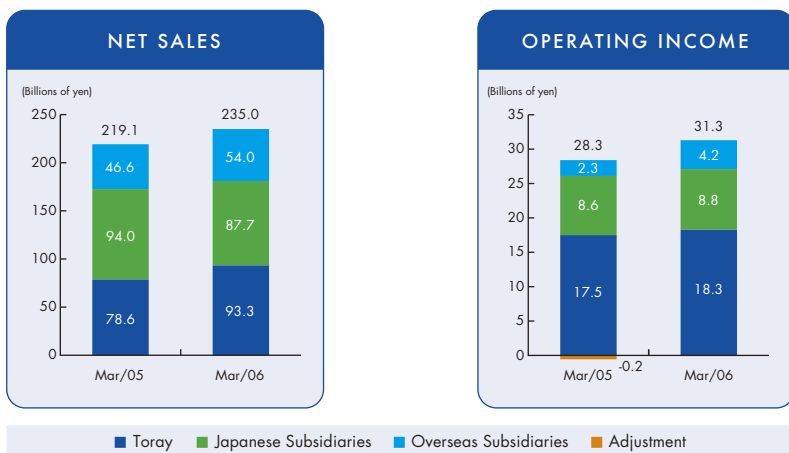
Sales of IT-related plastics and films increased as a result of efforts undertaken to expand sales for applications such as liquid crystal displays (LCDs), cellular phones and digital home electronic appliances.

Sales in electronic materials businesses advanced due to expansion of circuit materials operation in South Korea and increased sales of plasma-display-related materials.

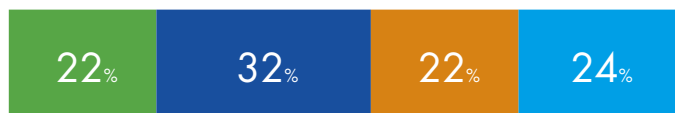
Sales of liquid crystal materials businesses declined due to stiff competition in overseas markets for color filters used in LCDs despite their continued good showing in Japan in various applications.

IT-related equipments businesses suffered a sales decline, as slumping demand hurt sales of slit coaters for color filters for LCDs, which enjoyed robust sales during the previous term.

To enable a better understanding of the activities of the IT-related Products segment, we divided the segment into four categories in the year under review: (1) Display Materials; (2) Electronic Components, Semiconductors and Circuit Materials; (3) Data Storage Materials; and (4) Equipments and Others.



Sales ratio by sub-segment in FY Mar/06



Sales trends by sub-segment

SUB-SEGMENT	FULL YEAR		
	FY 05/MAR	FY 06/MAR	CHANGES
■ Display Materials	43.8	52.7	+20%
■ Electronic Components, Semiconductors, Circuit Materials	59.5	74.2	+25%
■ Data Storage Materials	53.4	52.6	-2%
■ Equipments and Others	62.4	55.5	-11%
Total of IT-related Products Segment	219.1	235.0	+7%

■ Display Materials

- optical films
- processed optical films
- PDP paste materials
- color filters
- paste materials for color filters
- chemicals materials
- OLED materials, etc.

■ Electronic Components, Semiconductors, Circuit Materials

- films for electronic components/circuit materials
- FPC copper clad laminated films
- adhesive tapes for TAB
- adhesive sheets for semiconductors/electronic components
- semiconductor coating materials
- CMP pads
- two-layer copper clad laminated films
- TAB tapes
- COF tapes
- plastics
- plastics products, etc.

■ Data Storage Materials

- magnetic materials
- TTR (Thermal Transfer Ribbon)
- films for graphic art base
- printing plates, etc.

■ Equipments and Others

- slit coaters for LCDs
- die bonding equipment
- inspection equipment
- equipment/components for PDPs
- trading companies
- IT support services
- services and others

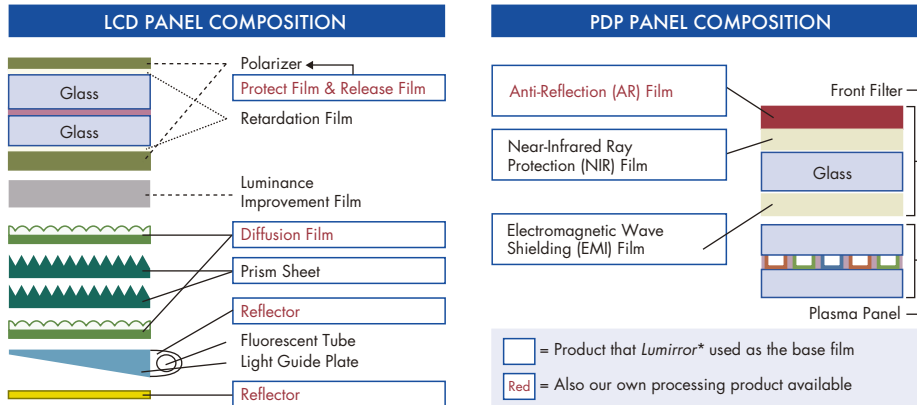
TOPICS

Increasing Production of FPD-Use Optical Polyester Film in South Korea

Toray recently boosted production of optical polyester film, which forms part of its Lumirror* line of polyester film. To this end, we will invest around ¥5.0 billion to enable our South Korean subsidiary, Toray Saehan, to build a cutting-edge production facility with an annual capacity of 13,200 tons. Production is slated to commence in the first half of 2007.

The new facility will enable us to strengthen our supply of optical PET film incorporated in flat-panel displays (FPDs) amid rapid growth in demand in South Korea for LCDs and plasma display panels (PDPs). South Korean makers of television sets, which account for a sizable share of the world FPD market, plan to make large-scale investments in facilities and equipment. Currently gaining momentum is a "Buy Korean" campaign, which is backed by local industries and promotes the procurement of locally produced parts and materials. By swiftly establishing a local supply structure in South Korea and maximizing the strong ties we have built over the years with local television set manufacturers, we will be well

PET film and PET processed film used in flat-panel displays

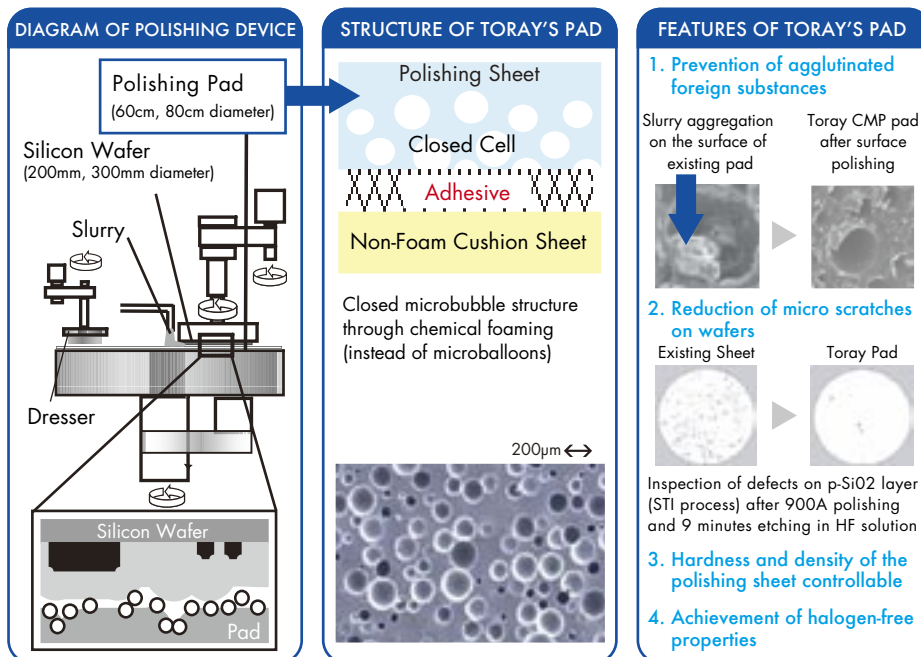


positioned to meet rapidly growing demand in the region.

Shipments of CMP Pads Begin

We have developed a chemical mechanical polishing (CMP) pad that boasts world-class performance when processing the most advanced 12-inch silicon wafers. Developed using polymer nano-dispersion technology, the pad is halogen-free and thus environmentally friendly. Compared with existing products, our pad delivers

superior planarization, the primary function of CMP pads, and markedly reduces the occurrence of microscopic scratches on the wafer surface. We believe that these features will greatly alleviate a perennial problem in the semiconductor fabrication process—achievement of a balance between sophisticated functions and low cost. Shipments began in January 2006, and the pad has already been well received by major semiconductor manufacturers.



OUTLOOK

By early 2005, the market for products in electronics-related industries had recovered, with manufacturers recording steady growth in unit shipments of such items as FPDs and cellular phones. However, significant price reductions for major products are ongoing and pressure to lower costs of materials and components are increasing.

In light of this situation, we will endeavor to increase sales in two main product areas: display-related materials, such as FPD-use film and processing components, and materials for electronic parts, semiconductors and circuits, including two-layer circuit materials used in chip-on-film (COF) substrates. On the price front, we will seek to minimize pressure for price reductions by emphasizing the development of processed films, which generates high added value, while also increasing sales of new products that differentiate us from our competitors. Based on the above measures, we forecast growth in revenue and earnings for this segment in the fiscal year ending March 2007.



Carbon Fiber Composite Materials

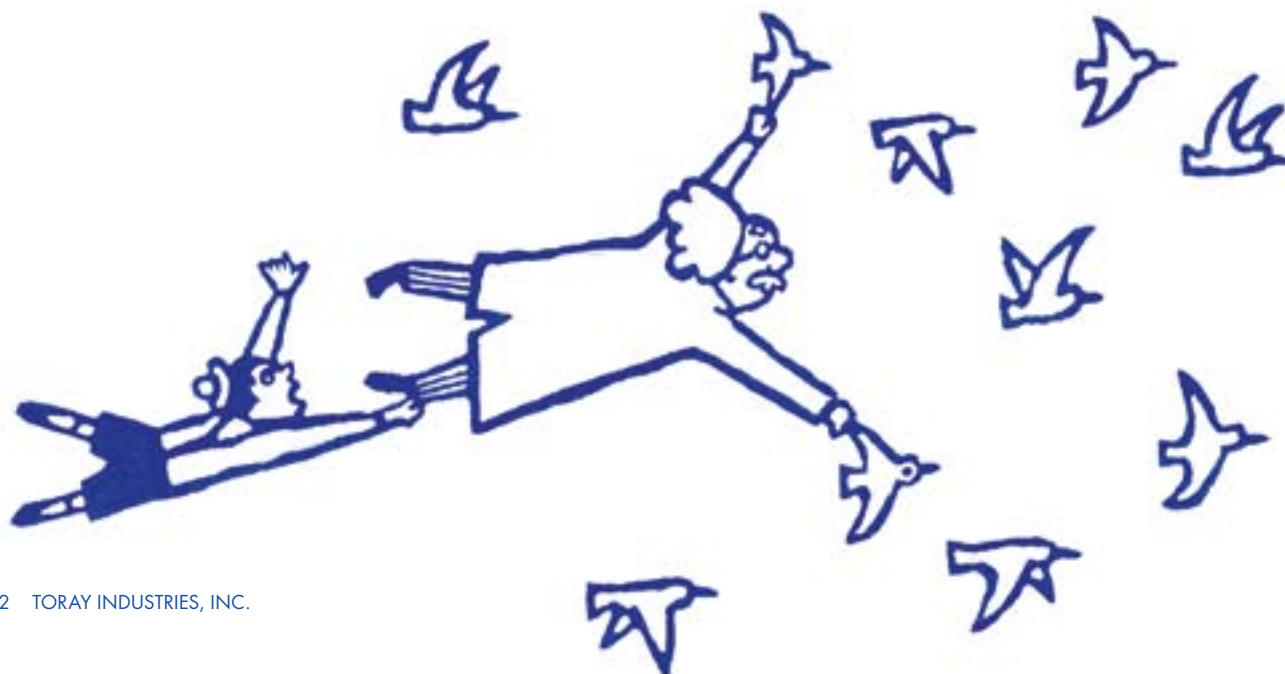
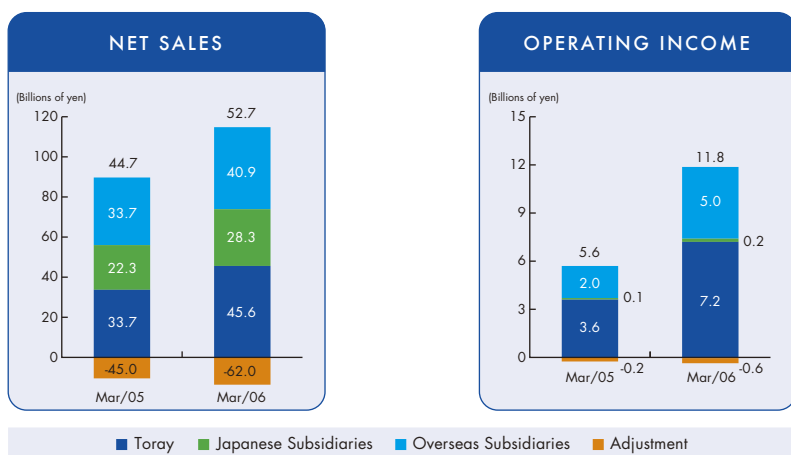
Sales of carbon fiber Torayca* expanded steadily buoyed by growth in aircraft applications and a rapid rise in sports applications for high-end bicycles in addition to golf club shaft applications. Sales also increased for industrial applications such as CNG tanks for natural gas vehicles, windmill blades for wind-power generation and civil engineering. Sales of carbon fiber molded products (composites) also grew robustly in IT-related fields for such products as computer chassis and industrial machinery.

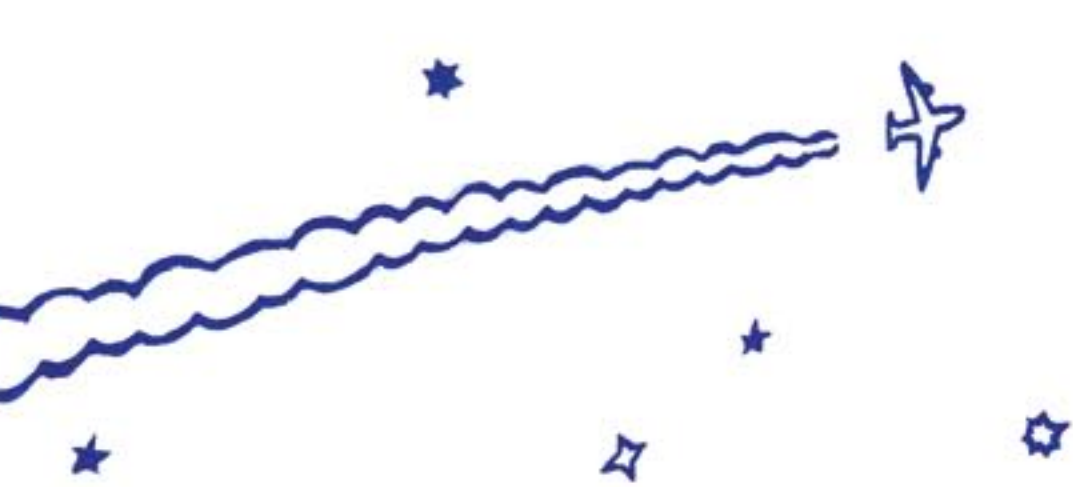
TOPICS

Comprehensive Agreement for Long-Term Supply of Carbon Fiber Composite Materials for Boeing's B787 Aircraft

In April 2006, Toray announced a formal agreement with Boeing Co. to supply carbon fiber composite materials for that company's B787, a next-generation medium-sized passenger aircraft scheduled to enter service in 2008. Under the agreement, we will supply materials to Boeing over the next 16 years, until 2021, with an option of an additional five years. In light of the agreement, we estimate that orders for our prepreg products will reach US\$6 billion (around ¥700 billion).

