



I N N O V A T I O N .

**ANNUAL REPORT 2007**

April 1, 2006 – March 31, 2007

## CONSOLIDATED FINANCIAL HIGHLIGHTS

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31

	Millions of yen			
	2002	2003	2004	2005
<b>For the year:</b>				
Net sales	¥ 1,015,713	¥ 1,032,991	¥ 1,088,501	¥ 1,298,606
Operating income	18,845	33,043	56,792	81,052
Net income	3,802	5,790	20,908	34,397
Net cash provided by operating activities	68,590	88,582	117,610	133,481
Capital expenditures	65,367	57,249	48,807	73,094
<b>Per share of common stock (in yen and U.S. dollars):</b>				
Net income:				
Basic	¥ 2.71	¥ 4.13	¥ 14.87	¥ 24.46
Diluted	—	—	—	—
Cash dividends	5.00	5.00	5.50	7.00
Net assets	294.80	278.65	295.64	323.04
<b>At year-end:</b>				
Total assets	¥ 1,386,507	¥ 1,300,954	¥ 1,295,314	¥ 1,402,264
Net assets	413,140	390,398	414,247	452,519

Note: U.S. dollars amounts have been converted from yen at the exchange rate of ¥118=US\$1, the approximate exchange rate prevailing on March 31, 2007

### LONG-TERM CORPORATE VISION

**AP-New TORAY 21**

### MID-TERM BUSINESS STRATEGIES

**NT21**

**“Corporate Structure Reinforcement  
and defensive management postures”**

– Break away from crisis –

April 2002

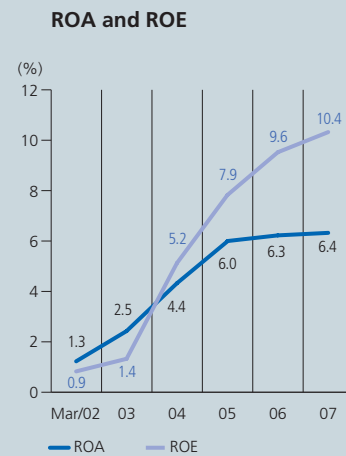
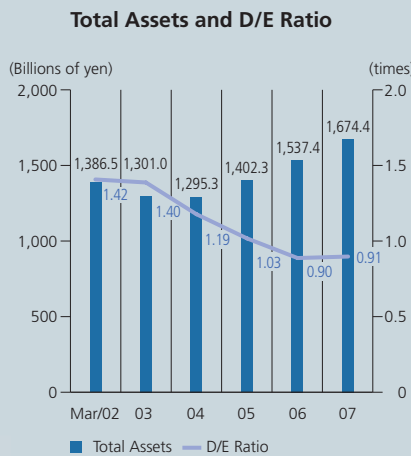
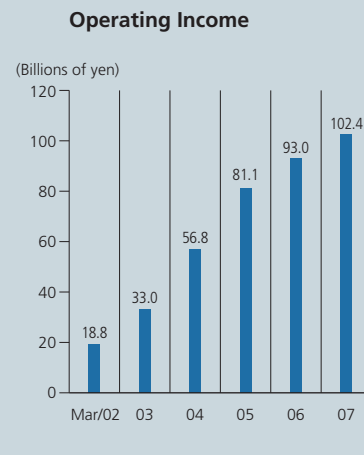
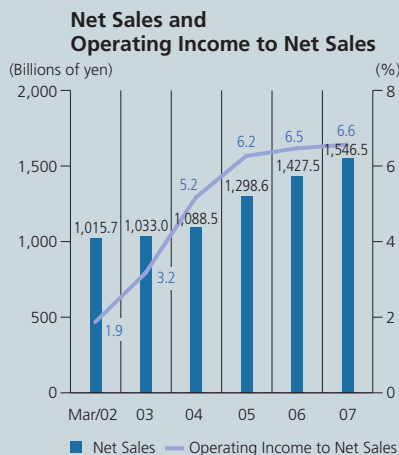
**NT-II**

**“Offensive management postures”**

– Establish foundation  
for further growth –

April 2004

2006	2007	Thousands of U.S. dollars 2007
¥ 1,427,488	¥ 1,546,461	\$ 13,105,602
93,043	102,423	867,992
47,409	58,577	496,415
116,022	77,539	657,110
104,127	126,444	1,071,559
¥ 33.72	¥ 41.84	\$ 0.35
—	—	—
8.00	10.00	0.08
383.42	421.51	3.57
¥ 1,537,422	¥ 1,674,447	\$ 14,190,229
537,026	649,670	5,505,678



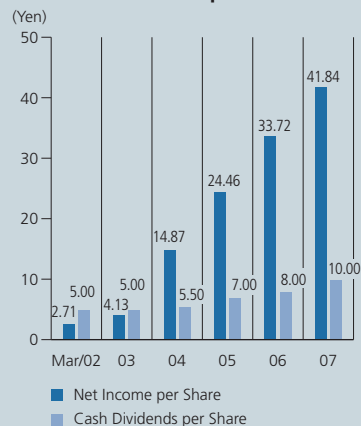
AP-Innovation TORAY 21

IT-2010

“Management based on Innovation”

– Challenges for further growth –

### Net Income per Share and Cash Dividends per Share



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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.

# I N N O V A T I O N .

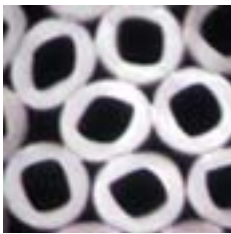
**I N** April 2006, Toray Group adopted "AP-Innovation TORAY 21," a new long-term corporate vision that targets its further innovative and sustainable growth for the 21st century.

"AP-Innovation TORAY 21" is accompanied by the new corporate slogan, "Innovation by Chemistry," under which Toray will aim to be a global top company of advanced materials by pursuing technological innovation with chemistry as a core.

In addition to technological innovation, Toray Group will strive for innovation in every aspect of its operations in an effort to create new value. Our "Innovation," to be the company that "contributes to society through the creation of new value with innovative ideas, technologies and products" goes **O N .**



INNOVATION FOR CHANGING LIFESTYLES.



Toray's environmentally friendly fiber, *Foresse*<sup>®</sup> is the first cellulosic fiber in the world produced by the "melt spinning method," which does not use organic solvents.

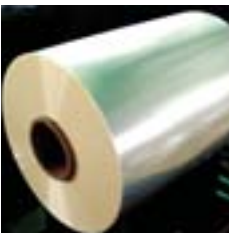
**FIBERS & TEXTILES** The features of Toray's fibers and textile business are: (1) our product line encompasses all three major groups of synthetic fibers – nylon, polyester, and acrylic; in this business, (2) Toray is known for its capacity to meet requests for supplying a diverse range of products, from filament yarns and staple fibers to textiles and garments; (3) applications for our products widely range from apparel to industrial materials including car airbags, seat belts, and bag filters. On the top of that, sales of advanced materials, such as fluorine fiber and polyphenylene sulfide (PPS) fiber, are also expanding. Utilizing global manufacturing bases such as filament yarn, staple fiber, and textile manufacturing facilities, Toray not only facilitates production and sales in the most appropriate regions, but also provide a global operational structure that organically links these bases.

To create a business structure that ensures steady earnings, Toray's fibers and textile business as a foundation business is developing new products, constructing a new supply chain management system, expanding its sewn products business, and broadening its overseas operations.

INNOVATION

FOR

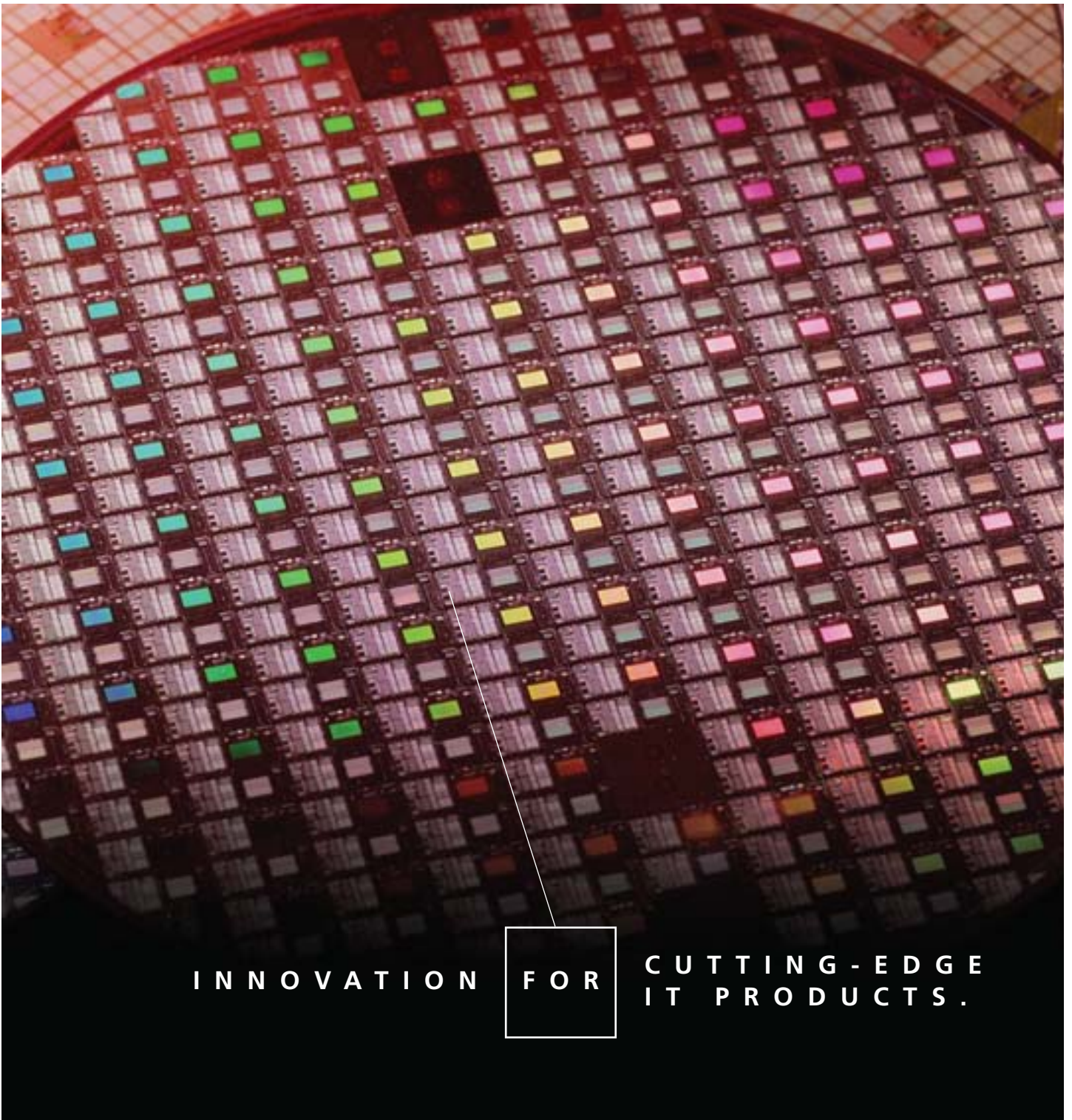
THE WHOLE  
NEW SOLUTION.



Demand is growing for *Torayfan*\*, a polypropylene film used in capacitors for hybrid cars and other applications.

**PLASTICS & CHEMICALS** Toray's plastics & chemicals segment is made up of three main product categories: plastic resins, films, and chemicals. The Group has commercialized high-performance plastic resins and super engineering plastic resins used in a diverse range of products, including electronic and automotive parts. Currently holding a 20% market share, Toray is the world's leading manufacturer of polyester films. We seek to maximize earnings from both the plastic resins and films businesses through global operations. At present, Toray has plastic resins production and compounding facilities in Japan, the United States, Southeast Asia, and China, and film production bases in six countries.

Recently, the Group has been focusing on a series of environmentally friendly products. These include developing practical applications for polylactic acid (PLA) plastics produced by fermenting starch contained in sweet corn to help reduce carbon dioxide emissions and demand for fossil fuels, as well as films used in capacitors for hybrid cars and films used as back sheets in solar cells.



INNOVATION

FOR

CUTTING-EDGE  
IT PRODUCTS.



Toray's "photosensitive polyimide" buffer coatings for next-generation semiconductor devices, is the first in the world that can be cured at temperatures below 200°C. Using an environmentally friendly alkaline developer.

**IT-RELATED PRODUCTS** Toray Group's IT-related products segment covers a wide range of items, including optical films for flat panel displays and processed optical films, plasma display panel (PDP) paste materials, small and medium-sized liquid crystal color filters, circuit materials, semiconductor materials, and IT-related equipment. This business is relatively resistant to fluctuations in IT market owing to a well-balanced range of applications and products. Toray harnessed its PDP rear panel technologies in a joint venture company with Matsushita Electric Industrial Co., Ltd. to produce PDP televisions.

Annual demand for flat-panel display panels is forecasted to grow by approximately 30% on a display area basis, and steady expansion is also predicted for PCs, mobile phones, and digital home appliances. Under these circumstances, the Group plans to broaden existing businesses and open new ones, concentrating on display materials, electronic components, semiconductors, and circuit materials, by further reinforcing the partnerships it enjoys with its major customers.

INNOVATION FOR UNPRECEDENTED PERFORMANCE.



The market position of *Torayca*\* carbon fiber continues to strengthen, thanks to quality and wide range of the product, coupled with increased global production in Japan, the United States, and France.

**CARBON FIBER COMPOSITE MATERIALS** This business segment is underpinned by Toray's strengths, including: (1) global operations, with production bases in Japan, the United States, and Europe; (2) vertical development of prepreg\*, woven and other intermediate materials and composites in addition to carbon fibers; (3) a superior lineup of carbon fiber products of the highest quality; (4) a technological competitive edge attributable to the stable quality of its prepreg products; and (5) Toray's solid position in aircraft applications.

Annual production in the carbon fiber market is expected to reach 48,000 tons in 2010, double the amount for 2005. This huge growth will be attributable to the rapid expansion of aircraft applications, other alternative energy applications including wind turbine blades and CNG (compressed natural gas) tanks in the face of high crude oil prices, and an increase in automotive applications. Toray will continue pursuing capital investment activities to ensure its ability to address such market growth.

\*Prepreg: sheet-form carbon fiber impregnated with resin

I N N O V A T I O N

F O R

G L O B A L  
E N V I R O N M E N T .



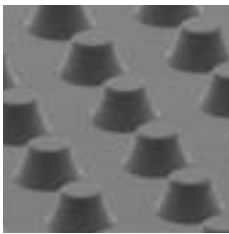
Toray's water treatment business, centering on seawater desalination and wastewater reuse applications, takes advantage of the Group's world-leading water treatment membrane technologies and product lineup.

**ENVIRONMENT & ENGINEERING** While we will continue to strengthen our existing engineering business, this business segment is expected to expand, especially in the water treatment business. Toray's extensive range of water treatment membranes purify water of varying qualities, and we believe that there is large opportunity for expansion in this area.

The 21st century has been labeled the "century of water," stemming from the expected worsening of water shortages in Asia, China, and the United States due to global warming, rising populations, and economic growth in developing countries. Amid this increasing demand, Toray is helping to ensure safe water supplies by increasing production capacity and enhancing the technologies and product capabilities of membranes used in water treatment, including its reverse osmosis membranes, which boast world-class performance. The Group intends to expand not only this business in water treatment membrane modules, but also those in to water treatment related plant engineering and maintenance.



INNOVATION FOR BETTER QUALITY OF LIFE.



Toray's 3D-Gene\* series of ultrahigh-sensitive DNA chips are being used in the development of testing and diagnostic applications for the analysis of human gene expression. The DNA chips are expected to serve as key tools in so-called "tailor-made" medicine (enlarged picture).

**LIFE SCIENCE & OTHER BUSINESSES** Toray's expansion of the life science business is focused on three business categories: pharmaceuticals, medical products (such as artificial kidneys), and DNA chips and other bio-tools.

In the pharmaceuticals business, Toray maintains a strong R&D program, with an emphasis on drug discovery. It has marketing alliances with leading drug manufacturers with dominant positions in their respective fields, thus alleviating the need for a substantial complement of sales representatives.

In the medical products business, the Group plans to expand business expansion as a global manufacturer of artificial kidneys to coincide with the full-scale launch of the world's first high-performance, moist-type, polysulfone membrane artificial kidney, which is also compact and light. We are also proceeding with the development of catheters used in the treatment of atrial fibrillation.

Drawing on our many years of experience in the pharmaceuticals and medical products business and the integration of biotechnologies and nanotechnologies, we are currently working to develop a business in bio-tools.

## TO OUR STOCKHOLDERS

On behalf of Toray Industries, Inc., I would like to thank our stockholders for their continued support. It is my pleasure to report our performance in the fiscal year ended March 31, 2007 (FY Mar/07).

### BUSINESS ENVIRONMENT AND RESULTS

The world economy was generally healthy in the year under review despite some negative factors including sharp increases in the price of crude oil in the first half of the period and a downturn in the U.S. housing market in the second half. The U.S. economy showed a solid trend overall, driven by personal consumption although the pace of growth in the U.S. economy slowed due to a decline in housing investments. Economies in Europe continued to recover in general, while Asian economies, led by China, continued expanding. Despite lack of strength in the consumer sector, the Japanese economy remained on a path of moderate growth thanks to the firm trend of the corporate sector.

Amid these conditions, Toray Group worked hard to achieve targets set forth under "Project NT-II" (NT-II), its mid-term management reform program that began in April 2004. In October 2006, we launched our new mid-term business strategies, named "Project Innovation TORAY 2010" (IT-2010), which calls for even higher targets. Guided by these initiatives, the

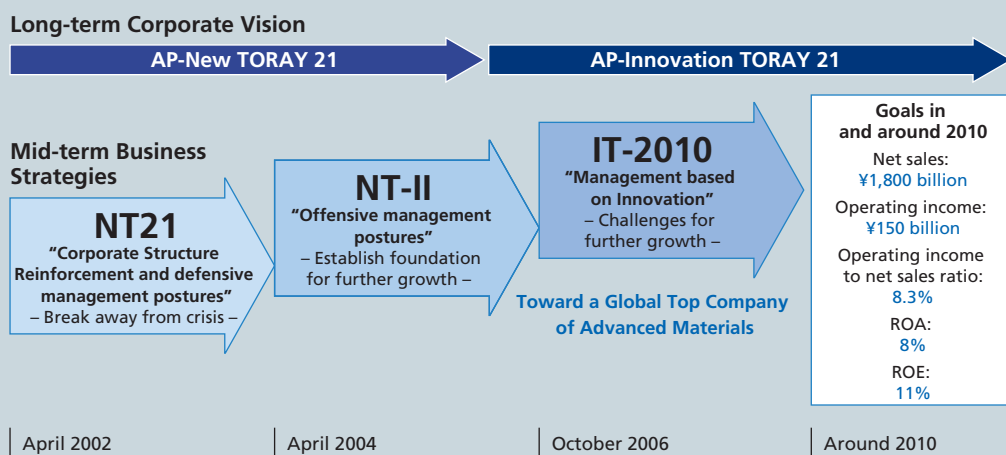
Group strove exhaustively to expand operations and earnings by reinforcing its corporate structure and implementing business structure reforms.

As a result of these efforts, consolidated net sales for the year amounted to ¥1,546.5 billion, up 8.3% from the previous fiscal year. Operating income rose 10.1%, to ¥102.4 billion, reaching the ¥100 billion target set forth under NT-II, and net income increased 23.6%, to ¥58.6 billion. Accordingly, Toray Group achieved record-high figures for net sales (fourth consecutive year), operating income (third consecutive year), as well as net income (second consecutive year).