Back in May 2004, we signed a basic supply agreement with Boeing for the long-term supply of carbon fiber unidirectional (UD) prepreg for the B787's wings and tail assembly. The recent comprehensive agreement is for the additional supply of carbon fiber cloth prepreg for use in the fuselage, and the agreement also contains detailed supply conditions.





Carbon fiber composite materials are estimated to account for around half the structural materials used in the B787 fuselage in terms of weight. The combined weight of primary and secondary structural materials is expected to total around 30 tons.

Boeing first used Toray's *Torayca** high-strength carbon fiber as a secondary structural material in the mid-1970s. Since 1992, Boeing has used our *Torayca** prepreg, a sheet-form carbon fiber impregnated with a tough epoxy resin, as a primary structural material for the tail assembly and floor beams of its B777. The recent agreement to supply materials for the wings and fuselage means that nearly all structural materials in the aircraft will be carbon fiber composite materials, signifying a dramatic increase in the use of such materials compared with conventional aircraft. Our recent agreement further cements the strong partnership between Toray and Boeing, which will continue to strengthen as we work together for many years to come.

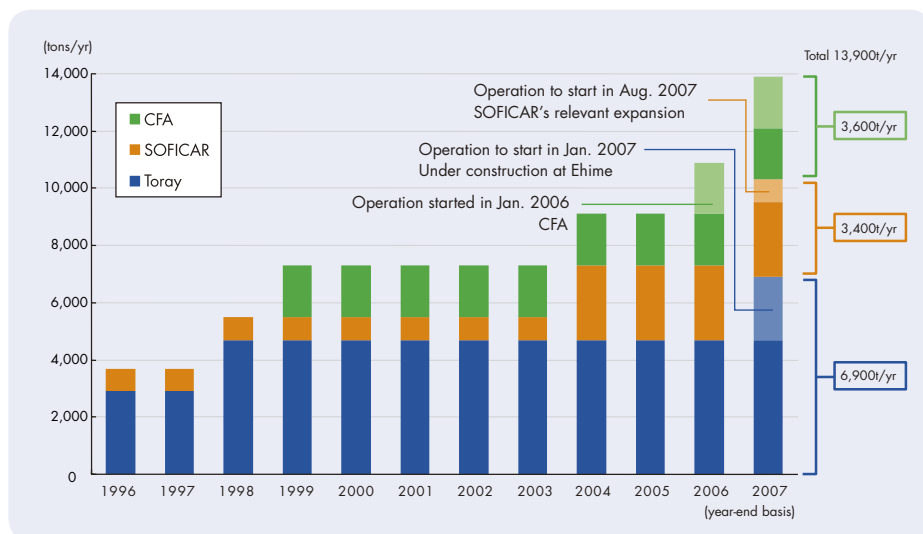
Increased Production of *Torayca** PAN-based Carbon Fiber in Europe

Toray has decided to expand production capacity for its *Torayca** polyacrylonitrile-based (PAN-based) carbon fiber in Europe, in response to anticipated medium- to long-term growth in demand for carbon fiber composite materials. We will build an additional carbonization line with annual capacity of 800 tons at Société des Fibres de Carbone S.A. (SOFICAR), our carbon fiber production and sales subsidiary in Abidos, France. The new facility is scheduled to start operation in August 2007. We will invest around ¥8.0 billion in this business, which will include expanding the capacity of the PAN precursor production facility at our Ehime Plant in Japan. Once the expansion project is completed, SOFICAR will raise its carbon fiber production capacity from the current level of 2,600 tons per year to 3,400 tons, bringing Toray's total annual capacity to 13,900 tons in August 2007.

OUTLOOK

Demand for carbon fiber, primarily for use in aircraft and industrial applications, is forecast to continue growing steadily. With large shipments of materials for the B787 scheduled to start in 2006, we expect this increase in demand to place continued current supply-demand situation.

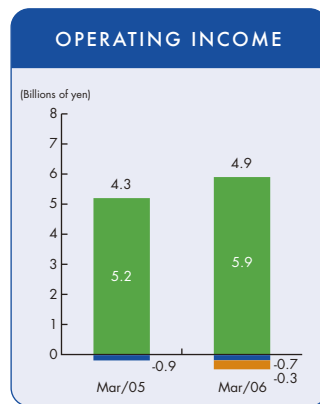
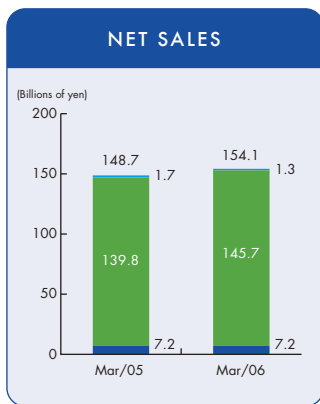
In the year ahead, we predict that earnings will be affected by increased depreciation and other costs associated with establishing the additional line at our Ehime Plant, which is scheduled to start production in January 2007. However, we forecast an increase in revenue and earnings in this segment, thanks largely to expanded production and sales by Toray Carbon Fibers America, Inc. (CFA), which began operating new production lines in January 2006.





Environment & Engineering

In water treatment businesses, sales increased thanks to the robust growth in exports of Toray's reverse osmosis (RO) membrane element *Romembra** to South Korea and China, coupled with the start of full-scale sales of microfiltration modules installed with a hollow-fiber membrane. Moreover, the impact of the addition of Suido Kiko Kaisha, Ltd., as a consolidated subsidiary in the latter half of the previous term also helped sales growth in the Environment and Engineering segment.



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment





TOPICS

Toray's "High-Performance Seawater Desalination RO Membrane for Boron Removal" Used in the Largest Desalination Plant in the Pacific Rim

In September 2005, the seawater desalination plant in Tuas, Singapore, began operation, using Toray's recently developed "high-performance RO membrane elements for boron removal." The plant, which has a processing capacity of 136,000 cubic meters per day, was built by Hydrochem (S) Pte Ltd., a Singapore construction company.

Previously, the predominant method for producing freshwater from seawater has been the evaporation method, used primarily in the Middle East, whereby seawater is heated and evaporated to condense and collect freshwater. However, in recent years, seawater desalination using RO membranes has been gaining popularity around the world thanks to its outstanding economic advantages. The Singapore government also selected this method to obtain water for everyday use. Its plant, situated in an industrial estate in the Tuas region and also home to numerous Japanese companies, has a daily production capacity of 136,000 cubic meters, the largest of any desalination plant in the Asia-Pacific region. The facility supplies more than 10% of Singapore's total water consumption or 20% of the water required for everyday use.

In 2000, Saudi Arabia adopted Toray's RO membrane method at its desalination plant in the Arabian Gulf. The successful

adoption of Toray's product in the Middle East is significant because of the region's reputation as the most difficult in the world in terms of desalination. In 2003, our "low-fouling RO membrane" method, developed to purify wastewater and featuring reduced clogging, was adopted by the world's largest water-processing plant, located in Kuwait. The plant has a daily processing capacity of 310,000 cubic meters. Since then, this membrane element has been increasingly used to purify wastewater. Another example is the Seletar plant in Singapore, which adopted this method in June 2003. Hydrochem, which was contracted to build the Tuas desalination plant, selected Toray's RO membrane because of its superior performance and durability.



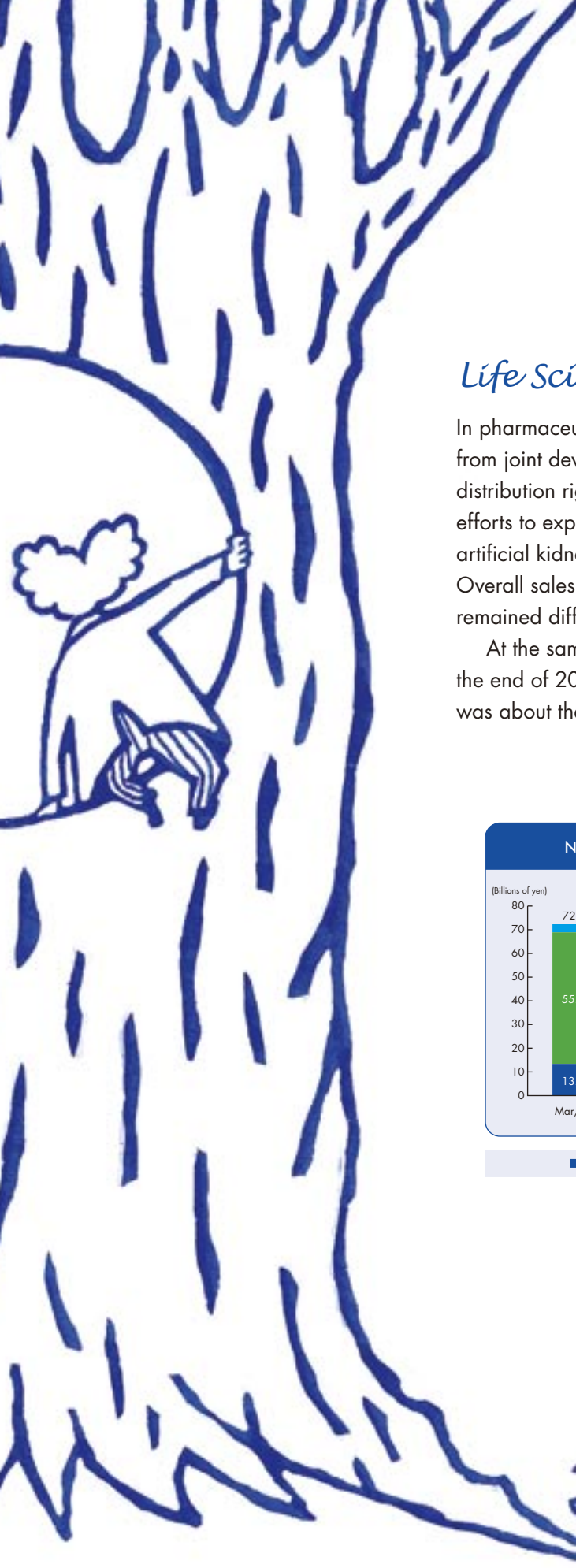
*Inside of Tuas Seawater Desalination Plant
The Desalination Plant in Singapore built by Hydrochem*

OUTLOOK

Demand for membranes used in processing water is rising steadily, mainly due to water shortages, water quality problems and increasingly stringent environmental regulations. In Japan, however, the environment and engineering business faces challenging times as demand from government-funded water processing engineering projects weakens.

Under these circumstances, Toray is expanding sales of the membranes used in water processing through its global marketing system, centering on Europe, the United States and China. In Japan, where the business climate remains harsh, we will continue striving to reduce costs at our domestic subsidiaries.

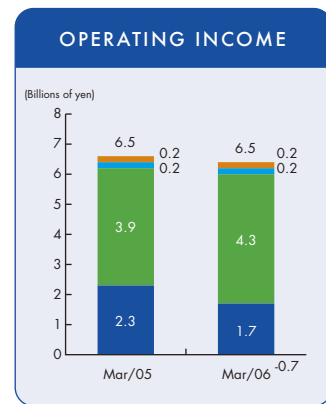
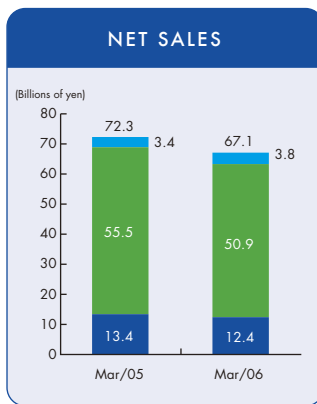
In addition, we plan to reinforce business constitution in areas besides our water processing business. As a result, we project growth in revenue and earnings for the segment in FY Mar/07.



Life Science & Other Businesses

In pharmaceuticals and medical products, Toray received compensation revenue from joint development agreements with other companies and the licensing of distribution rights of innovative treatments such as an antipruritic drug, and made efforts to expand sales of the cardiovascular drug *Dorner*,* the *Toraysulfone** artificial kidneys and the extracorporeal blood purification column *Toraymyxin*.* Overall sales of the business, however, declined as the market environment remained difficult.

At the same time, the company's withdrawal from the hotel business toward the end of 2004 contributed to a decline in net sales while operating income was about the same level as in the previous term.



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

TOPICS

Toray developed on New DNA Product, Aiming for De Facto Standard with Commercialization of High-performance DNA Chips

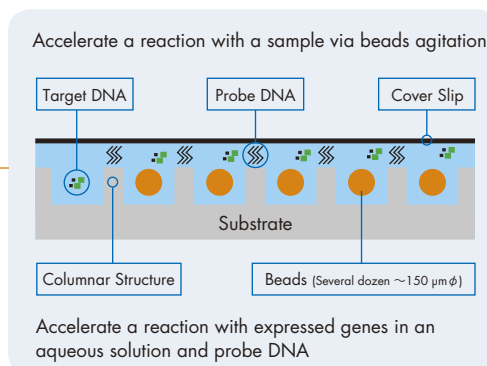
Toray is currently conducting development of new DNA Product, with the aim of developing high-performance DNA microarrays. The research project of high-performance DNA microarray substrate developed by Toray with advanced synthesis.

The development has already contributed to the market launch of a microarray with a new genome-wide DNA microarray with an entire set of yeast genes (about 6,000) in April 2006. Toray plans to expand the DNA microarray business for research use by introducing a genome-wide DNA microarray with 10,000–30,000 human genes.

Next-generation DNA microarrays



In addition, Toray plans to develop and introduce DNA microarrays in two years for testing and diagnostic applications—targeting cancers and other lifestyle-related diseases. This development work will fully utilize the high reproducibility and quantitiveness of Toray's high-performance DNA microarray substrate, as well as the findings of research on disease-related genes conducted with universities and government-funded research organizations. The DNA microarray market is expected to generate more than ¥100 billion in sales in 10 years.