### BASIC POLICY ON DISTRIBUTION OF PROFITS

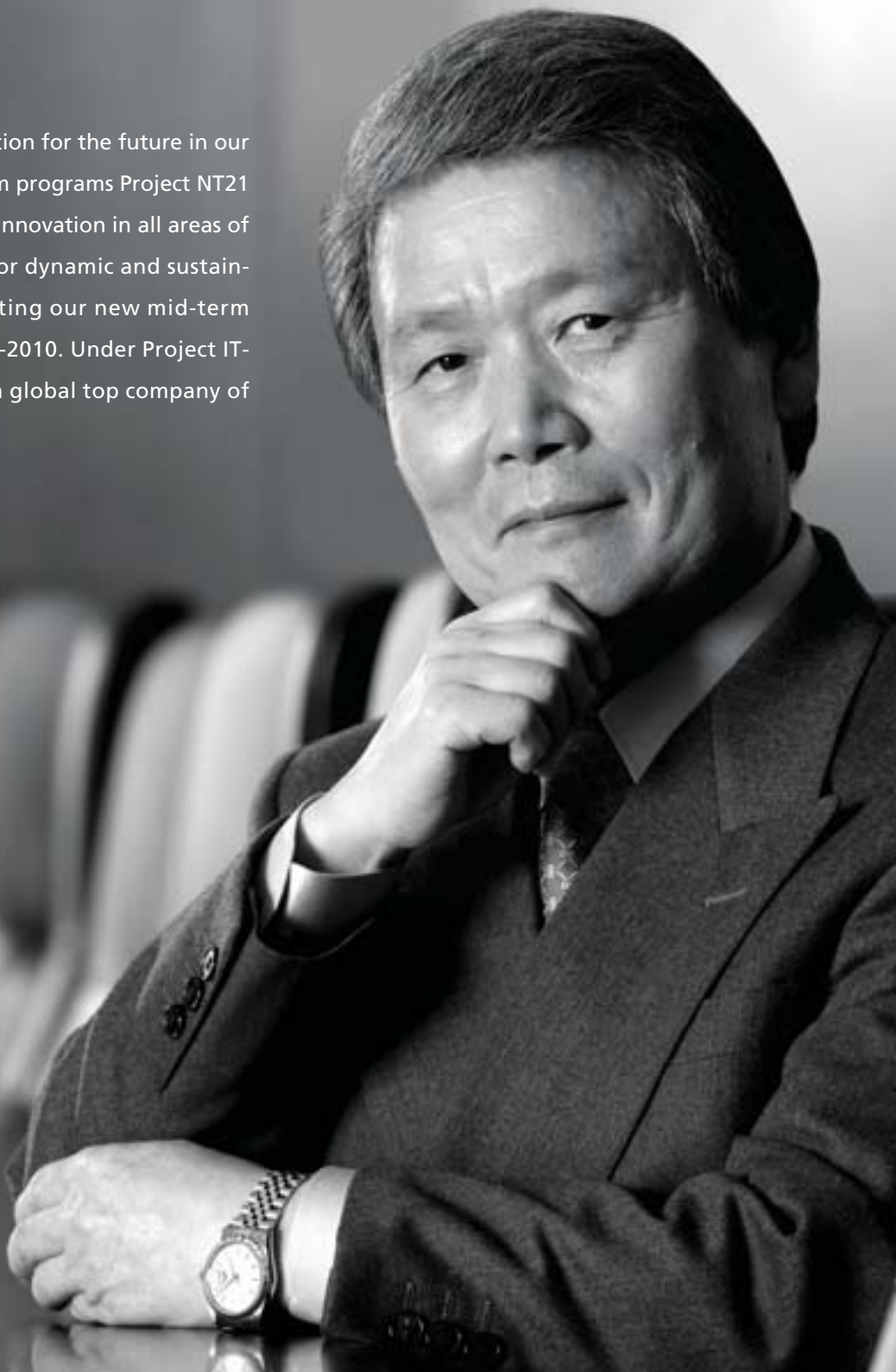
Toray regards the distribution of profits as one of the most important corporate priorities. Our basic policy is to distribute profits appropriately, based on comprehensive consideration of factors such as business performance, financial strength, and retained earnings necessary to invest for the Group's future.

Taking into account its performance in the year under review, Toray declared a year-end dividend of ¥5.00 per share. After adding the interim dividend already paid, this brings total annual dividends to ¥10.00 per share, up ¥2.00 from the previous fiscal year.



We strengthened our foundation for the future in our mid-term management reform programs Project NT21 and Project NT-II. Striving for innovation in all areas of our operations and aiming for dynamic and sustainable growth, we are promoting our new mid-term business strategies Project IT-2010. Under Project IT-2010, we are working to be a global top company of advanced materials.

**SADAYUKI SAKAKIBARA**  
President, CEO and COO,  
Representative Director





## ISSUES AND STRATEGIES

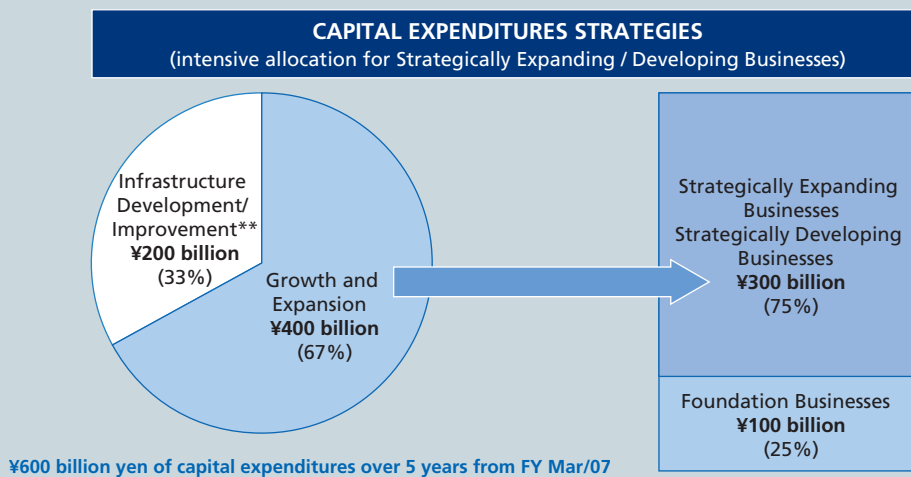
The business environment surrounding Toray Group is changing dramatically, characterized by a number of factors. These include progress in the information technologies and telecommunications industries, the rise of China and other newly emerging economies along with intensifying international competition, soaring prices of oil and petrochemical raw materials, and growing awareness of corporate social responsibilities. To respond to these changes and grow continuously, Toray Group recognizes that it must step up reforms while maintaining a robust foundation established under NT-II.

April 2006 marked the 80th anniversary of Toray Group's founding. We took this opportunity to formulate a new long-term corporate vision targeting dramatic progress in the future. The vision, entitled "AP (Action Program)-Innovation Toray 21," outlines the ideal image of Toray Group to be realized in 10 years. It calls for the Group to promote innovation across all of the Group's business activities, in our quest to achieve dynamic progress and sustainable growth. Under its corporate slogan, "Innovation by Chemistry," the Group aspires to be a global top company of advanced materials. To help realize this long-term corporate vision, in October 2006 Toray embarked

on new mid-term business strategies, called IT-2010.

We have cited two basic strategies in IT-2010. The first is to transform ourselves into a highly profitable business group. Especially, we will strive to transform to a highly profitable business group while achieving sustainable business expansion, with the aim of achieving consolidated operating income of ¥150 billion by around 2010. Maintaining earnings stability in our "Foundation Businesses" (Fibers & Textiles, Plastics & Chemicals), we will drive profit growth through our "Strategically Expanding Businesses" (IT-related Products, Carbon Fiber Composite Materials). At the same time, we will nurture our "Strategically Developing Businesses" (Life Science, water treatment and environmentally friendly products). In addition to these structural business reforms, we will pursue improvements in capital efficiency, targeting return on assets (ROA\*) of 8% and return on equity (ROE) of 11% by around 2010.

The second basic strategy of IT-2010 is to expand our advanced material businesses across "four major growing business fields" which are expected to expand greatly in the 21st century: (1) Information, Telecommunications, and Electronics; (2) Automobiles and Aircraft; (3) Life Science; and (4) Environment, Water-related and Energy. By developing advanced materials and stepping up cross-organizational



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



efforts to deliver optimal solutions to customers, we will expand our business by major contribution of advanced materials.

As for capital expenditures, we plan to make around ¥600 billion in investments over the five-year period from April 2006. About two-thirds of this amount, or ¥400 billion, will be allocated to projects targeted for growth, and three-quarters of the latter figure, or ¥300 billion, will be allocated to Strategically Expanding Businesses and Strategically Developing Businesses.

In addition, over the same five-year period we plan to make R&D investments of around ¥240 billion, allocating 80% of our R&D resources on advanced materials. At the same time, we will reinforce our intellectual property capabilities.