OUTLOOK

The domestic business environment for medical products remains tough amid intense competition caused by lower reimbursement prices for pharmaceuticals. However, we will expand sales of our natural interferon-beta preparation *Feron*,* which has proven beneficial in the treatment of compensated hepatitis C virus-related cirrhosis. In the medical products field, we have launched a moist type of our polysulfone membrane artificial kidneys *Toraylight*.*

As a result, we forecast an increase in sales and profits for pharmaceuticals and medical products. For this reason, we anticipate higher revenue and earnings for the segment.

Innovation



Research & Development

In FY 2005, consolidated R&D expenditures amounted to ¥39.7 billion, or 4.3% of consolidated net sales based on results excluding that of the trading companies. Non-consolidated R&D expenditures totaled ¥32.6 billion.

In FY 2006, we plan to increase consolidated R&D expenditures to ¥42.0 billion. We will also continue to participate in government-sponsored research projects.

The expansion of the advanced materials business is a major piece of IT-2010, Toray's mid-term business strategies. R&D also represents an important part of our business strategy under the initiative. To that end, we will focus on the (1) swift commercialization of Advanced Materials Projects and (2) intensive allocation of management resources to 40 top-priority R&D themes (APEX 40).

Research & Development

APEX 40 Top-Priority R&D Themes



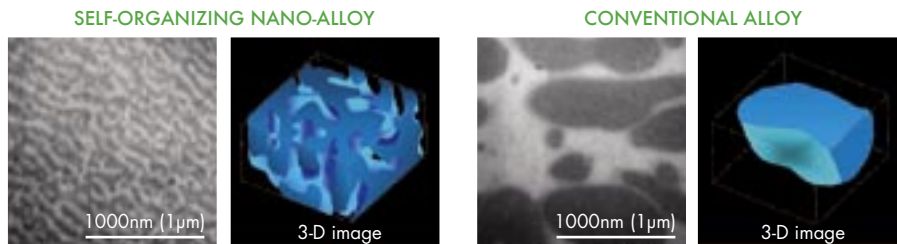
BUSINESS CATEGORY	NEW MATERIALS INNOVATION	NANO-INNOVATION	PROCESS INNOVATION	
FOUNDATION BUSINESSES Fibers & Textiles Plastics & Chemicals	Innovative flame-retardant materials (e.g., revolutionary flame-retardant fibers)	Next-generation engineering plastics (e.g., nano-alloy)	Melt spinning cellulose fibers	
	Non-petrochemical-material products (e.g., highly flame-retardant PLA)	Nano-materials (e.g., CNT)	Innovative film manufacturing processing (e.g., nano-layer films)	
STRATEGICALLY EXPANDING BUSINESSES IT-related Products Carbon Fiber Composite Materials	Display materials/devices (e.g., OEL luminant materials, optical films)		Innovative film forming	
	Semiconductor-related materials (e.g., new CMP polishing pads)	Innovative coating materials	Next-generation circuit forming (e.g., high-density flexible circuit boards)	
	Next-generation composite materials	High-performance prepregs	Innovative composite materials forming (e.g., automobile structure material)	
STRATEGICALLY DEVELOPING BUSINESSES Life Science Environment /Energy	NEW MATERIALS INNOVATION New applications [new efficacy/new dosage form] New drugs (e.g., curative drug for urinary incontinence)	NANO-INNOVATION Innovative treatments (e.g., DDS, cancer immunotherapy)	BIO-INNOVATION Bio-tool (e.g., DNA chip)	PROCESS INNOVATION Lab-on-a-chip
	Energy-related materials (e.g., materials for fuel cells)	Water treatment separation membranes (e.g., high boron-rejection membranes)	Innovative bio-processing	
BASIC RESEARCH	Photoelectric conversion materials (e.g., organic semiconductors)	Nano-fabrication	Genomic analysis Drug discovery	Innovative polymerization process

Advanced Plastics Materials Developed Using Revolutionary Nano-Alloy Technology

Toray has succeeded in alloying two different plastics in a way that satisfies the best properties of each. This method was developed using our innovative nano-alloy technology to create a self-organizing nano-alloy. This development opens the way to create completely new advanced plastics materials that cannot be achieved by conventional technology. Because this new nano-alloy technology can be applied to a variety of plastics, it will become a key technology in the development of next-generation innovative engineering plastics.

When we applied the technology to a polycarbonate resin and a polybutylene terephthalate (PBT) resin, a characteristic co-continuous, nano-scale structure was formed with a broad range of compositions. By precisely controlling the crystallization in the structure, we were able to refine new materials with dramatically improved properties, such as transparent appearance and chemical resistance, impact resistance and wet heat resistance. We have started marketing these superior materials for use in injection molding applications in automobile parts, as well as electrical and electronic components. We are currently developing new applications, such as transparent sheets and films.

Succeeded in creating stable co-continuous structure at a few nano-meters size (1/1000 of conventional size)



	SELF-ORGANIZING NANO-ALLOY	CONVENTIONAL ALLOY	PBT RESIN	PC RESIN
High-speed puncture property	○	×	×	○
Chemical resistance	○	×	○	×
Flowability	○	○	○	×
Heat resistance	○	○	×	○
Rigidity	○	○	○	○
Transparency* Light transmission (%)	○	×	×	○

* 1mm thickness injection molded plate

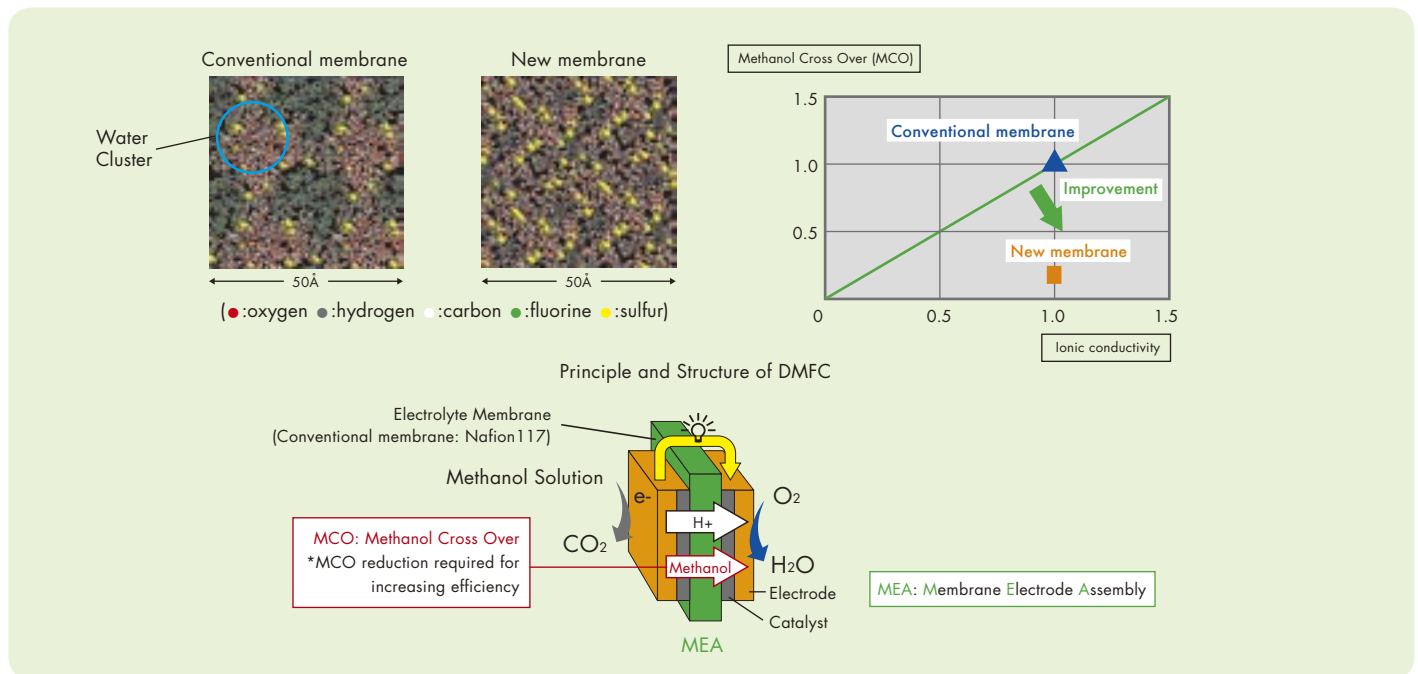
Development of Direct Methanol Fuel Cells

Toray has made a breakthrough in direct methanol fuel cell (DMFC¹) technologies. Specifically, we enhanced the performance of the polymer electrolyte membrane, which is the key components of DMFCs, and the membrane electrode assembly (MEA²), which uses the polymer electrolyte membrane, to a practical application level. Significantly, this is the first time in the world that a hydrocarbon-type membrane has suppressed methanol cross-over (MCO³) to less than one-10th the level achieved by conventional

fluorine-type membranes, while maintaining the equivalent conductance. Furthermore, we greatly improved the power generation capability of the MEA under high temperatures and high methanol concentrations—conditions that facilitate high energy density.

Toray expects the new technology to make a significant contribution to the downsizing of portable electronic devices, such as laptop computers and cellular phones, while extending operation time. In addition to stepping up our business in these fields, we plan to apply this technology to the development of an electrolyte membrane for automobiles.

Direct Methanol Fuel Cell (DMFC)



Notes:

1. Direct methanol fuel cell (DMFC): The overall system of a DMFC is more compact, lighter and more portable than the hydrogen-fueled polymer electrolyte fuel cells that are currently used in automotive and household applications.
2. Membrane electrode assembly (MEA): The MEA is the main component that generates power in a fuel cell. It consists of electrolyte membranes sandwiched between anodes (for fuel) and cathodes (for air).
3. Methanol cross-over (MCO): MCO leads to the waste of fuel when methanol not used for power generation is lost, and also causes heat generation and lower power generation.

Note: Toray was commissioned to conduct this research by Japan's New Energy and Industrial Technology Development Organization (NEDO).

Corporate Governance and CSR

Toray Group Governance Framework

Toray Group established a governance framework based on its Management Philosophy to manage its operations on a global basis.

Business Execution by the Board of Directors, the Board of Managing Directors, and the Executive Committee

Toray's Board of Directors is comprised of 30 directors. Toray Group is involved in manufacturing and supplying basic materials to a wide range of industries, and this requires management to make a variety of judgments and decisions based on specialized knowledge of each industry. Consequently, we believe that fulfilling our management responsibilities and enhancing management transparency requires business decision-making, oversight and execution by directors elected by the general stockholders meeting that possess a full knowledge of the Company's business. We therefore do not employ outside directors and have not adopted an operating officer system. However, we have established and rigorously uphold decision-making rules for top management to achieve self-sustaining corporate governance.

In addition, the Executive Committee and the Board of Managing Directors discuss matters of policy and business execution, respectively. They serve as deliberative bodies to enhance the effectiveness of Board of Directors resolutions and presidential approvals. We have also established company-wide cross-cutting committees for each important management theme, and these committees play a supplementary role in business execution in conjunction with the CSR Committee.

Corporate Auditors, the Auditing Department and the Audit Corporation

Our Board of Corporate Auditors is comprised four auditors, including two outside auditors. Outside auditors do not have any business relationships or other interests in Toray Group. All four auditors attend meetings of the Board of Directors, and the Board of Corporate Auditors meets at least once every three months and prepares an Audit Policy and Audit Plan for each fiscal year. In accordance with this policy and plan, auditors hold meetings with all directors, including the president, and with division and department managers, conduct regular audits at offices, plants, and Japanese and overseas subsidiaries and affiliates, and oversee directors in the performance of their duties.

At the request of our corporate auditors, we established a new framework to support the effective execution of audits, and in May 2006 we appointed full-time staff to work in this area.

The Auditing Department conducts internal audits, including at subsidiaries and affiliates. It also supports audits undertaken by our corporate auditors when requested.

For accounting audits, we select an outside auditing firm to audit our compliance with the Corporate Law and Securities and Exchange Law.

CSR Initiatives Framework

Toray Group regards corporate social responsibility as one of its most important management issues, on a par with raising profits.

The CSR Committee has overarching control over other company-wide committees, and the CSR Executive Committee, comprised of executives with CSR duties, and the CSR Secretariat, comprised of department managers with CSR duties, are responsible for planning and orienting CSR activities.

We have the CSR and Legal Compliance Committee, renamed from the Legal Compliance Committee, in each division, department, office or plant. These committees serve as the implementation arms of the CSR Committee and are responsible for pursuing CSR activities.

A feature of the Toray Group's CSR promotion initiatives is its CSR Line Activities, a unique system focusing on actual workplace practices, with participation from all employees. Drawing from the CSR Guidelines and the CSR Action Plan, we set CSR challenges based on our understanding of the various stakeholders of each workplace unit. We then get PDCA cycles under way.

In the year under review, we appointed and trained CSR Promotion Leaders and other key persons to all of Toray's workplaces, including those of some domestic subsidiaries. Having thus completed formulation of CSR challenges for each workplace unit, we then commenced activities aimed at meeting those challenges.

Toray Group CSR Guidelines and Action Program

Toray Group's CSR Guidelines were formulated in December 2004, following checks and reviews of all items in Nippon Keidanren's Charter of Corporate Behavior, which was revised in May 2004, and analyses of the results. At the same time, we created the Guidelines and Action Programs for Toray Group. These contain

behavioral guidelines and action programs for the CSR activities of Toray Group. Designed to facilitate sustained economic activities in Japan and overseas, as well as to contribute in a proactive way to the creation of a sustainable society, the Guidelines and Action Programs for the Toray Group have since been revised twice, in June 2005 and March 2006.

Toray Group CSR Activities

All members of Toray Group share the basic policies outlined in our Corporate Philosophy, Corporate Missions, and Corporate Guiding Principles. Group members adhere to the CSR Guidelines and the CSR Action Programs, and the Group is united in its commitment to pursuing CSR initiatives in the future.

CSR Guidelines

(Adopted December 2004 and revised June 2005)

1. Basic policy and Enhance corporate governance and management transparency
2. Uphold corporate ethics and comply with laws and regulations
3. Emphasize safety, accident prevention and environmental preservation
4. Ensure product safety and quality
5. Perform risk management
6. Promote dialogue with stakeholders
7. Step up environmental and recycling efforts
8. Secure and train personnel and promote human rights
9. Cooperate with suppliers in their environmental and social initiatives
10. Pursue social initiatives

Toray Group also issues CSR report separately. If you need further information about Toray's CSR activities, please contact with IR Department.

Board of Directors and Corporate Auditors (As of June 28, 2006)



President, Chief Executive Officer,
Chief Operating Officer and
Representative Director
Sadayuki Sakakibara

Executive Vice Presidents
and Representative Directors
Akikazu Shimomura
Hiroaki Kobayashi
Satoru Masuzaki

Senior Managing Director
and Representative Director
Chiaki Tanaka

Senior Managing Directors
Motoo Yoshikawa
Yukihiro Sugimoto
Osamu Nakatani
Akihiro Nikkaku

Managing Directors
Masayoshi Kamiura
Junichi Fujikawa
Eizo Tanaka
Kouzo Nagai
Ginjiro Ishii
Norihiko Saitou
Kazuhiro Maruyama
Shinichi Koizumi

Directors

Hideyasu Okawara
Kazushi Hashimoto
Akira Karasawa
Toshiyuki Takeda
Kenichiro Oka
Kiyoshi Fukuchi
Akira Uchida
Yoshiyuki Inamoto
Koichi Abe
Takeo Togano
Toshiyuki Asakura
Nobuo Suzui
Moriyuki Onishi

Corporate Auditors

Motonori Nishida
Hiroshi Otani
Keno Yamamoto
Ichiro Sakai

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Management's Discussion and Analysis

OVERVIEW

During the fiscal year ended March 31, 2006 (FY Mar/06), the world economy was solid overall, despite sharp increases in the prices of raw materials and fuel. The U.S. economy posted the strongest growth among developed countries, even in the face of major hurricanes. Meanwhile, the Asian economies led by China, continued to post high growth. In Europe, the economies showed a modest recovery in general, although economic conditions varied from country to country. The Japanese economy staged a clear recovery following the completion of inventory adjustments in IT-related sectors in mid-2005. The domestic economy has continued to expand, maintaining a good balance between internal and external demand and solid performance in the industrial and household sectors.

Amid these conditions, Toray ("the Company") and its Group Companies worked hard to expand business and increase earnings by reinforcing the corporate foundation and pursuing structural reforms under Project NT-II, its mid-term management reform program launched in April 2004. As a result of these efforts, revenue and earnings increased year-on-year. For the second consecutive period, Toray Group posted record high figures for net sales, operating income and income before special credits and charges. Net income was a record high for the first time in 16 years.

INCOME ANALYSIS

In the year under review, the Company changed its business segments to more accurately illustrate the status of its businesses. "Carbon Fiber Composite Materials" was separated from "New Products and Other

Businesses" to a new segment to reflect the expansion of this business. Although the "Pharmaceuticals and Medical Products" segment remains one of the Group's medium- to long-term strategic growth sectors, due to its relatively small size it was merged into the new "Life Science and Other Businesses" segment. In addition, the "Housing and Engineering" segment was renamed "Environment and Engineering" to more appropriately reflect the Group's policy to strategically expand environment-related businesses including water treatment. Comparisons with results for the previous fiscal year are based on results restated in accordance with these changes.

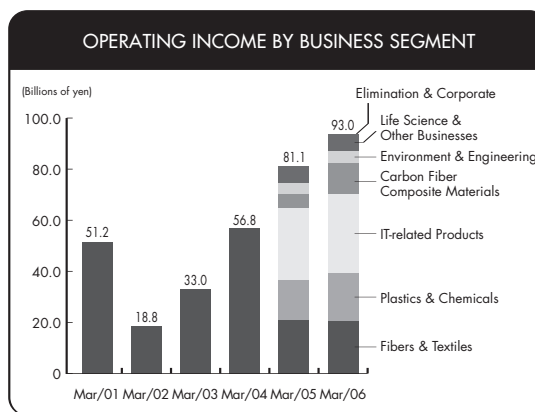
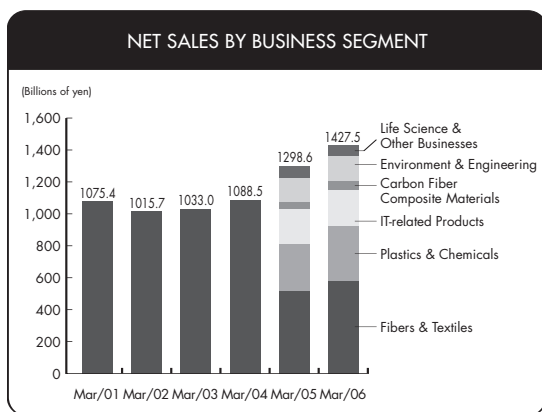
Net Sales

Consolidated net sales in FY Mar/06 amounted to ¥1,427.5 billion, up ¥128.9 billion, or 9.9%, from the previous fiscal year. Sales increased in the Fibers and Textiles, Plastics and Chemicals, IT-related Products, Carbon Fiber Composite Materials, and Environment and Engineering segments, but declined in the Life Science and Other Businesses segment.

Sales by Business Segment

Fibers and Textiles

Total segment sales grew ¥67.2 billion, or 13.1%, to ¥580.5 billion. In Japan, nylon fiber sales grew as a result of sales expansion in new uses and a shift to high value-added products in apparel applications despite the transfer of a part of the business for industrial-use nylon yarns for air bags applications to a subsidiary in Thailand. Sales of *Tetoron** polyester fiber declined due to the effect of inventory adjustments of filament yarn by wholesalers, as well as a slump in demand for spinning applications for staple fibers. By contrast, sales of high-performance fibers and garment businesses increased.



Net sales and operating income by the reclassified business segment are only available for the fiscal years ended March 31, 2005 and 2006.

We recorded a significant increase in domestic sales, owing to the full-year contribution of Chori Co., Ltd., which became a consolidated subsidiary in the second half of the previous fiscal year.

Overseas, sales increased as a result of growth in staple fiber and filament textile businesses in Thailand, filament textile businesses in China and polypropylene spunbond businesses in South Korea.

In response to the sharp increases in raw materials and fuel prices worldwide, we sought to transfer increased costs to sales prices.

Plastics and Chemicals

Total segment sales climbed ¥37.6 billion, or 12.5%, to ¥338.0 billion.

Overall sales in plastics businesses increased thanks to strong growth in sales of *Amilan** nylon resin, *Toraycon** PBT resin, *Torelina** PPS resin and other engineering plastics used mainly in automotive applications. We also recorded robust sales of *Toyolac** ABS resin, both in Japan and overseas.

Overall sales of films businesses increased. Sales of the mainstay *Lumirror** polyester film continued to advance, reflecting factors such as a shift to high value-added products for packaging and industrial applications both in Japan and overseas. Domestic and overseas sales of *Torayfan** polypropylene film also expanded steadily thanks to higher demand in packaging and industrial applications.

Sales in chemicals businesses decreased, due mainly to consolidating the production of caprolactam at the Tokai Plant and reducing low-margin exports.

We responded to the sharp increase in raw materials and fuel prices worldwide by raising sales prices.

IT-related Products

Total segment sales grew ¥15.9 billion, or 7.2%, to ¥235.0 billion.

In IT-related plastics and films businesses, sales increased as a result of efforts to expand sales for applications such as liquid crystal displays (LCDs), cellular phones and digital home electronic appliances.

Sales in electronic materials businesses increased owing to the expansion of circuit materials businesses in South Korea and higher sales of materials used in plasma displays.

In LCD materials businesses, sales declined due to stiff competition in the overseas market for color filters used in LCDs despite their

continued good showing in Japan in various applications.

Sales in IT-related equipments businesses declined due to a downturn in demand for liquid crystal coating equipments, which had been strong in the previous fiscal year.

Carbon Fiber Composite Materials

Total sales in this segment climbed ¥8.0 billion, or 17.9%, to ¥52.7 billion.

Sales of carbon fiber *Torayca** steadily expanded buoyed by growth in aircraft applications and a rapid rise in sports applications for high-end bicycles in addition to golf club shafts. Sales also increased in industrial applications such as CNG tanks for natural gas vehicles, windmill blades for wind-power generation and civil engineering. Sales of carbon fiber molded products (composites) grew robustly in the IT devices field, such as for PC chassis, and in the industrial machinery field.

Environment and Engineering

Total segment sales increased ¥5.5 billion, or 3.7%, to ¥154.1 billion.

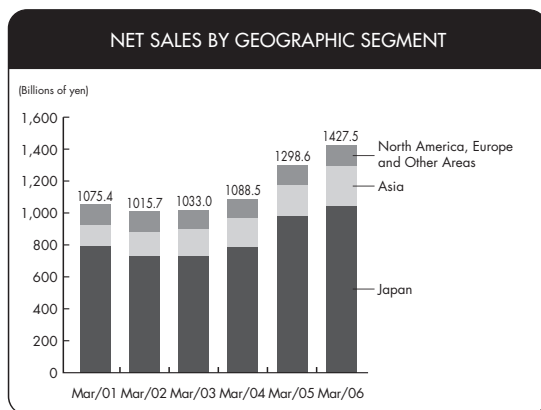
In water treatment businesses, we reported strong exports of *Romembra** reverse-osmosis membrane elements to South Korea and China and commenced sales of ultrafiltration modules with hollow-fiber membranes. The full-year contribution of Suido Kiko Kaisha, Ltd., which became a consolidated subsidiary in the second half of the previous fiscal year, also increased sales in this segment.

Life Science and Other Businesses

Total segment sales declined ¥5.2 billion, or 7.2%, to ¥67.1 billion.

In pharmaceuticals and medical products businesses, we received revenue from joint development agreements with other companies and the licensing of distribution rights for new drugs, including a new antipruritic medication. We also worked hard to expand sales of other products, including *Dorner** a cardiovascular drug, *Toraysulfone** artificial kidneys and *Toraymyxin** a device for treating septicemia by removing endotoxins from the blood. Overall sales of the businesses, however, declined as the market environment remained difficult.

The decline in segment sales also stemmed from the sale of the hotel business at the end of 2004.



Sales by Geographic Segment

Japan

Sales of the Company and its domestic consolidated subsidiaries grew ¥81.7 billion, or 8.5%, to ¥1,043.3 billion as a result of higher sales in fibers and textiles businesses and plastics and chemicals businesses due to the full-year contribution of Chori Co., Ltd., which became a consolidated subsidiary in the second half of the previous fiscal year. The share of this segment in consolidated net sales declined from 74.0% to 73.1%.

Asia

Sales of consolidated subsidiaries in China, Indonesia, Thailand, Malaysia, South Korea and other Asian countries, excluding Japan, climbed ¥34.4 billion, or 16.3%, to ¥245.6 billion. This was attributable to growth in sales of fibers and textiles businesses as well as plastics and films businesses in Southeast Asia, together with expansion of IT-related films and circuit materials businesses in South Korea. Sales of this segment accounted for 17.2% of consolidated net sales, up from 16.3%.

North America, Europe and Other Areas

Sales of consolidated subsidiaries in the U. S., U. K., France, Italy, the Czech Republic and other countries in North America, Europe and other areas grew ¥12.8 billion, or 10.1%, to ¥138.5 billion. This was largely due to favorable growth of carbon fiber composite materials businesses in Europe and the U. S. In films businesses, we shifted to high value-added products and compensated for soaring raw materials and fuel prices by increasing sales prices. The share of this segment to consolidated net sales remained unchanged, at 9.7%.

Export Sales and Sales by Overseas Subsidiaries

Overseas sales, consisting of exports from Japan and sales at overseas subsidiaries, grew ¥49.7 billion, or 9.2%, to ¥589.8 billion. Sales in Asia grew mainly due to the addition of Chori Co., Ltd., which became a consolidated subsidiary in the second half of the previous fiscal year, as well as steady growth in IT-related films businesses and circuit materials businesses in South Korea. Sales in North America, Europe and other areas also increased due to Chori becoming a consolidated

subsidiary. Other contributors included higher sales of carbon fiber composite materials in Europe and the U. S., increases in selling prices in response to the sharply rising prices of raw materials and fuel and a shift to high value-added products in films businesses. Overseas sales accounted for 41.3% of consolidated net sales, edging down 0.3 percentage point year-on-year. Of this, sales in Asia amounted to ¥377.3 billion, or 26.4% of consolidated net sales, while sales in North America, Europe and other areas totaled ¥212.5 billion, or 14.9% of consolidated net sales.

Costs and Expenses

The ratio of total costs and expenses to net sales for the year was 93.5%, down 0.3 percentage point from the previous fiscal year.

Consolidated net sales grew 9.9%, and the cost of sales increased 9.8%. As a result, the cost of sales ratio stayed the same, at 78.8%.

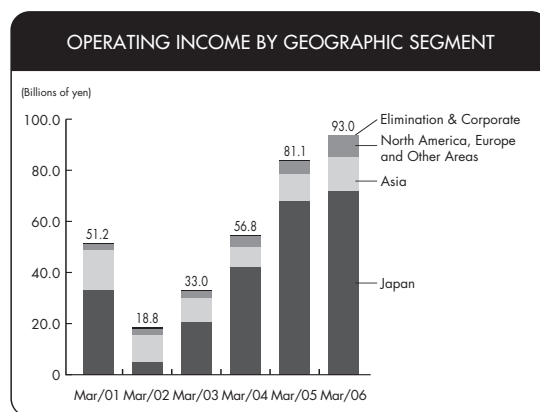
Selling, general and administrative expenses increased ¥15.0 billion, or 9.6%, to ¥172.0 billion. The ratio of selling, general and administrative expenses to net sales remained unchanged, at 12.1%.

Research and development expenses grew ¥1.4 billion, or 3.8%, to ¥38.2 billion.

Operating Income and Net Income

Operating income grew ¥12.0 billion, or 14.8%, to ¥93.0 billion from the previous fiscal year. Operating income to net sales edged up 0.3 percentage point to 6.5%.

Operating income increased in the Plastics and Chemicals, IT-related Products, Carbon Fiber Composite Materials, and Environment and Engineering segments. However, the remaining two segments—Fibers and Textiles and Life Science and Other Businesses—posted declines in operating income. Operating income in the Fibers and Textiles segment declined ¥0.2 billion, or 0.9%, to ¥20.7 billion, due to the impact of soaring raw materials and fuel prices and a decline in plant technology exports. Operating income in the Plastics and Chemicals segment grew ¥2.8 billion, or 18.0%, to ¥18.5 billion largely due to the strong growth of sales in plastics businesses mainly for automotive applications as well as higher sales for industrial materials applications and a shift to high value-added products in films businesses. Operating income in the IT-related Products segment increased ¥3.0 billion, or 10.6%, to ¥31.3



billion, thanks to healthy growth in IT-related plastics and films, circuit materials and materials related to plasma displays. In the Carbon Fiber Composite Materials segment, operating income jumped ¥6.2 billion, or 111.2%, to ¥11.8 billion, owing to stronger sales of high value-added products, mainly for aircraft applications, and an upturn in prices of products for sports and industrial applications. In the Environment and Engineering segment, operating income grew ¥0.6 billion, or 14.6%, to ¥4.9 billion, due to higher sales and structural improvements. In the Life Science and Other Businesses segment, operating income decreased ¥0.02 billion, or 0.2%, to ¥6.5 billion due to intensified competition in pharmaceuticals businesses.

By geographic segment, operating income increased in all segments. In Japan, operating income grew ¥6.0 billion, or 9.1%, to ¥71.8 billion, primarily as a result of higher profit from carbon fiber composite materials and plastics and chemicals businesses. In Asia, operating income climbed ¥3.2 billion, or 31.0%, to ¥13.5 billion. This increase was attributable mainly to growth in fibers and textiles businesses, as well as plastics and films businesses in Southeast Asia. IT-related films and circuit materials businesses in South Korea also contributed. In North America, Europe and other areas, operating income grew ¥3.4 billion, or 66.8%, to ¥8.5 billion largely due to growth in carbon fiber composite materials businesses in Europe and the U. S. and a shift to high value-added products in films businesses.