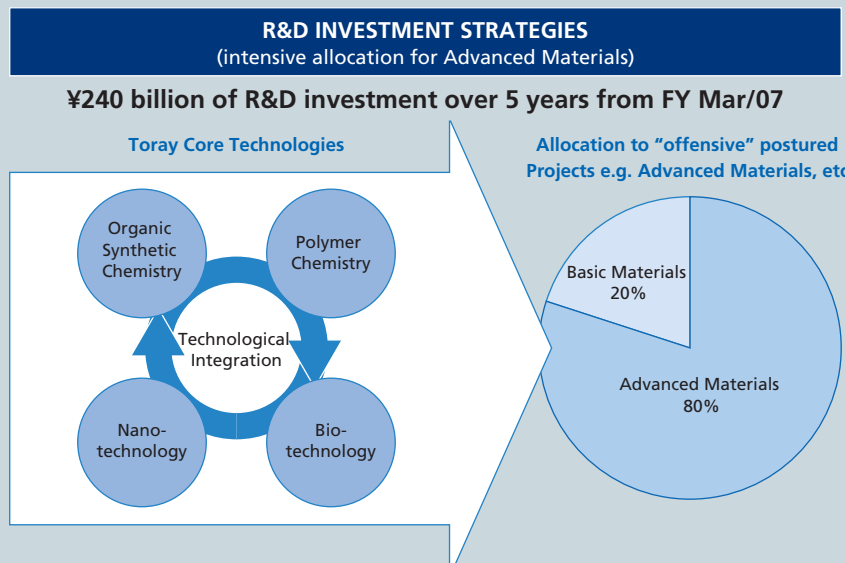
\*The ratio of operating income to total assets

### FIVE INNOVATIONS AND EIGHT PROJECTS

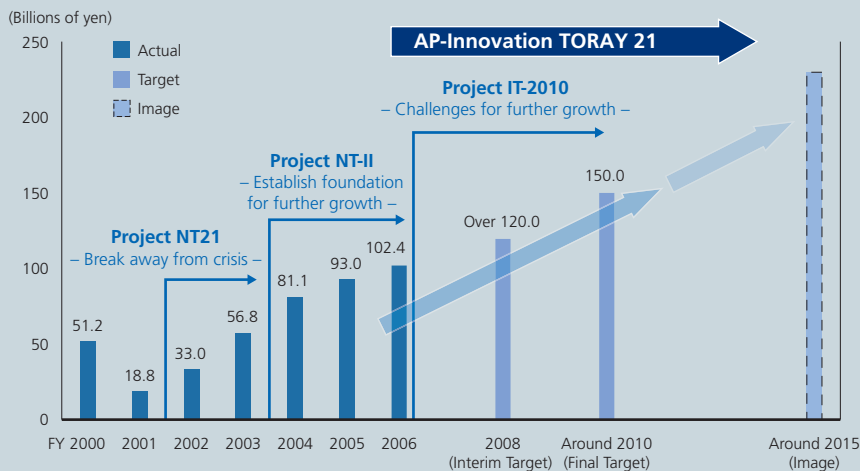
Under the basic strategies of IT-2010, we will target "Innovation" in five areas over the five years: (1) Innovation of business structure, (2) Innovation of technologies, (3) Innovation of competitiveness, (4) Innovation of business-awareness, and (5) CSR Innovation. To promote these innovations, eight projects are being implemented across the Group.

With respect to innovation of business structure, we will undertake far-reaching reforms of our operations with the aim of transforming ourselves into a highly profitable business group. To this end, we have embarked on two projects. The first is the Business Structure Innovation Project, which will work on creating new businesses strategically and reassessing existing businesses to reshape our business portfolio drastically. The second is the Overseas Business Strengthening Project, through which we will expand overseas businesses and strengthen their profitability.

Innovation of technologies represents the driving force for promoting innovation of our business structure. Here, we are engaged in three projects. The first is the Advanced Material Businesses Expansion Project, which targets business expansion across the four major growing business fields described earlier, as well as the swift commercialization of new advanced materials. The second is the R&D Capabilities Innovation Project, which calls for more prioritization of R&D themes, creation of large-scale themes for the next generation, and reinforcement of our research and technology foundation. The third is the Manufacturing Technology Innovation Project, through which we are targeting the world's best-in-class product quality and cost competitiveness, by building manufacturing operation



**Targets in Operating Income under IT-2010**



strength and technological development capabilities.

Innovation of competitiveness means further strengthening our corporate capabilities in both production and marketing. For the goal, we have launched the Cost Innovation Project, to promote optimization of manufacturing structure with lower fixed costs, reduction of variable cost through groupwide endeavors, and improvement of the capital expenditure efficiency. We have also launched the Marketing and Sales Innovation Project, which calls for enhancement of customer-oriented and proposal-based marketing and sales.

Innovation of business-awareness means further solidifying the trust we have earned from our stakeholders and raising loyalty and spirit of our employees. For this innovation, we have embarked on the Corporate Brand Strengthening Project, which aims to maximize the value of the Toray brand, enhance communications with our stakeholders and raise brand awareness among employees.

Our CSR Innovation initiatives involve fulfilling our corporate social responsibilities more comprehensively. Here, we are working on strengthening observance of corporate ethics and laws, safety, accident prevention, environmental preservation, security trade control, and internal control system.

**CHALLENGE FOR FURTHER GROWTH THROUGH INNOVATION**

Through these Five Innovations and Eight Projects under IT-2010, Toray Group will promote management based on innovation. The Group will work on IT-2010 with a unified effort by the entire Group to be a dynamically evolving and highly profitable business group. We will challenge innovation in every facet of our business activities for putting into produce our corporate philosophy: "Contributing to society through the creation of new value with innovative ideas, technologies and products."

We look forward to your ongoing support for these endeavors.

August 2007

**SADAYUKI SAKAKIBARA**  
President, CEO and COO, Representative Director

## PROGRESSIVE INNOVATION: Expand the Advanced Material Businesses and Transform Toray into a Highly Profitable Business Group

Under its corporate slogan "Innovation by Chemistry" Toray Group has formulated a long-term corporate vision, entitled "AP-Innovation TORAY 21," through which it will aim to be a global top company of advanced materials. Guided by this vision, we are currently implementing "IT-2010," a set of midterm business strategies aimed at promoting "Innovation" not only in technological development but across every aspect of the Group's operations.

IT-2010 consists of two basic strategies. The first is to transform Toray into a highly profitable business group. Specifically, this means achieving sustained business expansion, with annual average growth rate of 5% for net sales and 10% for operating income. To realize such expansion, we will structurally reform our businesses in order to increase the share of net sales and operating income in our overall business for the Strategically Expanding Businesses (IT-related Products and Carbon Fiber Composite Materials), current drivers of earnings,

and Strategically Developing Businesses (Life Science, water treatment, and environmentally friendly products), future drivers of earnings.

The second strategy calls for expansion of our advanced material businesses. By around 2010, we plan to double sales of advanced materials compared with current levels and raise the share of advanced materials in total net sales to 50%, from the present level of 30%.

Under IT-2010, we are targeting "Innovation" across five key areas of our operations: business structure, technologies, competitiveness, business-awareness, and corporate social responsibility (CSR). To promote these innovations, we are initiating eight groupwide projects.

In this special feature, we will focus on strategies for expanding our advanced material businesses and provide details about specific initiatives related to the aforementioned "Five Innovations and Eight Projects."

### BUSINESS CATEGORIES AND BUSINESS SEGMENTS

Business Categories	Divisions*	Business Segments	Basic Materials	Advanced Materials
FOUNDATION BUSINESSES	Fibers & Textiles	Fibers & Textiles	Synthetic fibers Resins Films Chemical materials etc.	High function fibers & textiles
	Resins & Chemicals	Plastics & Chemicals		High function resins Functional particles High function films Display materials Semiconductor packaging materials High density recording materials
	Films			Carbon fibers Advanced composite materials
STRATEGICALLY EXPANDING BUSINESSES	Electronics & Information Related Products	IT-related Products		Pharmaceuticals & Medical devices
	TORAYCA* & Advanced Composites	Carbon Fiber Composite Materials		Environmentally friendly materials High function separation membranes, etc.
STRATEGICALLY DEVELOPING BUSINESSES	Pharmaceuticals & Medical Products	Life Science		
	Water Treatment & Environment	Environment (water treatment)		
		Engineering, others	Engineering, others	

\*As of June 27th 2007

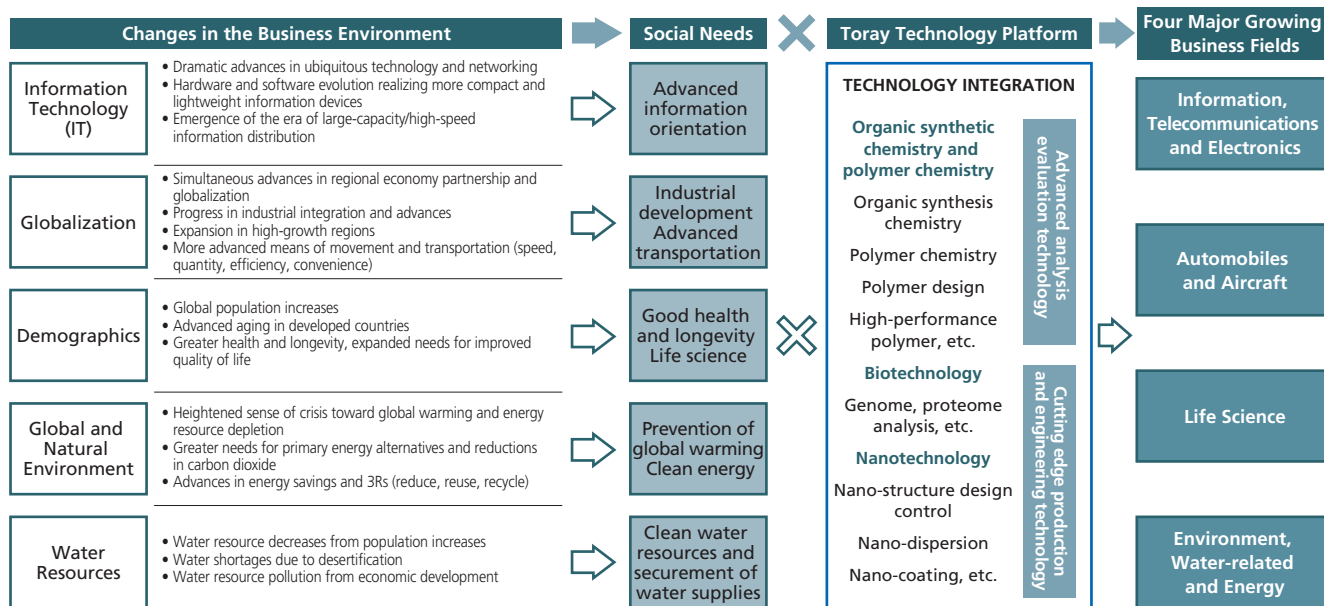
## EXPAND ADVANCED MATERIAL BUSINESSES IN FOUR MAJOR GROWING BUSINESS FIELDS

In considering its business environment over the next decade, Toray Group envisages that the needs of society will be shaped by several major trends: advances in information technologies, the realization of sophisticated transportation systems stemming from industrial advances, people living longer and healthier lives, advances in life sciences, and global environmental issues, including declining water resources. In response, Toray has identified four major growing business fields: (1) Information, Telecommunications, and Electronics, (2) Automobiles and

Aircraft, (3) Life Science, and (4) Environment, Water-related and Energy.