In net other income (expenses), the Group reported ¥5.4 billion in expenses, up ¥1.1 billion year-on-year. Interest and dividend income rose ¥0.8 billion to ¥2.5 billion, while interest expenses grew ¥0.9 billion to ¥8.0 billion. As a result, net financial expenses increased ¥0.1 billion to ¥5.5 billion. Other income (expenses) other, net, increased ¥1.6 billion to ¥6.2 billion in expenses. Equity in earnings of affiliates grew ¥0.5 billion to ¥6.2 billion.

The Group recorded net special charges of ¥7.3 billion, down ¥16.4 billion from the previous fiscal year due to a decline in the loss on write-down of property, plant and equipment by overseas subsidiaries.

As a result, income before income taxes grew ¥27.2 billion to ¥80.3 billion. Net income rose ¥13.0 billion to ¥47.4 billion, after deducting income taxes and minority interests in net income of consolidated subsidiaries.

Net income per share rose ¥9.26 to ¥33.72. The Company declared a

year-end cash dividend of ¥4.00 per share, taking into account its earnings performance in FY Mar/06 and the outlook for FY Mar/07. Added to the interim cash dividend, this brought the total annual dividend to ¥8.00 per share, up ¥1.00 from the previous year.

FINANCIAL POSITION

Assets

At March 31, 2006, total assets stood at ¥1,537.4 billion, up ¥135.2 billion, or 9.6%, from the end of the previous fiscal year. This was mainly the result of increases in inventories and property, plant and equipment, as well as a rise in marketable equity securities owing mainly to a higher market value of stocks of listed companies. Overseas assets accounted for 27.9% of total assets, up 1.8 percentage points.

Current Assets

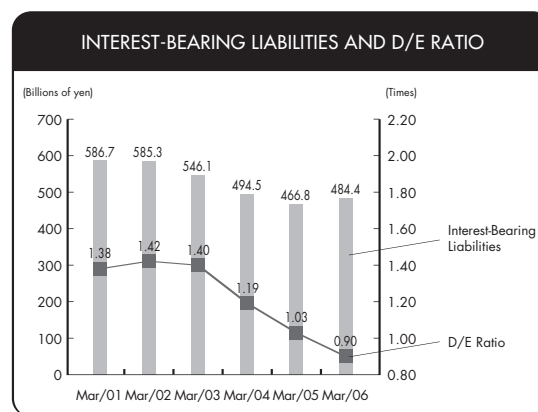
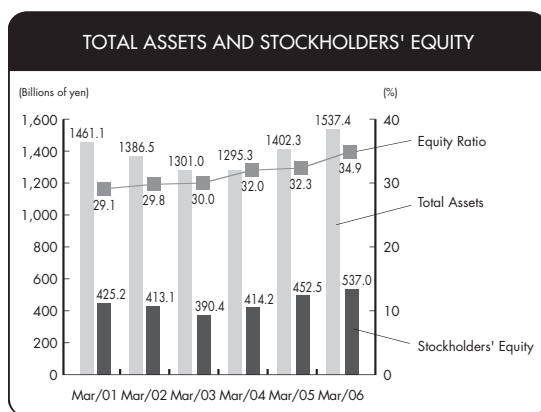
Current assets grew ¥17.9 billion, or 2.8%, to ¥662.3 billion.

Liquid assets, which include cash, time deposits and short-term investment securities, decreased ¥11.8 billion, or 12.0%, to ¥87.0 billion. Trade receivables, representing the total of notes and accounts receivable, increased ¥1.2 billion, or 0.5%, to ¥257.3 billion. Inventories increased ¥30.7 billion, or 13.2%, to ¥264.3 billion.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, increased ¥54.3 billion, or 10.2%, to ¥586.2 billion. Capital expenditures rose ¥31.0 billion, or 42.5%, to ¥104.1 billion, based on the policy of investing selectively in prospective growth areas while streamlining and modernizing production facilities to enhance production efficiency.

In the Fibers and Textiles segment, capital expenditures totaled ¥23.3 billion and included the installation of production facilities for nylon fiber at Thai Toray Synthetics Co., Ltd. In the Plastics and Chemicals segment, capital expenditures amounted to ¥28.1 billion, which included additional polypropylene film production facilities at the Company and additional polyester film production facilities at Penfibre Sdn. Bhd. Capital expenditures in the IT-related Products segment totaled ¥26.7 billion and included additional color filter production



facilities at the Company and additional film processing facilities for electronic circuit applications at Toray Saehan Inc. In the Carbon Fibers Composite Materials segment, capital expenditures totaled ¥20.2 billion, which included additional carbon fiber production facilities at the Company and Toray Carbon Fibers America, Inc. In the Environment and Engineering segment, capital expenditures amounted to ¥2.2 billion, while in the Life Science and Other Businesses segment, capital expenditures totaled ¥5.3 billion.

Liabilities

Total liabilities rose ¥50.3 billion, or 5.6%, to ¥946.7 billion. Main factors were increases in deferred tax liabilities and interest-bearing liabilities.

Total interest-bearing liabilities—consisting of bank loans, long-term debt due within one year, commercial paper and long-term debt—grew ¥17.6 billion, or 3.8%, to ¥484.4 billion.

Stockholders' Equity

Stockholders' equity increased ¥84.5 billion, or 18.7%, to ¥537.0 billion. This was attributable to ¥47.4 billion in net income, ¥10.5 billion in dividends, an increase of ¥28.1 billion in unrealized gains on securities and a decrease of ¥19.9 billion in foreign currency translation adjustment (deduction item).

As a result, stockholders' equity per share rose ¥60.38 to ¥383.42. The equity ratio grew 2.6 percentage points to 34.9%, and the debt/equity ratio improved 0.13 point to 0.90.

CASH FLOWS

In FY Mar/06, net cash used in investing activities exceeded net cash provided by operating activities by ¥9.7 billion. This was mainly due to capital expenditures exceeding depreciation, as well as an increase in purchase of investments in securities. Net cash used in financing activities, such as cash dividends paid, was ¥5.0 billion. As a result, cash and cash equivalents at the fiscal year-end stood at ¥87.0 billion, down ¥11.8 billion from the end of the previous fiscal year.

Cash Flows from Operating Activities

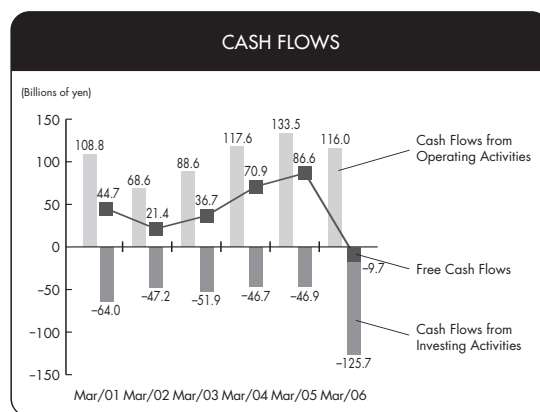
Net cash provided by operating activities amounted to ¥116.0 billion, down ¥17.5 billion from the previous fiscal year. This was due to income before income taxes of ¥80.3 billion, depreciation and amortization of ¥64.3 billion, an increase in inventories of ¥21.3 billion and a decrease in trade payables and accrued liabilities of ¥8.5 billion.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥125.7 billion, up ¥78.8 billion. This stemmed from proceeds from sales and disposal of non-current assets of ¥7.1 billion, capital expenditures of ¥102.0 billion, purchase of investments in securities of ¥24.2 billion and additional acquisition of shares of consolidated subsidiaries of ¥6.6 billion.

Cash Flows from Financing Activities

Net cash used in financing activities was ¥5.0 billion, down ¥62.0 billion. This was the result of an increase in short-term debt of ¥12.0 billion, proceeds from long-term debt of ¥47.5 billion, repayments of long-term debt totaling ¥53.6 billion and cash dividends paid of ¥11.8 billion.



Consolidated Balance Sheets

Toray Industries, Inc. and Subsidiaries
March 31, 2006, 2005 and 2004

Assets	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Current assets:				
Cash	¥ 76,187	¥ 83,353	¥ 73,135	\$ 651,171
Time deposits	9,853	14,428	5,567	84,214
Short-term investment securities (Note 6)	987	1,088	5	8,436
Trade receivables (Note 4):				
Notes receivable	37,433	41,698	32,737	319,940
Accounts receivable	219,912	214,469	184,021	1,879,590
Inventories (Note 3)	264,299	233,562	207,068	2,258,966
Deferred tax assets (Note 9)	18,181	15,814	13,803	155,393
Prepaid expenses and other current assets	37,915	43,214	36,881	324,059
Allowance for doubtful accounts	(2,477)	(3,237)	(4,127)	(21,171)
Total current assets	662,290	644,389	549,090	5,660,598
Property, plant and equipment (Notes 5 and 12):				
Land	77,730	78,954	82,692	664,359
Buildings	422,554	406,712	403,087	3,611,573
Machinery and equipment	1,361,020	1,307,157	1,309,316	11,632,650
Construction in progress	73,996	30,855	23,420	632,444
	1,935,300	1,823,678	1,818,515	16,541,026
Accumulated depreciation	(1,349,085)	(1,291,713)	(1,275,200)	(11,530,641)
	586,215	531,965	543,315	5,010,385
Investments, long-term loans and other assets:				
Affiliates	70,905	64,486	61,882	606,026
Marketable equity securities (Notes 5 and 6)	157,369	102,023	82,283	1,345,034
Other securities (Note 6)	7,592	6,287	4,541	64,889
Long-term loans receivable	2,890	3,010	5,887	24,701
Deferred tax assets (Note 9)	21,491	22,500	24,092	183,684
Other	25,497	27,232	19,466	217,922
Allowance for doubtful accounts	(8,349)	(10,438)	(4,887)	(71,359)
	277,395	215,100	193,264	2,370,897
Intangible assets	11,522	10,810	9,645	98,479
	¥ 1,537,422	¥ 1,402,264	¥ 1,295,314	\$ 13,140,359

See accompanying notes to consolidated financial statements.

Liabilities, Minority Interests and Stockholders' Equity	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Current liabilities:				
Bank loans (Note 5)	¥ 102,438	¥ 138,220	¥ 131,145	\$ 875,538
Long-term debt due within one year (Note 5)	40,566	49,703	59,549	346,718
Commercial paper	55,000	—	21,000	470,085
Trade payables (Note 4) :				
Notes payable	56,164	63,603	35,644	480,034
Accounts payable	152,211	149,898	112,552	1,300,949
Income taxes payable (Note 9)	12,917	10,011	5,641	110,402
Accrued liabilities	50,480	46,999	44,396	431,453
Other current liabilities	68,110	65,279	62,947	582,137
Total current liabilities	537,886	523,713	472,874	4,597,316
Long-term debt (Note 5)	286,407	278,902	282,833	2,447,923
Deferred tax liabilities (Note 9)	33,391	2,826	1,430	285,393
Reserve for employees' retirement benefits (Note 8)	71,221	74,664	72,487	608,727
Customers' guarantee deposits and other liabilities	17,817	16,312	14,046	152,282
	946,722	896,417	843,670	8,091,641
Commitments and contingent liabilities (Note 11)				
Minority interests in consolidated subsidiaries	53,674	53,328	37,397	458,752
Stockholders' equity (Note 10):				
Common stock:				
Authorized—4,000,000,000 shares				
Issued—1,401,481,403 shares	96,937	96,937	96,937	828,521
Capital surplus	85,804	85,800	85,792	733,368
Retained earnings	307,227	270,489	245,267	2,625,872
Unrealized gain on securities	66,886	38,785	29,731	571,675
Foreign currency translation adjustment	(19,125)	(39,031)	(43,326)	(163,462)
	537,729	452,980	414,401	4,595,974
Treasury stock, at cost	(703)	(461)	(154)	(6,008)
Total stockholders' equity	537,026	452,519	414,247	4,589,966
	¥ 1,537,422	¥ 1,402,264	¥ 1,295,314	\$ 13,140,359

Consolidated Statements of Income

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Net sales (Note 4)	¥ 1,427,488	¥ 1,298,606	¥ 1,088,501	\$ 12,200,752
Costs and expenses:				
Cost of sales (Notes 4, 8 and 12)	1,124,233	1,023,665	850,881	9,608,829
Selling, general and administrative expenses (Notes 8 and 12)	172,018	157,011	145,071	1,470,239
Research and development expenses (Notes 8 and 12)	38,194	36,783	35,730	326,445
Amortization of cost in excess of net assets acquired	—	95	27	—
	1,334,445	1,217,554	1,031,709	11,405,513
Operating income	93,043	81,052	56,792	795,239
Other income (expenses):				
Interest expenses	(7,969)	(7,080)	(7,505)	(68,111)
Interest and dividend income	2,514	1,676	1,395	21,487
Equity in earnings of affiliates	6,214	5,697	5,697	53,111
Other, net	(6,152)	(4,545)	(4,777)	(52,581)
	(5,393)	(4,252)	(5,190)	(46,094)
Income before special credits (charges)	87,650	76,800	51,602	749,145
Special credits (charges):				
Loss on sales or disposal of property, plant and equipment, net	(2,540)	(2,348)	(558)	(21,709)
Loss on write-down of property, plant and equipment	—	(13,013)	(4,045)	—
Loss on impairment of fixed assets (Note 1)	(1,741)	—	—	(14,880)
Gain on sales and loss on write-down of investments in securities, net	3,483	190	858	29,769
Loss on liquidation and devaluation of affiliates	(915)	—	—	(7,821)
Special severance payments and other restructuring expenses	(2,004)	(6,050)	(2,748)	(17,128)
Environmental treatment expenses	—	(1,698)	—	—
Loss on transition to defined contribution pension plan (Notes 1 and 8)	(1,410)	—	—	(12,051)
Amortization of net transition obligation due to the change in accounting for retirement benefits in the U.K. (Note 8)	(1,814)	—	—	(15,504)
Other, net	(367)	(769)	(233)	(3,137)
	(7,308)	(23,688)	(6,726)	(62,461)
Income before income taxes	80,342	53,112	44,876	686,684
Income taxes (Note 9):				
Current	17,864	13,043	9,127	152,684
Deferred	10,301	1,890	11,629	88,043
	28,165	14,933	20,756	240,727
Income from consolidated operations	52,177	38,179	24,120	445,957
Minority interests in net income of consolidated subsidiaries	(4,768)	(3,782)	(3,212)	(40,752)
Net income	47,409	34,397	20,908	405,205
		Yen		U.S. dollars (Note 2)
Net income per share (Note 1):				
Primary	¥ 33.72	¥ 24.46	¥ 14.87	\$ 0.288
Fully diluted	—	—	—	—

See accompanying notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of yen			Thousands of U.S. dollars (Note 2)
	2006	2005	2004	2006
Common stock:				
Balance at beginning of year	¥ 96,937	¥ 96,937	¥ 96,937	\$ 828,521
Balance at end of year	¥ 96,937	¥ 96,937	¥ 96,937	\$ 828,521
Capital surplus:				
Balance at beginning of year	¥ 85,800	¥ 85,792	¥ 85,792	\$ 733,334
Gain on sales of treasury stock	4	8	—	34
Balance at end of year	¥ 85,804	¥ 85,800	¥ 85,792	\$ 733,368
Retained earnings:				
Balance at beginning of year	¥ 270,489	¥ 245,267	¥ 231,371	\$ 2,311,872
Net income	47,409	34,397	20,908	405,205
Cash dividends	(10,506)	(9,106)	(7,005)	(89,795)
Bonuses to directors and corporate auditors	(138)	(69)	(7)	(1,179)
Other	(27)	—	—	(231)
Balance at end of year	¥ 307,227	¥ 270,489	¥ 245,267	\$ 2,625,872
Treasury stock, at cost	¥ (703)	¥ (461)	¥ (154)	\$ (6,008)

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

Thousands of
U.S. dollars (Note 2)

	Millions of yen			
	2006	2005	2004	2006
Cash flows from operating activities:				
Income before income taxes	¥ 80,342	¥ 53,112	¥ 44,876	\$ 686,684
Adjustments to reconcile income before income taxes to net cash provided by operating activities:				
Depreciation and amortization	64,322	64,383	68,221	549,761
Loss on impairment of fixed assets	1,741	—	—	14,880
Interest and dividend income	(2,514)	(1,676)	(1,395)	(21,487)
Equity in earnings of affiliates	(6,214)	(5,697)	(5,697)	(53,111)
Interest expenses	7,969	7,080	7,505	68,111
Loss on sales or disposal of property, plant and equipment, net	2,540	2,348	558	21,709
Gain on sales or write-down of investments in securities, net	(3,476)	(128)	(826)	(29,709)
Loss on write-down of property, plant and equipment	—	13,013	4,045	—
Decrease in reserve for employees' retirement benefits	(3,938)	(4,556)	(995)	(33,658)
Decrease (increase) in trade receivables	7,075	17,669	(11,908)	60,470
(Increase) decrease in inventories	(21,264)	(12,830)	3,395	(181,744)
(Decrease) increase in trade payables and accrued liabilities	(8,486)	18,779	8,701	(72,530)
Other, net	6,807	(9,121)	12,912	58,179
Subtotal	124,904	142,376	129,392	1,067,555
Interest and dividend income received	14,087	6,608	4,547	120,402
Interest expenses paid	(7,795)	(6,179)	(7,123)	(66,624)
Income taxes paid	(15,174)	(9,324)	(9,206)	(129,692)
Net cash provided by operating activities	116,022	133,481	117,610	991,641
Cash flows from investing activities:				
Capital expenditures	(102,002)	(65,617)	(51,453)	(871,812)
Purchase of investments in securities	(24,162)	(2,432)	(4,052)	(206,513)
Proceeds from sales and disposal of noncurrent assets	7,080	8,168	6,806	60,513
Acquisition of the shares of newly consolidated subsidiaries	—	9,083	375	—
Additional acquisition of shares of consolidated subsidiaries	(6,636)	—	—	(56,718)
Other, net	45	3,878	1,637	385
Net cash used in investing activities	(125,675)	(46,920)	(46,687)	(1,074,145)
Cash flows from financing activities:				
Increase (decrease) in short-term debt	11,966	(41,904)	(21,852)	102,274
Proceeds from long-term debt	47,495	51,042	44,175	405,940
Repayments of long-term debt	(53,622)	(65,214)	(61,596)	(458,308)
Cash dividends paid	(11,803)	(10,920)	(8,226)	(100,880)
Other, net	939	(73)	814	8,025
Net cash used in financing activities	(5,025)	(67,069)	(46,685)	(42,949)
Effect of exchange rate changes on cash and cash equivalents	2,647	375	(1,308)	22,624
Net (decrease) increase in cash and cash equivalents	(12,031)	19,867	22,930	(102,829)
Cash and cash equivalents at beginning of year	98,739	78,702	55,677	843,923
Beginning of term balance of cash and cash equivalents at subsidiaries not previously included in consolidated financial statements	253	170	95	2,162
Cash and cash equivalents at end of year	¥ 86,961	¥ 98,739	¥ 78,702	\$ 743,256

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Subsidiaries
Years ended March 31, 2006, 2005 and 2004

1. Significant Accounting Policies

a) Basis of Presenting Consolidated Financial Statements

Toray Industries, Inc. (the "Company") and its subsidiaries in Japan have prepared their financial statements in accordance with accounting principles and practices generally accepted in *Japan*.

Overseas subsidiaries have prepared their financial statements in accordance with accounting practices prevailing in their respective domicile countries.

Certain items presented in the original consolidated financial statements in Japanese have been reclassified for the convenience of readers outside Japan.

b) Principles of Consolidation

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

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

Investments in unconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions are eliminated in consolidation. The excess of acquisition costs over net assets acquired is amortized generally over five years on a straight-line basis.

c) Cash and Cash Equivalents

Cash and cash equivalents for the fiscal years ended March 31, 2006 and 2005 include cash, short-term time deposits which may be withdrawn on demand without diminution of principal and highly liquid investments with original maturities of three months or less.

Cash and cash equivalents consisted of:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Cash	¥76,187	¥83,353	\$651,171
Time deposits	9,853	14,428	84,214
Less—Time deposits with maturities of over 3 months	(58)	(104)	(496)
Short-term investment securities and others with maturities of 3 months or less	979	1,062	8,367
Cash and cash equivalents	¥86,961	¥98,739	\$743,256

d) Financial Instruments

Derivatives:

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

Securities:

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

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

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

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

Hedge Accounting:

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

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

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

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

e) Allowance for Doubtful Accounts

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

f) Inventories

Finished goods and work in process are generally stated at average cost.

Raw materials and supplies are generally stated at the lower of average cost or current replacement cost.

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is principally computed by the declining balance method, and depreciation for those of overseas subsidiaries is principally computed by the straight-line method at rates based on estimated useful lives that are as follows:

Buildings	3–60 years
Machinery and equipment	3–15 years

h) Leases

In the Company and its domestic subsidiaries, finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by a method similar to that applicable to ordinary operating leases.

i) Income Taxes

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

j) Retirement Benefits

The Company and its domestic subsidiaries have an unfunded lump-sum benefit plan, a funded contributory pension plan and a defined contribution pension plan covering all eligible employees.

Under the terms of the unfunded lump-sum benefit plan, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to indemnities based on compensation at the time of severance and years of service.

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

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

In October 2005, based on the enforcement of the Defined Contribution Pension Law, the Company and certain of its domestic consolidated subsidiaries transferred a portion of their retirement benefit plan to a defined contribution pension plan and a retirement benefit prepayment plan. As a result of this transfer, "loss on transition to defined contribution pension plan" of ¥1,410 million (\$12,051 thousand) was recorded in special charges for the year ended March 31, 2006 in accordance with "Accounting for the Transfer between Retirement

Benefit Plans" (Financial Accounting Standard Implementation Guidance No. 1 issued by Accounting Standards Board of Japan on January 31, 2002) and "Practical Solution on Accounting for the Transfer between Retirement Benefit Plans" (Report of Practical Treatment No. 2 issued by Accounting Standards Board of Japan on March 29, 2002).

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

k) Appropriation of Retained Earnings

Cash dividends and bonuses to directors and corporate auditors are recorded in the fiscal year when the proposed appropriation of retained earnings is approved by the Board of Directors and/or stockholders.

l) Foreign Currency Transactions

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

m) Translation of Foreign Currency Financial Statements

Translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by using the current exchange rates prevailing at their balance sheet dates, with the exception that the translation of stockholders' equity is made by using historical rates. Revenue and expense accounts are principally translated at the average exchange rates during the year.

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

n) Net Income per Share

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

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

o) Impairment of Fixed Assets

Effective from the year ended March 31, 2006, the Company and its domestic subsidiaries adopted 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 Council on August 9, 2002) and "Implementation Guidance for the Accounting Standard for Impairment of Fixed Assets" (Financial Accounting Standard Implementation Guidance No. 6 issued by Accounting Standards Board of Japan on October 31, 2003). As a result, income before income taxes decreased by ¥1,741 million (\$14,880 thousand).

2. U.S. Dollar Amounts

The Company and its domestic consolidated subsidiaries maintain their accounting records in yen. The U.S. dollar amounts included in the accompanying consolidated financial statements and notes thereto represent the arithmetic results of translating yen into U.S. dollars at the rate of ¥117 to \$1.00, the approximate exchange rate prevailing on

March 31, 2006. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that yen amounts and assets and liabilities that originated in yen have been or could be readily converted, realized or settled in U.S. dollars at this or at any other rate.

3. Inventories

At March 31, 2006 and 2005, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Finished goods and work in process	¥211,209	¥187,356	\$1,805,205
Raw materials and supplies	53,090	46,206	453,761
	¥264,299	¥233,562	\$2,258,966

4. Account Balances and Transactions with Affiliates

Account balances due to/from unconsolidated subsidiaries and affiliated companies at March 31, 2006 and 2005 and transactions for the years then ended with unconsolidated subsidiaries and affiliated companies were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Trade receivables	¥ 4,954	¥ 6,739	\$ 42,342
Trade payables	2,975	3,336	25,427
Sales	¥25,929	¥31,178	\$221,615
Purchases	24,403	25,096	208,573

5. Bank Loans and Long-Term Debt

Bank loans at March 31, 2006 and 2005 represented bank overdrafts and short-term notes. The Company is not required to pay commitment fees on unused balances of the bank overdraft agreements.

Long-term debt at March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Loans principally from banks and insurance companies with interest rates primarily from 0.1188% to 5.9500%, maturing serially through 2015:			
Collateralized	¥ 69	¥ 366	\$ 590
Unsecured	206,904	187,364	1,768,411
Medium-term notes of a consolidated subsidiary with an interest rate of LIBOR+0.35% due 2005	—	375	—
Mortgage bonds with an interest rate of 2.3% due 2006	—	500	—
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	170,940
Yen notes with an interest rate of 2.03% due 2008	10,000	10,000	85,470
Yen notes with an interest rate of 2.00% due 2013	10,000	10,000	85,470
Yen notes with an interest rate of 1.95% due 2009	10,000	10,000	85,470
Yen notes with an interest rate of 1.94% due 2010	10,000	10,000	85,470
Yen notes with an interest rate of 1.93% due 2009	10,000	10,000	85,470
Yen notes with an interest rate of 1.925% due 2005	—	20,000	—
Yen notes with an interest rate of 1.61% due 2013	10,000	10,000	85,470
Yen notes with an interest rate of 1.48% due 2011	20,000	20,000	170,940
Yen notes with an interest rate of 0.60% due 2006	20,000	20,000	170,940
	326,973	328,605	2,794,641
Less amounts due within one year	40,566	49,703	346,718
	¥ 286,407	¥ 278,902	\$2,447,923

At March 31, 2006, assets pledged as collateral for short-term bank loans and collateralized loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Investments in securities at carrying value	¥ 40	\$ 342
Property, plant and equipment, at cost, less accumulated depreciation	6,855	58,590
	¥ 6,895	\$ 58,932

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

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2007	¥ 40,566	\$ 346,718
2008	51,669	441,615
2009	41,784	357,128
2010	43,139	368,710
2011	35,966	307,402
2012 and thereafter	113,849	973,068
	¥ 326,973	\$ 2,794,641

6. Securities

At March 31, 2006 and 2005, the carrying amount and aggregate fair value of the securities classified as held-to-maturity debt securities and other securities for which market quotations were available were as follows:

	Millions of yen							
	2006				2005			
	Cost	Unrealized gains	Unrealized losses	Fair value	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥ 40	¥ —	¥ —	¥ 40	¥ 40	¥ —	¥ —	¥ 40
Other securities	44,838	112,778	287	157,329	36,302	65,941	260	101,983

	Thousands of U.S. dollars			
	2006			
	Cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$ 342	\$ —	\$ —	\$ 342
Other securities	383,231	963,914	2,453	1,344,692

At March 31, 2006 and 2005, the carrying amount of the securities classified as held-to-maturity debt securities and other securities for which market quotations were unavailable were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
	Held-to-maturity debt securities	¥ 26	¥ 30
Other securities	8,545	7,338	73,034

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

The carrying values of the securities by contractual maturities for securities classified as held-to-maturity debt securities and other securities at March 31, 2006 and 2005 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2006		2005		2006	
	Held-to-maturity debt securities	Other securities	Held-to-maturity debt securities	Other securities	Held-to-maturity debt securities	Other securities
Due within one year	¥ 4	¥ —	¥ 4	¥ —	\$ 34	\$ —
Due over one year	62	467	66	20	530	3,991

7. Derivatives

The Company and its subsidiaries had the following derivatives contracts outstanding at March 31, 2006 and 2005:

	Millions of yen					
	2006			2005		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:						
Buying U.S. dollar	¥ 428	¥ 423	¥ (5)	¥ —	¥ —	¥ —
Buying Japanese yen	642	638	(4)	201	212	11
Selling U.S. dollar	3,578	3,522	56	5,926	5,954	(28)
Selling euro	636	636	0	532	532	0
Interest rate swaps:						
Fixed-rate payment, floating-rate receipt	4,500	(40)	(40)	13,000	(216)	(216)

	Thousands of U.S. dollars		
	2006		
	Contract amount	Fair value	Unrealized gain (loss)
Foreign exchange forward contracts:			
Buying U.S. dollar	\$ 3,658	\$ 3,615	\$ (43)
Buying Japanese yen	5,487	5,453	(34)
Selling U.S. dollar	30,581	30,102	479
Selling euro	5,436	5,436	0
Interest rate swaps:			
Fixed-rate payment, floating-rate receipt	38,462	(342)	(342)

8. Retirement Benefit Plan

The reserve for employees' retirement benefits as of March 31, 2006 and 2005 was analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Projected benefit obligations	¥ 247,596	¥ 303,362	\$ 2,116,205
Plan assets	206,657	168,475	1,766,299
	40,939	134,887	349,906
Unrecognized actuarial differences	8,881	63,046	75,906
Unrecognized prior service cost	(39,122)	(2,793)	(334,376)
	71,180	74,634	608,376
Prepaid pension cost	41	30	351
	¥ 71,221	¥ 74,664	\$ 608,727

Net pension expense related to the employees' retirement benefits for the years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Service cost	¥ 7,425	¥ 7,540	\$ 63,462
Interest cost	4,842	7,521	41,385
Expected return on plan assets	(4,904)	(4,835)	(41,915)
Amortization of actuarial differences	5,063	3,115	43,274
Amortization of prior service cost	(2,908)	(236)	(24,855)
Net pension expense	9,518	13,105	81,351
Loss on transition to defined contribution pension plan	1,410	—	12,051
Amortization of net transition obligation due to the change in accounting for retirement benefits in the U.K.	1,814	—	15,504
Other	1,495	—	12,778
	¥ 14,237	¥ 13,105	\$ 121,684

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

	2006	2005
Method of attributing the projected benefits to periods of services	straight-line basis	straight-line basis
Discount rate	primarily 2.0%	primarily 2.0%
Expected rate of return on plan assets	primarily 3.0%	primarily 3.0%
Amortization period of prior service cost	primarily 15 years	primarily 15 years
Amortization period of actuarial differences	primarily 15 years	primarily 15 years

9. Income Taxes

The statutory tax rate used for calculating deferred tax assets and liabilities in the fiscal years ended March 31, 2006 and 2005 was 40.7%.