In these four business fields, Toray Group will pursue technological innovation by deploying its core technologies — organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology — as well as integration of those technologies, to develop advanced materials and continue delivering optimal solutions to customers. In these ways, we will strive to become the global top company of advanced materials.

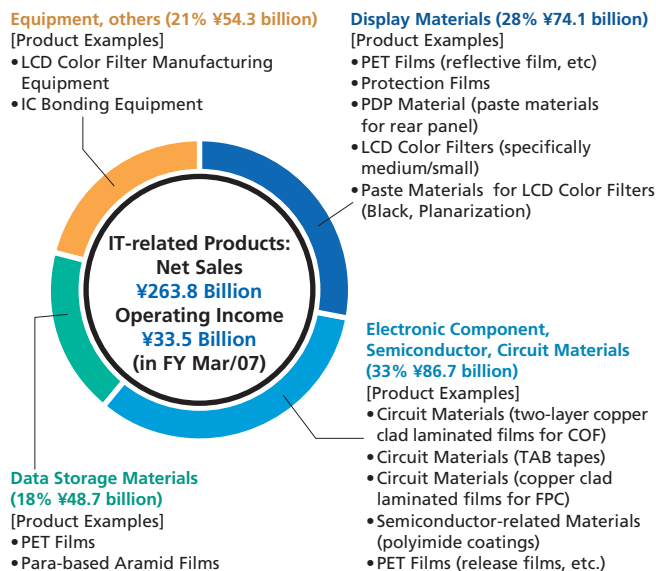
### Four growing business fields targeted by Toray Group



## 1 Information, Telecommunications and Electronics

In the information, telecommunications, and electronics field, Toray is working to address the needs of the sharply growing digital network-related products market, driven by flat-panel displays, PCs and other devices. We are broadening our activities in advanced materials, maintaining a good balance across multiple domains, including display materials\*; electronic component, semiconductor and circuit materials; data storage materials; and equipment and others. Through this we are targeting steady growth in the rapidly changing IT business field. In addition, we have vertically integrated alliances with major customers such as Matsushita Electric Industrial Co., Ltd. and Samsung Electronics Co., Ltd., through which we are also developing and expanding sales of innovative products.

\*For recent progress in display materials, see the "Topics" section on page 27.

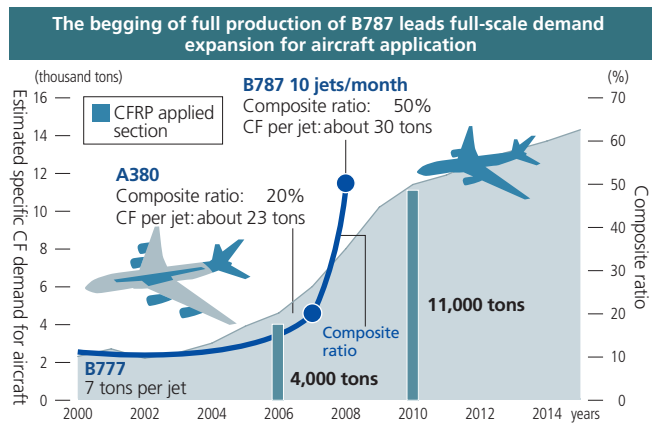
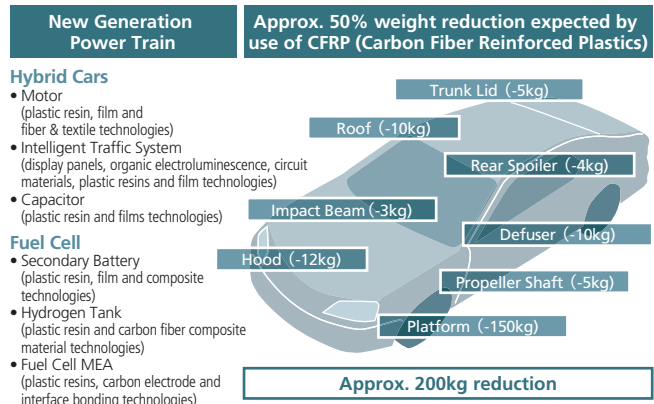


## 2 Automobiles and Aircraft

Toray is actively developing products for the next-generation automobile market, taking advantage of expanded functionality of carbon fiber composite materials and engineering plastics. Due to environmental considerations, automobiles will need to become lighter in order to enhance fuel efficiency and cut greenhouse gas emissions. Applications for engineering plastics will increase as a result, and we also anticipate more widespread adoption of carbon fiber composite materials. In addition, we will develop new products in response to the growing hybrid cars and car electronics sectors.

The market for our products in aircraft applications continues to grow, characterized by steady orders for the new "Boeing 787" (scheduled to begin commercial flight in 2008), an all-composite airplane in which the structural materials consist mostly of carbon fiber composite materials. To reliably meet demand in this area, we will steadily expand our carbon fiber and prepreg production capacity.

\* For details of production capacity increase of our carbon fiber production facilities, see the "Topics" section on page 29.

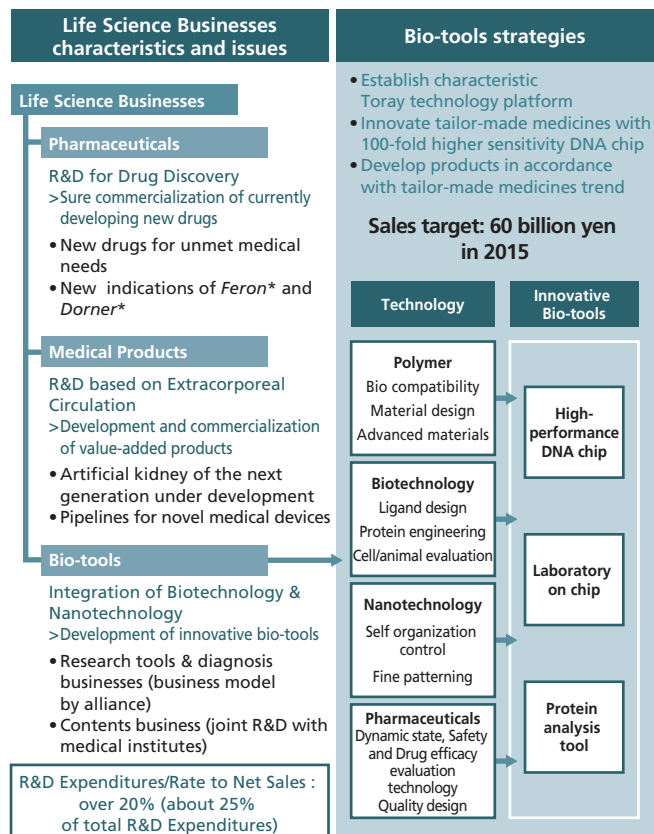


## 3 Life Science

In the life science field, we will target advances in the pharmaceuticals and medical products businesses. With respect to pharmaceuticals, progressing our business model of new drug research and development, we will steadily gain approval for and commercialize new drugs currently under development and broaden our new drug pipeline. In medical products, we will focus on developing, gaining approval for and commercializing high-value-added products, centering on extracorporeal circulation devices.

Through the integration of biotechnologies and nanotechnologies, we will also create and launch innovative bio-tools. We have already released a high-performance DNA chip featuring a 100-fold sensitivity compared with existing chips. Using a protein separation device that we developed as a protein analysis tool, we have also built a solid track record in detection of marker proteins\*, thus attracting widespread attention in the field of protein analysis.

\* For more information about detection of marker proteins, see the "Topics" section on page 33.



## 4 Environment, Water-related, and Energy

In the environmental and recycling fields, we are working to develop and increase sales of environmentally friendly products (*Ecodream\** products\*). We are developing applications for fibers & textiles, plastic resins, and films made from non-petrochemical materials, proactively tackling the recycling of fibers & textiles and plastic resins, and developing next-generation energy materials.

Given predications of serious clean water shortages in the 21st century, we are expanding our water treatment business on a global scale. The market for water-treatment-related busi-

nesses, including that for water supply service, is expected to grow to about ¥100 trillion by 2025, from the current level of around ¥60 trillion. Toray is a comprehensive manufacturer of water treatment membranes. We are one of very few companies with expertise across the entire spectrum of high-performance water treatment membranes, including reverse osmosis (RO) membranes, nanofiltration (NF) membranes, ultrafiltration (UF) membranes, and microfiltration (MF) membranes. Deploying our world-leading core expertise in membrane technologies, we will advance our business to cover the full range of water treatment applications\*\*.

\* For more information on Toray's *Ecodream\** products, see page 42.

\*\*For more information on recent progress in our water treatment business, see page 31.

Size	0.001μm		0.01μm		0.1μm	1μm	10μm
Separation materials	Ion, Low molecule weight organics		High molecular weight polymer		Colloid	Clay	Coliform
	Trihalomethane Monovalent ions	Agricultural & Organic Material Multivalent ions	Virus		Bacteria		Cryptosporidium
Types	RO (Reverse Osmosis)		NF (Nanofiltration)		UF (Ultrafiltration)		MF (Microfiltration)
Toray's membrane products	RO/NF membrane		PAN Hollow Fiber UF membrane PS Hollow Fiber MF membrane		PVDF Hollow Fiber MF membrane	Home Water Purifiers Torayvino*	Immersed membrane for MBR

### Five Innovations, Eight Project

Under IT-2010, we are pursuing “Five Innovations, Eight Project” in order to transform management and give it a strong innovation-oriented approach. The tasks and strategies of each “Innovation” and “Project” are summarized in the table below.

### Toward an Era of Dynamic New Progress

By pursuing strategies under IT-2010, we will seek to strive for further growth. Our ultimate goal, set for around 2010, is to achieve operating income of ¥150 billion. Meanwhile, we will keep firmly in mind our image of Toray in 2015, shaped by our long-term corporate vision, as we embrace the challenge of achieving sustainable growth.