At March 31, 2006 and 2005, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets:			
Accrued bonuses	¥ 6,537	¥ 6,074	\$ 55,872
Reserve for employees' retirement benefits	29,133	30,132	249,000
Tax loss carryforwards	16,878	26,431	144,256
Unrealized earnings	13,592	11,084	116,171
Other	23,710	23,857	202,649
	89,850	97,578	767,948
Valuation allowance	(15,174)	(14,234)	(129,692)
Total deferred tax assets	74,676	83,344	638,256
Deferred tax liabilities:			
Reserve for advanced depreciation	13,088	13,398	111,863
Depreciation	2,623	2,425	22,419
Undistributed earnings of foreign subsidiaries and affiliates	6,667	4,639	56,983
Unrealized gain on securities	45,720	26,726	390,769
Other	384	941	3,282
Total deferred tax liabilities	68,482	48,129	585,316
Net deferred tax assets	¥ 6,194	¥ 35,215	\$ 52,940

At March 31, 2006 and 2005, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Deferred tax assets - current	¥ 18,181	¥ 15,814	\$ 155,393
Deferred tax assets - non-current	21,491	22,500	183,684
Deferred tax liabilities - current	87	273	744
Deferred tax liabilities - non-current	33,391	2,826	285,393

The reconciliation of the statutory tax rate and the effective income tax rate for the years ended March 31, 2006 and 2005 was as follows:

	2006	2005
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from:		
Permanent differences	0.7	(1.7)
Gains and losses of subsidiaries not utilizing deferred tax accounting	(2.6)	(7.5)
Equity in earnings of affiliates	(3.1)	(4.4)
Other	(0.6)	1.0
Effective income tax rate	35.1%	28.1%

10. Stockholders' Equity

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

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

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

legal reserve does not fall below 25% of common stock.

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

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

At the June 2006 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥4.00 per share, aggregating ¥5,603 million (\$47,889 thousand).

11. Commitments and Contingent Liabilities

At March 31, 2006, commitment line of credit was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥ 3,771	\$ 32,231
Outstanding borrowings	3,019	25,804
Balance	¥ 752	\$ 6,427

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

At March 31, 2006 and 2005, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
As guarantors of loans to:			
Affiliates	¥10,943	¥ 10,011	\$ 93,530
Others	6,769	4,634	57,855
	¥17,712	¥ 14,645	\$151,385
Obligations of guarantee	¥ 16	¥ 28	\$ 137
Notes discounted	¥ 75	¥ 270	\$ 641
Export bills discounted	2,485	2,063	21,239
Buyback obligations associated with securitization of receivables	¥15,722	¥ 11,307	\$134,376

12. Leases

Finance leases

The Group holds certain machinery, equipment and vehicles and other assets (fixtures and tools) by leases. Total lease payments under these leases were ¥2,864 million (\$24,479 thousand) and ¥2,943 million for the fiscal years ended March 31, 2006 and 2005, respectively.

Pro forma information relating to acquisition costs, accumulated

depreciation and future minimum lease payments for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the fiscal years ended March 31, 2006 and 2005 was as follows:

	Millions of yen		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2006:			
Acquisition costs	¥3,991	¥11,804	¥15,795
Accumulated depreciation	1,643	5,662	7,305
Net leased property	¥2,348	¥ 6,142	¥ 8,490

	Millions of yen		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2005:			
Acquisition costs	¥3,832	¥11,828	¥15,660
Accumulated depreciation	1,310	5,187	6,497
Net leased property	¥2,522	¥ 6,641	¥ 9,163

	Thousands of U.S. dollars		
	Machinery, equipment and vehicles	Other (fixtures and tools)	Total
Year ended March 31, 2006:			
Acquisition costs	\$34,111	\$100,889	\$135,000
Accumulated depreciation	14,043	48,393	62,436
Net leased property	\$20,068	\$ 52,496	\$ 72,564

Future minimum lease payments under finance leases as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥ 2,643	¥ 2,795	\$ 22,590
Due over one year	5,847	6,368	49,974
Total	¥ 8,490	¥ 9,163	\$ 72,564

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

Operating leases

Future minimum lease payments under noncancellable operating leases as of March 31, 2006 and 2005 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥1,123	¥ 939	\$ 9,598
Due over one year	6,185	5,923	52,864
Total	¥7,308	¥6,862	\$62,462

13. Segment Information

Results by Business Segment

The Company and its subsidiaries operate principally in six business segments: Fibers and Textiles, Plastics and Chemicals, IT-related (information technology-related) Products, Carbon Fiber Composite Materials, Environment and Engineering and Life Science and Other Businesses.

The Company changed its business segments from this fiscal year to the following.

Carbon Fiber Composite Materials was separated from New Products and Other Businesses to a new segment as the size of the business expanded. The size of Pharmaceuticals and Medical Products business became relatively small and therefore was merged into New Products and Other Businesses and the entire segment was renamed as Life

Science and Other Businesses. Furthermore, Housing and Engineering segment was renamed as Environment and Engineering to reflect the contents of that business more appropriately.

Operations in the Fibers and Textiles segment involve the production and sale of nylon, polyester, acrylic fiber and textile products and synthetic suede. Operations in the Plastics and Chemicals segment involve the production and sale of nylon and ABS resins, polyester and polypropylene films, raw materials for synthetic fibers and fine chemicals (except films and plastic products included in IT-related Products stated below). Operations in the IT-related Products segment involve the production and sale of films and plastic products for information and telecommunication related products, electronic circuits and semiconductor related materials, color filters for LCDs and related

materials and equipment, materials for plasma display panels and graphic materials and related equipment. Operations in the Carbon Fiber Composite Materials segment involve the production and sale of carbon fibers and advanced composite materials. Operations in the Environment and Engineering segment involve construction and plant

engineering services and the manufacturing of industrial equipment and machinery and environmental equipment. Operations in the Life Science and Other Businesses segment involve the production and sale of interferon- β , beraprost sodium drugs and artificial kidneys as well as the provision of services such as analysis and research.

Year ended March 31, 2006:	Millions of yen								Consolidated total
	Fibers and Textiles	Plastics and Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment and Engineering	Life Science and Other Businesses	Total	Elimination and corporate	
Sales to outside customers	¥ 580,549	¥ 337,978	¥ 234,994	¥ 52,714	¥ 154,135	¥ 67,118	¥ 1,427,488	¥ —	¥ 1,427,488
Intersegment sales	647	28,853	7,107	1,034	58,631	16,963	113,235	(113,235)	—
Total sales	¥ 581,196	¥ 366,831	¥ 242,101	¥ 53,748	¥ 212,766	¥ 84,081	¥ 1,540,723	¥ (113,235)	¥ 1,427,488
Operating income	¥ 20,687	¥ 18,484	¥ 31,264	¥ 11,820	¥ 4,920	¥ 6,453	¥ 93,628	¥ (585)	¥ 93,043
Assets	¥ 486,465	¥ 420,098	¥ 298,937	¥ 114,477	¥ 169,894	¥ 107,221	¥ 1,597,092	¥ (59,670)	¥ 1,537,422
Depreciation and amortization	22,541	18,281	14,399	4,613	2,522	2,969	65,325	(881)	64,444
Capital expenditures	23,254	28,112	26,668	20,213	2,163	5,280	105,690	(1,563)	104,127

Year ended March 31, 2005:	Millions of yen							Elimination and corporate	Consolidated total
	Fibers and Textiles	Plastics and Chemicals	IT- related Products	Housing and Engineering	Pharmaceuticals and Medical Products	New Products and Other Businesses	Total		
Sales to outside customers	¥ 513,354	¥ 300,404	¥ 219,142	¥ 148,661	¥ 44,356	¥ 72,689	¥ 1,298,606	¥ —	¥ 1,298,606
Intersegment sales	830	28,421	5,129	40,696	2	17,650	92,728	(92,728)	—
Total sales	¥ 514,184	¥ 328,825	¥ 224,271	¥ 189,357	¥ 44,358	¥ 90,339	¥ 1,391,334	¥ (92,728)	¥ 1,298,606
Operating income	¥ 20,872	¥ 15,658	¥ 28,280	¥ 4,294	¥ 2,852	¥ 9,212	¥ 81,168	¥ (116)	¥ 81,052
Assets	¥ 480,112	¥ 383,932	¥ 239,398	¥ 160,064	¥ 62,263	¥ 132,244	¥ 1,458,013	¥ (55,749)	¥ 1,402,264
Depreciation and amortization	22,446	19,033	13,177	2,571	2,162	5,652	65,041	(753)	64,288
Capital expenditures	22,922	13,701	16,877	4,340	5,105	11,290	74,235	(1,141)	73,094

Year ended March 31, 2006:	Thousands of U.S. dollars								Elimination and corporate	Consolidated total
	Fibers and Textiles	Plastics and Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment and Engineering	Life Science and Other Businesses	Total			
Sales to outside customers	\$ 4,961,957	\$ 2,888,701	\$ 2,008,496	\$ 450,547	\$ 1,317,393	\$ 573,658	\$ 12,200,752	\$ —	\$ 12,200,752	
Intersegment sales	5,530	246,607	60,743	8,838	501,120	144,983	967,821	(967,821)	—	
Total sales	\$ 4,967,487	\$ 3,135,308	\$ 2,069,239	\$ 459,385	\$ 1,818,513	\$ 718,641	\$ 13,168,573	\$ (967,821)	\$ 12,200,752	
Operating income	\$ 176,812	\$ 157,983	\$ 267,213	\$ 101,026	\$ 42,051	\$ 55,154	\$ 800,239	\$ (5,000)	\$ 795,239	
Assets	\$ 4,157,821	\$ 3,590,581	\$ 2,555,017	\$ 978,436	\$ 1,452,085	\$ 916,419	\$ 13,650,359	\$ (510,000)	\$ 13,140,359	
Depreciation and amortization	192,658	156,248	123,068	39,427	21,556	25,376	558,333	(7,530)	550,803	
Capital expenditures	198,752	240,273	227,932	172,761	18,487	45,128	903,333	(13,359)	889,974	

Restated segment information for the year ended March 31, 2005 to conform with the new segmentation was as follows:

Year ended March 31, 2005:	Millions of yen							Elimination and corporate	Consolidated total
	Fibers and Textiles	Plastics and Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment and Engineering	Life Science and Other Businesses	Total		
Sales to outside customers	¥ 513,354	¥ 300,404	¥ 219,142	¥ 44,697	¥ 148,661	¥ 72,348	¥ 1,298,606	¥ —	¥ 1,298,606
Intersegment sales	830	28,421	5,129	446	40,696	16,759	92,281	(92,281)	—
Total sales	¥ 514,184	¥ 328,825	¥ 224,271	¥ 45,143	¥ 189,357	¥ 89,107	¥ 1,390,887	¥ (92,281)	¥ 1,298,606
Operating income	¥ 20,872	¥ 15,658	¥ 28,280	¥ 5,596	¥ 4,294	¥ 6,468	¥ 81,168	¥ (116)	¥ 81,052
Assets	¥ 480,112	¥ 383,932	¥ 239,398	¥ 84,127	¥ 160,064	¥ 111,302	¥ 1,458,935	¥ (56,671)	¥ 1,402,264
Depreciation and amortization	22,446	19,033	13,177	4,308	2,571	3,506	65,041	(753)	64,288
Capital expenditures	22,922	13,701	16,877	9,883	4,340	6,512	74,235	(1,141)	73,094

Results by Geographic Segment

Year ended March 31, 2006:	Millions of yen					
	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
Sales to outside customers	¥ 1,043,325	¥ 245,632	¥ 138,531	¥ 1,427,488	¥ —	¥ 1,427,488
Intersegment sales	108,172	41,404	6,525	156,101	(156,101)	—
Total sales	¥ 1,151,497	¥ 287,036	¥ 145,056	¥ 1,583,589	¥ (156,101)	¥ 1,427,488
Operating income	¥ 71,762	¥ 13,450	¥ 8,510	¥ 93,722	¥ (679)	¥ 93,043
Assets	¥ 1,130,751	¥ 276,986	¥ 159,994	¥ 1,567,731	¥ (30,309)	¥ 1,537,422

Year ended March 31, 2005:	Millions of yen					
Sales to outside customers	¥ 961,633	¥ 211,192	¥ 125,781	¥ 1,298,606	¥ —	¥ 1,298,606
Intersegment sales	81,145	34,161	4,975	120,281	(120,281)	—
Total sales	¥ 1,042,778	¥ 245,353	¥ 130,756	¥ 1,418,887	¥ (120,281)	¥ 1,298,606
Operating income	¥ 65,793	¥ 10,269	¥ 5,103	¥ 81,165	¥ (113)	¥ 81,052
Assets	¥ 1,055,154	¥ 225,510	¥ 146,550	¥ 1,427,214	¥ (24,950)	¥ 1,402,264

Year ended March 31, 2006:	Thousands of U.S. dollars					
	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
Sales to outside customers	\$ 8,917,308	\$ 2,099,419	\$ 1,184,025	\$ 12,200,752	\$ —	\$ 12,200,752
Intersegment sales	924,547	353,880	55,770	1,334,197	(1,334,197)	—
Total sales	\$ 9,841,855	\$ 2,453,299	\$ 1,239,795	\$ 13,534,949	\$ (1,334,197)	\$ 12,200,752
Operating income	\$ 613,350	\$ 114,957	\$ 72,735	\$ 801,042	\$ (5,803)	\$ 795,239
Assets	\$ 9,664,538	\$ 2,367,402	\$ 1,367,470	\$ 13,399,410	\$ (259,051)	\$ 13,140,359

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

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

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

Export Sales and Sales by Overseas Subsidiaries

Year ended March 31, 2006:	Millions of yen		
	Asia	North America, Europe and other areas	Total
Export sales and sales by overseas subsidiaries	¥ 377,306	¥ 212,456	¥ 589,762
Percentage of such sales against consolidated net sales	26.4%	14.9%	41.3%

Year ended March 31, 2005:	Millions of yen		
Export sales and sales by overseas subsidiaries	¥ 357,048	¥ 182,988	¥ 540,036
Percentage of such sales against consolidated net sales	27.5%	14.1%	41.6%

Year ended March 31, 2006:	Thousands of U.S. dollars		
Export sales and sales by overseas subsidiaries	\$ 3,224,838	\$ 1,815,863	\$ 5,040,701

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

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

North America, Europe and other areas: U.S.A., U.K., France, Italy

14. Directors' Interests

None of the Company's directors held a material interest in any contract significant to the Company or its affiliates at any time during the three years in the period ended March 31, 2006. Furthermore, none

of the directors or members of their families held interests of 5% or more in shares of the Company at any time during the three years in the period ended March 31, 2006.