Five Innovations	Projects	Issues and Responses
Innovation of business structure	Business structure innovation	<ol style="list-style-type: none"> <li>1. Transform the business portfolio; from a medium- and long-term perspective create and expand high-profitability, high-growth potential businesses</li> <li>2. Strategically allocate management resources (human resources and capital investment)</li> <li>3. Promote new, large-scale businesses in the four major growing business fields</li> <li>4. Take actions regarding problem businesses</li> <li>5. Move forward with major M&amp;A</li> </ol>
	Overseas business strengthening	<ol style="list-style-type: none"> <li>1. Reorganize, consolidate, and implement measures to bring unprofitable operations into the black at overseas businesses and subsidiaries</li> <li>2. Move forward with programs to expand businesses in China, Korea, Europe, and the U.S.</li> <li>3. Expand businesses in new markets and new areas</li> </ol>
Innovation of technologies	Advanced material businesses expansion	<ol style="list-style-type: none"> <li>1. Move forward with technology development strategies consistent with the Group's business strategies and clarify success indicators</li> <li>2. Strengthen product commercialization capabilities (business planning, customer information, ability to generate proposals, etc.)</li> <li>3. Strengthen and foster existing peripheral technologies</li> </ol>
	R&D capabilities innovation	<ol style="list-style-type: none"> <li>1. Allocate managerial resources to “APEX 40 (top priority 40 themes)”</li> <li>2. Generate next large-scale R&amp;D themes</li> <li>3. Strengthen research and technological foundation</li> </ol>
	Manufacturing technology innovation	<ol style="list-style-type: none"> <li>1. Realize world-leading quality with world's lowest costs</li> <li>2. Generate operational strength at manufacturing facilities</li> <li>3. Generate technology development strength</li> </ol>
Innovation of competitiveness	Cost innovation	<ol style="list-style-type: none"> <li>1. Reduce costs by reviewing the manufacturing structure in existing businesses</li> <li>2. Reduce variable costs</li> <li>3. Improve efficiency of capital expenditure</li> </ol>
	Marketing and sales innovation	<ol style="list-style-type: none"> <li>1. Thorough implementation of customer-oriented, proposal-based marketing and sales</li> </ol>
Innovation of business-awareness	Corporate brand strengthening	<ol style="list-style-type: none"> <li>1. Heighten the appeal of the Group's corporate brand (CB) and corporate image</li> <li>2. Further enhance employee loyalty</li> </ol>
CSR Innovation	—	<ol style="list-style-type: none"> <li>1. Promoting CSR implementation</li> <li>2. Strengthening security trade administration</li> <li>3. Establishing and using internal controls systems</li> </ol>

# REVIEW OF OPERATIONS

## TORAY'S BUSINESS PERFORMANCE FOR THE YEAR

Today, all of Toray Group's business segments are experiencing strong growth, propelled by advanced materials. The Foundation Businesses of Fibers & Textiles and Plastics & Chemicals target stable growth, the Strategically Expanding Businesses of IT-Related Products and Carbon Fiber Composite Materials currently drive the Group's earnings, and we are nurturing the Strategically Developing Businesses of Environment & Engineering and Life Science & Other Businesses as next-generation earnings pillars.

In FY Mar/07, Toray Group achieved record-high figures for net sales (fourth consecutive year), operating income (third consecutive year), and net income (second consecutive year). This section describes in detail these results, forecasts for FY Mar/08 and topics of interest for each the Group's businesses.

# TORAY'S BUSINESS AT A GLANCE

BUSINESS CATEGORIES

BASIC STRATEGIES

BUSINESS SEGMENTS

## FOUNDATION BUSINESSES

1. Developing global operations
2. Promoting "New Value Creator\*\*"
3. Developing downstream and processing business
4. Expanding advanced materials (automobiles, environment and energy, etc.)

- Establish stable profit base
- Promote advancement of foundation businesses



## STRATEGICALLY EXPANDING BUSINESSES

1. Focusing on growing markets (IT, automobiles, aircraft)
2. Prioritizing allocation of managerial resources

- Positive expansion as profit driving businesses



## STRATEGICALLY DEVELOPING BUSINESSES

Nurturing the next profit base beyond 2010

1. Intensive allocation of managerial resources
2. M&A and strategic alliances with external parties

- Strategically developing and expanding



\*\* New Value Creator: A new business model for creating new value incorporating the vast knowledge and expertise gained in meeting the needs of customers and consumers in new products & services and new production & distribution methods.

SALES RATIO BY BUSINESS SEGMENT IN FY MAR/07	MAIN PRODUCTS	APPLICATION EXAMPLES
 <p>39.3% Net Sales 607.8 billion yen</p>	<p>Filament yarns, staple fibers, and woven and knitted fabrics of nylon, polyester, and acrylic fibers, etc.; non-woven fabrics, man-made suede, apparel products</p>	<ul style="list-style-type: none"> <li>• Women's and men's clothes (coats: man-made suede, dress shirts: polyester-cotton blended fabric, stockings: nylon fiber, apparel products, swimwear)</li> <li>• Automobiles (car seats: polyester fiber, airbags: nylon fiber, seatbelts: polyester fiber)</li> <li>• Sportswear</li> <li>• Furniture &amp; interior (sofas: man-made suede, carpets: BCF nylon, curtains: halogen-free, flame retardant materials)</li> <li>• Disposable diapers: polypropylene filament yarn non-woven fabric</li> <li>• Tents: polyester fiber</li> </ul>
 <p>24.3% Net Sales 375.3 billion yen</p>	<p>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)</p>	<ul style="list-style-type: none"> <li>• Automobiles (radiator tanks: nylon resin, intake manifold: nylon resin, connectors: PBT resin, capacitor for hybrid cars: polypropylene film)</li> <li>• Home appliances (housing for washing machines, vacuum cleaners, air conditioners: ABS resin)</li> <li>• Power tools (circular tools housing: nylon resin)</li> <li>• Helmets (nylon resin)</li> <li>• Solar battery panels (PET film)</li> <li>• Sandwich bags (polypropylene film)</li> <li>• Veterinary medicine (for dogs and cats)</li> </ul>
 <p>17.1% Net Sales 263.8 billion yen</p>	<p>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</p>	<ul style="list-style-type: none"> <li>• Flat panel display televisions (PET film, PDP rear panel pastes)</li> <li>• PCs (circuit materials, PET film, polyimide coatings)</li> <li>• Cellular phones (color filters, LCP resin, circuit materials, PET film)</li> <li>• Printing (waterless printing plates, relief printing on resins, printing equipment)</li> <li>• Digital video camera recording film (PET film)</li> <li>• In-vehicle multimedia LANs (optical fiber)</li> </ul>
 <p>4.4% Net Sales 68.6 billion yen</p>	<p>Carbon fibers, carbon fiber composite materials and their molded products</p>	<ul style="list-style-type: none"> <li>• Aircraft structure (carbon fiber composite materials)</li> <li>• Bridge pier reinforcement (carbon fiber woven fabrics)</li> <li>• PC chassis (carbon fiber molded products)</li> <li>• Wind-power generator blades (carbon fibers)</li> <li>• Marine vessels (carbon fibers)</li> </ul>
 <p>10.4% Net Sales 161.3 billion yen</p>	<p>Comprehensive engineering; condominiums; industrial equipment and machinery; environment-related equipment; water treatment membranes and related equipments; materials for housing, building and civil engineering applications</p>	<ul style="list-style-type: none"> <li>• Seawater desalination facilities (water treatment membranes and equipment)</li> <li>• Sewage and waste-water treatment facilities (water treatment membranes and equipment)</li> <li>• Condominiums</li> <li>• Pavements (porous-ceramic paving materials)</li> <li>• Plants and manufacturing facilities (comprehensive engineering services)</li> </ul>
 <p>4.5% Net Sales 69.7 billion yen</p>	<p>Pharmaceuticals and medical products; analysis, physical evaluation and research services</p>	<ul style="list-style-type: none"> <li>• Pharmaceuticals (natural interferon-beta drugs, prostacyclin)</li> <li>• Medical treatment devices (hemodialyzers, artificial dialysis equipment)</li> <li>• Analytical services</li> </ul>

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries



Sales growth  
**+4.7%**



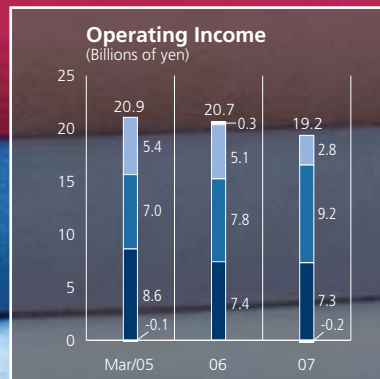
Operating income to net sales  
**3.2%**

FIBERS & TEXTILES

Capital expenditures  
**21.6**  
billion yen  
(property, plant and equipment)



ROA  
**3.9%**



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

1. *Stylish White*, the first new product co-developed with Japanese retailer UNIQLO Inc. since the start of the alliance with that company. Transparency-prevented women's pants using this material went of sale in April 2007.
2. Highly functional polypropylene spunbond to be produced in China starting in February 2008. Demand for this material is rapidly expanding in Asia, centering on sanitary material applications such as disposable diapers.
3. Toray's *Ecsaine\** holds No.1 world market share for man-made suede. It is used in automotive applications under the global brand name *Alcantara\**.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), net sales in this segment rose 4.7%, to ¥607.8 billion, while operating income declined 7.0%, to ¥19.2 billion.

During the year, in response to soaring raw materials and fuel costs, Toray (the parent company) made self-efforts to absorb huge cost increase, increased the selling price to offset raw material cost hike and shifted its emphasis to high-value-added products. These measures contributed to increased sales, although operating income remained about the same level of the last year. We recorded growth in both sales and income in the textiles businesses owing to several factors, including special demand of domestic uniform applications and increased exports of high-value-added products to Europe.

Total sales and operating income of Japanese subsidiaries increased thanks to the efforts to boost sales at trading subsidiaries.

Total sales of our overseas subsidiaries increased, however their operating income was below the level of the last year. This stemmed mainly from the adverse effects of steep rise in raw materials and fuel costs and strong local currencies on our subsidiaries in Southeast Asia, as well as a weak performance by our U.K. subsidiary, although, our subsidiaries in China reported improved their profit level, and our Korean subsidiary expanded spunbond businesses, as well as our subsidiary in Thailand expanded nylon fibers and textiles businesses for airbags.

## OUTLOOK

The business environment in the fibers and textiles segment remains challenging, amid continued high raw materials and fuel costs and a continuous oversupply of polyester filament yarn in China. By contrast, we expect sales growth for our products in industrial applications, centering on automotive applications such as nylon fibers and textiles used in airbags, as well as advanced materials, such as PPS fiber used in bag filters.

Under these circumstances, we will continue targeting measures aimed at improving profitability. We will bolster earnings by continuing our self-efforts and increasing selling price to offset raw material cost hikes, and we will improve our product mix by shifting to high-value-added products. In addition, we will work to increase sales of advanced materials, achieve higher earnings for our Chinese subsidiaries, and promote business structure reform of our subsidiaries in Southeast Asia and Europe to improve profitability.

As a result of the above measures, we forecast segment sales of ¥620.0 billion, a 2.0% year-on-year increase in FY Mar/08. However, we predict a 1.2% decline in operating income, to ¥19.0 billion, due to the revision of Japanese taxation system in FY Mar/08, which will reduce operating income by around ¥2.0 billion.

## TOPICS

### Strategic Partnership with UNIQLO

In June 2006, Toray and UNIQLO Inc., a leading Specialty store retailer of Private label Apparel (SPA), signed a comprehensive, mid- and long-term agreement covering procurement and supply of materials and products.

Toray Group has been already supplying many highly functional materials to UNIQLO. Through the alliance, the two companies have forged a closer strategic partnership, resulting in the creation of a seamless product development system that integrates all stages, from development of materials to final product sales. The Group will share UNIQLO's sales information including customer needs and link it directly to product development so that it would develop innovative materials with speeding up the R&D process and reducing inventory-related risk.

In April 2007, we launched the first new product to emerge from this joint development initiative—a pair of women's pants made of transparent prevention white fabric. For the five-year period from 2006 through 2010, Toray is aiming to supply materials and products to UNIQLO valued at more than ¥200.0 billion.

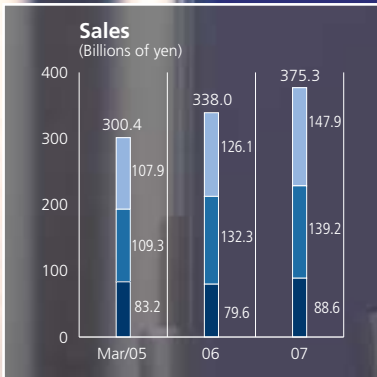
### New Polypropylene Spunbond Company in China

In December 2006, Toray established a new company in China to produce and sell highly functional polypropylene spunbond and its processed goods.

There is rapidly growing demand for polypropylene spunbond for sanitary articles, including disposable diapers, in Asia, particularly in China. At present, Toray's subsidiary in Korea, Toray Saehan Inc., which has an annual production capacity of 49,000 tons, supplies the Asian market. Toray took the decision to establish a new manufacturing base in order to meet the sharp growth in demand forecast for the Chinese market.

Once operations commence in February 2008, the facility will boost the Group's annual production capacity to 67,000 tons, making it one of the top suppliers in Asia. Toray has its sights on further expansion of its production facilities in line with its goal of becoming the No.1 polypropylene spunbond supplier in Asia.

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries



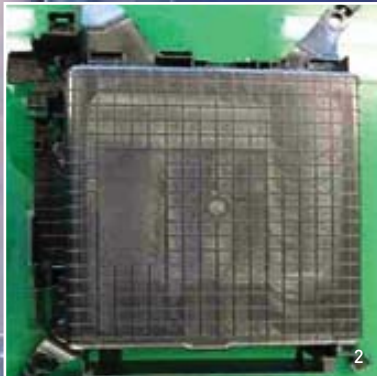
Sales growth  
**+11.0**  
%



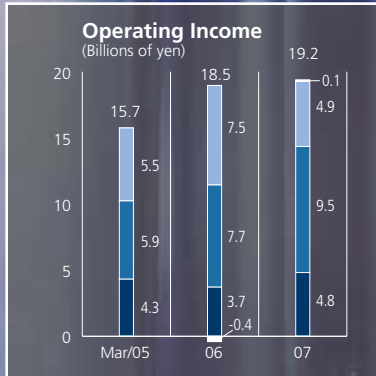
Operating income to net sales  
**5.1**  
%

**PLASTICS  
&  
CHEMICALS**

Capital expenditures  
**25.9**  
billion yen  
(property, plant and equipment)



ROA  
**4.4**  
%



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

1. A product made from the ABS resin *Toyolac\**. Toray holds the top world market share for transparent grade ABS resins, and is expanding *Toyolac\** production capacity in Malaysia.

2. A capacitor for a hybrid car made with the polypropylene film *Torayfan\**. The growing popularity of hybrid cars is boosting demand for *Torayfan\**.

3. *Ecodear\** is a plant-based polylactic acid film. *Ecodear\** has the same level of heat and impact resistance as petrochemical-based plastic films and also boasts flexibility and high transparency.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), net sales in this segment grew 11.0% year-on-year, to ¥375.3 billion. Operating income rose 4.0%, to ¥19.2 billion.

In the plastic resins business, Toray boosted sales of its offerings, centering on applications for the automobile, home appliances, and game machines. In the films business, we achieved higher sales of products used in hybrid car capacitors. In chemicals business, meanwhile, we posted increased sales of fine chemicals. As a result, both sales and income increased in this segment.

Total sales and operating income of Japanese subsidiaries healthily increased through steady businesses at plastic resins, films, chemicals, and trading subsidiaries.

Regarding overseas subsidiaries, we recorded increased sales by our plastic resins subsidiaries in Asia and our films subsidiary in the United States. However, total operating income decreased due to several factors. These included the strategic shift of our Korean films subsidiary's business to the IT-related products segment, and challenging conditions faced by our European films subsidiary due to the influx of low-cost products from Asia.

## OUTLOOK

We anticipate an increase in demand for plastic resins and films for automotive applications, and continuation of firm demand for films used in solar cells. On the negative side, however, we expect raw materials and fuel costs to remain high, while competition will further intensify in the commodity-type of polyester film market.

In light of these circumstances, we plan to increase sales of high-value-added products such as the films for the fast growing solar cell and hybrid vehicle applications. At the same time, we will expand sales of automotive plastic resins by establishing a global supply bases for the plastic resins business. We will also work to improve profitability of our overseas subsidiaries that are not performing so well.

As a result of the above measures, we forecast a 6.6% increase in segment sales, to ¥400 billion in FY Mar/08, as well as a 1.4% increase in operating income, to ¥19.5 billion. This is despite a ¥1.5 billion decrease in operating income due to the revision of Japanese taxation system in FY Mar/08.

## TOPICS

Toray Group aims to secure the top market share in the fast-growing engineering plastic resins market in Asia. Here, we introduce two initiatives by the plastic resins business to

expand our production facilities, as we endeavor to establish a global supply bases.

### Increasing Production Capacity of ABS Resin, *Toyolac\** in Malaysia

Toray has invested around ¥10.0 billion to expand production facilities for its ABS resin *Toyolac\** at the plant of Toray Plastics (Malaysia) Sdn. Berhad (TPM), a Malaysian subsidiary. That subsidiary will also commence production of transparent grade ABS resins. The upgraded facility is scheduled to commence operations in March 2008. When it comes on stream, Toray Group's total production capacity for *Toyolac\** will increase from 292,000 tons to 402,000 tons per year.

Worldwide demand for ABS resins is forecast to increase at an annual rate of at least 5%, with Southeast Asia and China accounting for around 60% of global demand. Those regions are experiencing rapid growth in demand due to increasing local production by the automobile and other industries. Demand for high-performance products with transparent and heat-resistant properties also continues to grow in line with the increasing sophistication of end products.

The aforementioned initiative will reinforce the Group's *Toyolac\** business by making TPM as a Southeast Asian production base for high-performance, high-quality products with transparent, heat resistant, and flame retardant properties. Moreover, it will enable TPM to supply products of the same high quality as those made in Japan to all parts of the world.

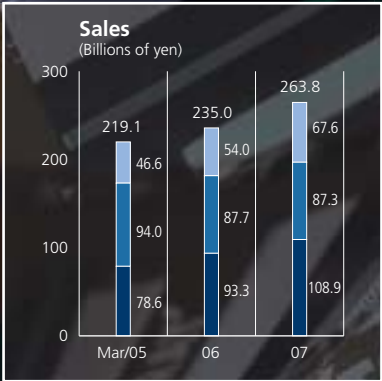
### Boosting Production of High-Performance Plastic Resins

Toray Group has invested around ¥4.0 billion to expand production facilities for two high-performance plastic resins: *Torelina\**, a polyphenylene sulfide (PPS) resin; and *Siveras\**, a liquid crystal polymer (LCP). The additional production lines will start operating in December 2007, boosting the Group's annual PPS production capacity to 11,500 tons, and doubling its LCP production capacity to 2,000 tons.

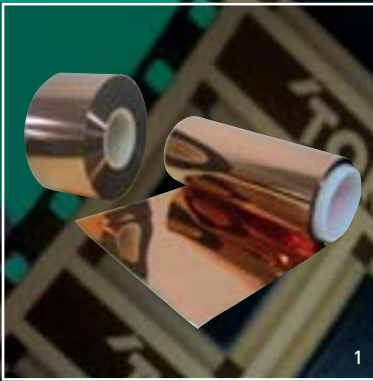
This increase in production capacity is Toray's response to growing demand for high-performance plastic resins for electrical and electronic devices, as well as automotive applications.

Toray Group plans to build additional facilities for the production of PPS resins by 2009. This will further cement its No.1 world ranking as a comprehensive PPS resin manufacturer that also has businesses in films and fibers & textiles. In addition, the Group will develop new applications for LCP resins and expand its business by increasing both its product lineup and its production capacity.