Report of Independent Auditors

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

We have audited the accompanying consolidated balance sheets of Toray Industries, Inc. and its subsidiaries as of March 31, 2006, 2005 and 2004, and the related consolidated statements of income, stockholders' equity, and cash flows for the years then ended, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toray Industries, Inc. and its subsidiaries as of March 31, 2006, 2005 and 2004, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in *Japan*.

As described in Note 1, effective for the year ended March 31, 2006, Toray Industries, Inc. and its domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.

As described in Note 13, effective for the year ended March 31, 2006, Toray Industries, Inc. and its subsidiaries changed their business segment.

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

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers

Tokyo, Japan
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Investor Information (As of March 31, 2006)

COMMON STOCK RANGE	2006		2005	
	HIGH	LOW	HIGH	LOW
First quarter	¥527	¥454	¥528	¥453
Second quarter	619	495	557	480
Third quarter	984	575	526	441
Fourth quarter	1,011	806	502	466

CASH DIVIDENDS PER SHARE	2006	2005
Total for the year	¥8.00	¥7.00
Interim	4.00	3.50

COMPOSITION OF STOCKHOLDERS	PERCENT OF TOTAL	THOUSANDS OF SHARES
The Master Trust Bank of Japan, Ltd.	8.34%	116,942
Japan Trustee Services Bank, Ltd. (Trust Account)	7.27	101,881
Nippon Life Insurance Co.	4.22	59,151
Mitsui Life Insurance Co., Ltd.	3.42	47,948
Japan Trustee Services Bank, Ltd. (Trust 4 Account)	2.19	30,719
Sumitomo Mitsui Banking Corporation	2.14	30,022
State Street Bank and Trust Company 505103	2.09	29,307
The Dai-ichi Mutual Life Insurance Co.	1.89	26,471
Mitsui Sumitomo Insurance Co., Ltd.	1.26	17,620
The Chuo Mitsui Trust and Banking Co., Ltd.	1.08	15,179

Common Stock:

Authorized: 4,000,000,000 shares

Issued: 1,401,481,403 shares

Number of Stockholders: 151,353

Annual General Meeting:

The annual general meeting of stockholders is normally held in June in Tokyo

Listings:

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

Independent Auditors:

Ernst & Young ShinNihon

Transfer Agent:

The Chuo Mitsui Trust and Banking Co., Ltd.
33-1, Shiba 3-chome, Minato-ku,
Tokyo 105-0014, Japan

Corporate Data

Toray Industries, Inc.

Head Office

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

2nd Head Office Building

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

Osaka Head Office

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

Overseas Offices and Branches

New York

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

London

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

Beijing

Toray Industries, Inc., Beijing Office
Beijing Fortune Bldg., No. 917,
5, Dong San Huan Bei-Lu,
Chao Yang District, Beijing 100004, China
Telephone: 86(10)6590-8961~3
Facsimile: 86(10)6590-8964

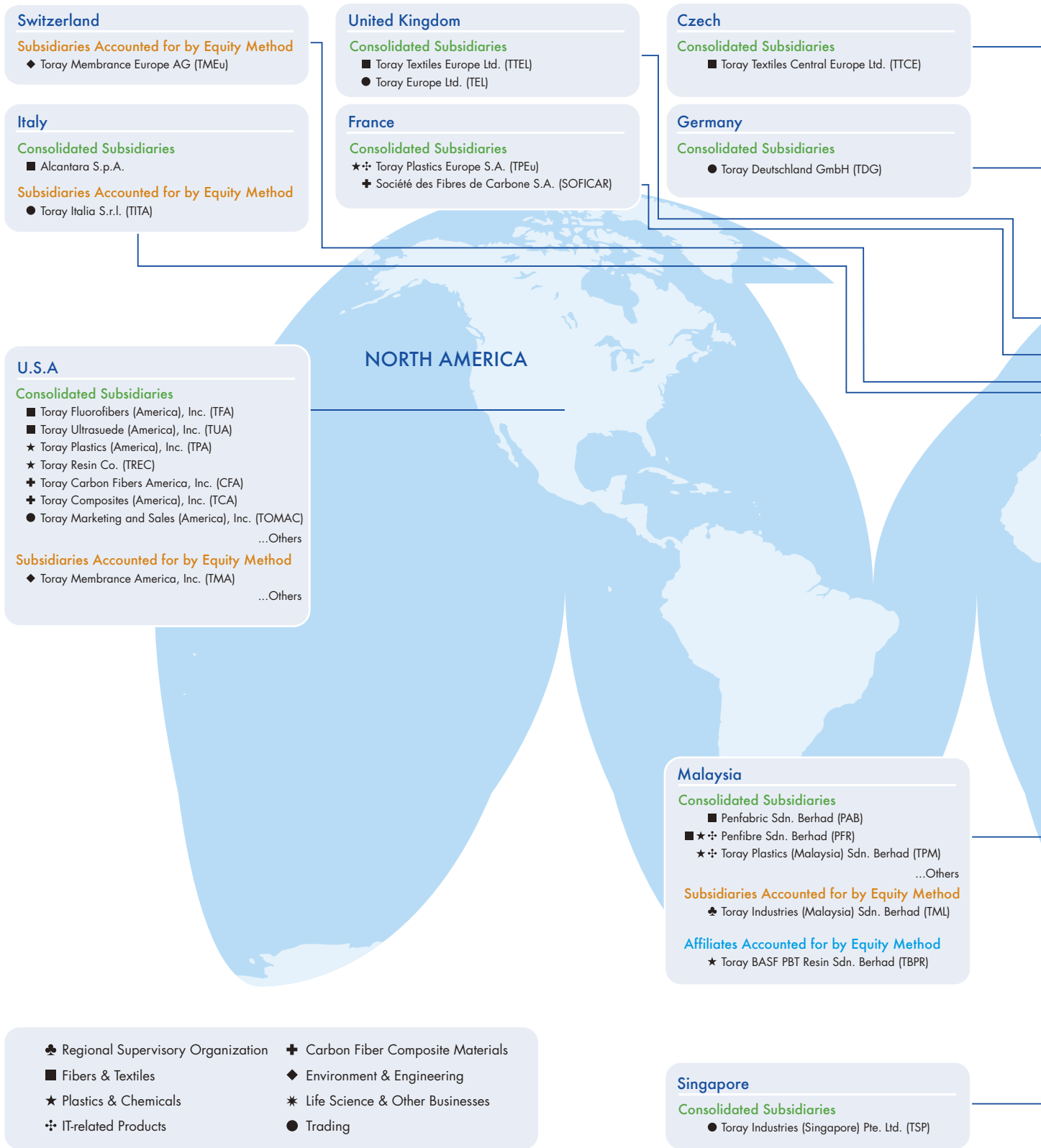
Seoul

Toray Industries, Inc., Seoul Office
14th Fl., Association of Special Post
Offices Bldg., 254-8, Gongdeok-dong,
Mapo-gu, Seoul, 121-710, Korea
Telephone: 82(2)707-0381~2
Facsimile: 82(2)707-0067

Established: January 1926
Paid-in Capital: ¥96,937,230,771
Number of Employees: 34,670
Parent company: 6,595;
Japanese subsidiaries: 9,617;
Overseas subsidiaries: 18,458

For further information,
please contact the Investor Relations
Department
Telephone: +81(3)3245-5113
Facsimile: +81(3)3245-5459
e-mail: ir@nts.toray.co.jp

Toray Group Worldwide Network (As of June 30, 2006)



China

Consolidated Subsidiaries

- ♣ Toray Industries (China) Co., Ltd. (TCH)
- Toray Fibers (Nantong) Co., Ltd. (TFNL)
- Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. (TSD)
- TAL Knits Ltd. (TAK)
- Toray JIFA (Qingdao) Textile Co., Ltd. (TJQ)
- ★♣ Toray Plastics (Shenzhen) Ltd. (TPSZ)
- ★♣ Toray Plastics (Hong Kong) Ltd. (TPHK)
- ★♣ Toray Sanko Precision (Zhongshan) Ltd. (RKZ)
- ★♣ Toray Sanko Precision (Hong Kong) Ltd. (RHK)
- Toray Industries (H.K.) Ltd. (THK)
- Toray Trading (Shanghai) Co., Ltd. (TSL)

...Others

Subsidiaries Accounted for by Equity Method

- ♣ Toray Industries (South China) Co., Ltd. (TSCH)
- ...Others

Affiliates Accounted for by Equity Method

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

Japan

Consolidated Subsidiaries

- Toray Textiles Inc.
- Inami Textiles Inc.
- Toray Coatex Co., Ltd.
- Towa Orimono Co., Ltd.
- Toray Monofilament Co., Ltd.
- Toyo Tire Cord Co., Ltd.
- Ichimura Sangyo, Co., Ltd.
- Marusa Co., Ltd.
- Toray Fishing Corp.
- Toray Diplomode, Inc.
- ★♣ Toray Fine Chemicals Co., Ltd.
- ★♣ Toyo Plastic Seiko Co., Ltd.
- ★ Toray PEF Products Inc.
- ★♣ Toray Advanced Film Co., Ltd.
- ★ Soda Aromatic Co., Ltd.
- ♣ Toray Engineering Co., Ltd.
- ♣ Toray Precision Co., Ltd.
- ♣ Toray Systems Center, Inc.
- ◆ Toray Construction Co., Ltd.
- ◆ Suido Kiko Kaisha, Ltd.
- ◆ Toray ACE Co., Ltd.
- * Toray Medical Co., Ltd.
- * Toray Research Center Inc.
- * Toray Enterprise Corp.
- * Toray Agency Inc.
- * Toyo Jitsugyo Co., Ltd.
- * Toyo Logistics Co., Ltd.
- Toray Ireeve Corp.
- Toray International, Inc.
- Chori Co., Ltd.

...Others

Subsidiaries Accounted for by Equity Method

- * Toray Travel Co., Ltd.
- * Kanto General Service Inc.

Affiliates Accounted for by Equity Method

- ★♣ Du Pont-Toray Co., Ltd.
- Opelontex Co., Ltd.
- ★♣ Dow Corning Toray Co., Ltd.
- ★ Sanyo Chemical Industries, Ltd.
- ♣ Matsushita PDP Co., Ltd.

...Others

EUROPE

ASIA

South Korea

Consolidated Subsidiaries

- ★♣ Toray Saehan Inc. (TSI)
- ♣ STEMCO, Ltd. (STEMCO)

Affiliates Accounted for by Equity Method

- ★ KTP Industries Inc. (KTP)
- ♣ STECO, Ltd. (STECO)

...Others

Chinese Taipei

Subsidiaries Accounted for by Equity Method

- Tong Shing Inc.

Indonesia

Consolidated Subsidiaries

- P.T. Acryl Textile Mills (ACTEM)
- P.T. Century Textile Industry Tbk (CENTEX)
- P.T. Easterntex (ETX)
- P.T. Indonesia Synthetic Textile Mills (ISTEM)
- P.T. Indonesia Toray Synthetics (ITS)

Subsidiaries Accounted for by Equity Method

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

Affiliates Accounted for by Equity Method

- ★ P.T. Petnesia Resindo (PNR)

...Others

Thailand

Consolidated Subsidiaries

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

Subsidiaries Accounted for by Equity Method

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

Affiliates Accounted for by Equity Method

- ★ Thai PET Resin Co., Ltd. (TPRC)

Consolidated Subsidiaries	Japan	67
	Overseas	71
	Total	138
Subsidiaries Accounted for by Equity Method	Japan	38
	Overseas	21
	Total	59
Total Subsidiaries	Japan	105
	Overseas	92
	Total	197
Affiliates Accounted for by Equity Method	Japan	17
	Overseas	24
	Total	41
Companies Subject to Consolidation	Japan	122
	Overseas	116
	Total	238

As of March 31, 2006



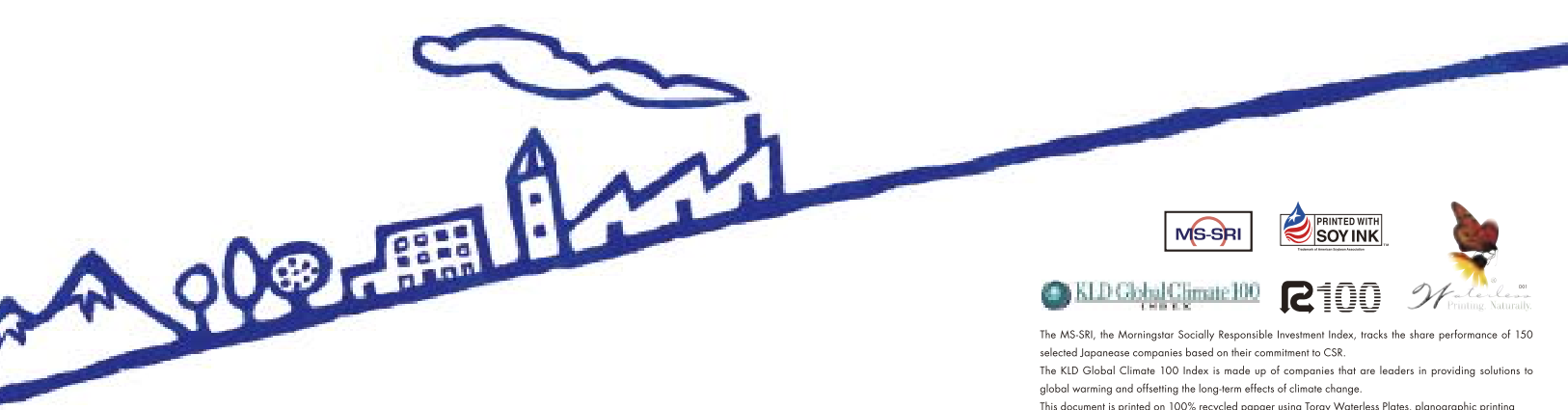
Toray Industries, Inc.

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

<http://www.toray.com>

Contact IR Dept.

Telephone: 81(3)3245-5113
Facsimile: 81(3)3245-5459



The MS-SRI, the Morningstar Socially Responsible Investment Index, tracks the share performance of 150 selected Japanese companies based on their commitment to CSR.

The KLD Global Climate 100 Index is made up of companies that are leaders in providing solutions to global warming and offsetting the long-term effects of climate change.

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