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries



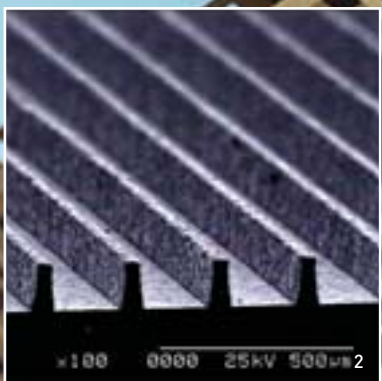
Sales growth  
**+12.3**  
%



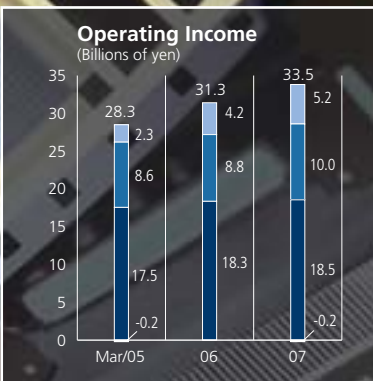
Operating income to net sales  
**12.7**  
%

IT-RELATED PRODUCTS

Capital expenditures  
**30.3**  
billion yen  
(property, plant and equipment)



ROA  
**10.8**  
%



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

1. *Metaloyal\**, two-layer copper clad laminated film to be commercialized in Korea. Demand is increasing for this film for use in COF tapes for LCD driver IC bonding.
2. A pattern processed with a photosensitive paste material used in barrier ribs, which is pasted on the rear panel of a PDP. Toray supplies photosensitive paste materials exclusively to Matsushita PDP Co., Ltd., a joint venture between Toray and Matsushita Electric Industrial Co., Ltd.
3. Electronic circuit materials developed using Toray's advanced film processing technologies and high-performance adhesive technologies. The materials contribute to the technology progress of semiconductor packages and electronic circuits.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), the IT-related products segment posted a 12.3% increase in net sales, to ¥263.8 billion, and a 7.0% rise in operating income, to ¥33.5 billion.

We reported a significant increase in sales of display materials, thanks to higher sales of films for flat-panel displays (FPDs) and materials for plasma panel displays (PDPs). Growth in sales of electronic component-related films and semiconductor-related materials offset a slump in sales of color filters for liquid crystal displays (LCDs) and circuit materials. As a result, Toray posted an increase in both sales and operating income for this segment.

Japanese subsidiaries remained on a par with the previous year, as higher sales by our film processing subsidiary compensated for a decline in sales by our trading subsidiaries. By contrast, operating income increased thanks to a number of factors, including improved profitability by our IT-related equipment subsidiary.

Overseas subsidiaries recorded higher sales and operating income. This was largely attributable to higher sales of FDP- and electronic component-related films and processed films by our Korean subsidiary.

## OUTLOOK

Although the FPD market including LCD and PDP is expanding, production and inventory adjustments are forecasted to restrain growth to moderate levels in first half of the current fiscal year, ending March 2008. However, a return to full-scale market expansion is expected for the second half of the year. Meanwhile, we come under the increasing price pressure to our IT-related products from customers in response to ongoing declines in prices of major electronic devices.

Under these circumstances, Toray Group will endeavor to increase sales of optical films and processed films for FPD applications, as well as IT-related films. In this latter category, we are scheduled to complete expansion of PET film production facilities at our Korean subsidiary in the first half of the current fiscal year. We will also increase sales of new advanced materials, including semiconductor materials.

As a result of the above measures, we project a 13.7% increase in sales of IT-related products, to ¥300.0 billion, and a 1.6% rise in operating income, to ¥34.0 billion in FY Mar/08. A change in accounting treatment for depreciation and amortization will have a ¥1.0 billion negative impact on operating income in this segment.

## TOPICS

### Start Production of High-density Flexible Printed Circuit Boards in Korea

Toray Group will start production of *Metaloyal\**, two-layer copper clad laminated film using the electroplating method for high-density electronic circuit boards at its Korean subsidiary, Toray Saehan. A total of around ¥3.0 billion will be invested in the project, and the new production line is scheduled to commence operation in October 2007.

*Metaloyal\** is used in circuit boards mounted with driver ICs for liquid crystal panels in laptop computers, LCD televisions, and mobile phones. The recent shift to large-size LCD and the miniaturization of drive IC has seen a move away from the tape automated bonding (TAB) to chip-on-film (COF) for which *Metaloyal\** is applicable, at a surprisingly fast rate.

By increasing production capacity at both Toray Advanced Film Co., Ltd. and Toray Saehan Inc., the Group plans to treble the size of its *Metaloyal\** business, to ¥18.0 million, by 2011 to meet huge worldwide demand.

### Expanded Production Capacity for Plasma Display Panels and Materials

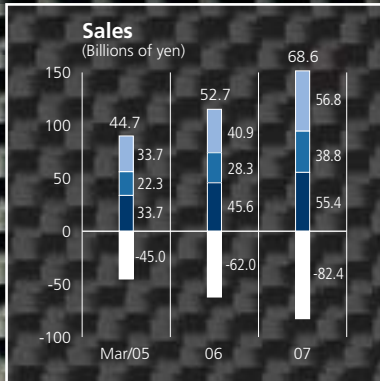
Positioning PDP business as one of our core operations, Toray has been expanding PDP production capacity through Matsushita PDP Company Ltd. (MPDP), a joint venture company with Matsushita Electric Industrial Co., Ltd. On the top of that, Toray is also expanding its PDP paste business in accordance with the expanding capacity of PDP production capacity at MPDP.

In 2006, Toray began expanding production facilities for PDP photosensitive paste materials, to meet anticipated demand from MPDP's fourth plant, which is currently under construction. The first phase of operations began in July 2007. Once full-scale production of paste materials commences in February 2008, total production capacity will increase from 2,700 tons to 5,160 tons per year.

In addition, MPDP is planning to construct a fifth plant, with the first phase of production scheduled to commence in May 2009. Featuring sophisticated facilities, it will be able to make ten 42-inch panels from a single sheet of glass, the highest number in the world. In another first, the new plant will also achieve an annual production capacity equivalent to 12 million 42-inch panels.

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment\*

\*As the segment highly conducts global operation with Japanese, Europe, and US facilities, internal sales figures are shown in adjustment line, to describe the true state of the business.



Sales growth  
**+30.1**  
%



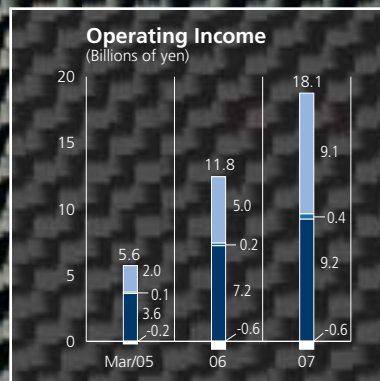
Operating income to net sales  
**26.4**  
%

**CARBON FIBER COMPOSITE MATERIALS**

Capital expenditures  
**35.3**  
billion yen  
(property, plant and equipment)



ROA  
**12.7**  
%



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

1. Demand is increasing in all applications for *Torayca\**, Toray's carbon fiber used in aircraft, sports, and industrial applications.

2. *Torayca\** prepreg is a sheet-form carbon fiber impregnated with resin. It is used as a primary structural material in the new Boeing 787 medium-sized aircraft.

3. *Torayca\** carbon fiber woven fabric. Applications are increasing for the sheet form of *Torayca\** due to its characteristics such as its high workability and easy impregnability for resin.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), Toray Group enjoyed huge increases in both sales and income in the carbon fiber composite materials segment. Net sales climbed 30.1%, to ¥68.6 billion, and operating income jumped 53.0%, to ¥18.1 billion.

Sales of carbon fibers *Torayca\**, intermediate materials such as prepreg\*, woven materials and carbon fiber composites products all increased, buoyed by continued strong demand for aircraft, sports and industrial applications. Additional facilities at the Ehime Plant, which came on stream in January 2007, boosted both production and sales, contributing to overall increases in sales and operating income in Toray.

Steady growth in sales by our trading company resulted in increased total sales and operating income of Japanese subsidiaries.

Regarding overseas subsidiaries, we expanded sales on the back of extremely strong demand from aircraft and industrial applications. We reported an increase in overseas subsidiaries' sales and operating income, thanks largely to expanded production and sales by Toray Carbon Fibers America, Inc. (CFA), which began operating new production lines in January 2006.

## OUTLOOK

We forecast continued growth in demand for carbon fibers for aircraft, sports, and all industrial applications, and an even higher level of growth for commercial aircraft applications. Do to this, we expect the already tight supply and demand situation to continue, despite plans by various carbon fiber manufacturers to expand production facilities.

In response, Toray Group commenced additional production of carbon fiber at its Ehime Plant in January 2007, with an annual capacity of 2,200 tons. In addition, Société des Fibres de Carbone S.A. (SOFICAR), the Group's carbon fiber production and sales subsidiary in France, is adding a new production line, which is scheduled to come on stream in August 2008 with an annual capacity of 800 tons. In addition, in January 2008 we will start making high modulus carbon fiber at the Ehime Plant

at a rate of 400 tons per year.

As a result of the above measures, we forecast a 31.2% increase in segment sales, to ¥90.0 billion, and a 13.4% rise in operating income, to ¥20.5 billion in FY Mar/08. The revision of Japanese taxation system in FY Mar/08, will have a ¥500 million negative impact on segment operating income.

## TOPICS

### Boost in Production of Carbon Fiber Composite Materials in Three Countries and Five Manufacturing Bases

Toray Group is investing a total of ¥55.0 billion to expand the production capacity of carbon fiber composite materials at five manufacturing bases in Japan, the United States, and France in response to a sharp rise in demand for PAN-based carbon fiber for applications including aircraft.

In 2006, worldwide demand for PAN-based carbon fiber was around 28,000 tons. Global demand is expected to continue growing at around 15% annually, reaching 48,000 tons by 2010. This huge increase will be driven in part by demand for aircraft applications, primarily related to Boeing's next-generation passenger aircraft, Boeing 787 Dreamliner, scheduled to enter service in 2008. We expect further demand to be created by alternative energy-related applications, including CNG tanks, as well as the widespread adoption of carbon fiber in future automobile applications.

To meet increased demand, we will build a new high-performance carbon fiber production line at the Ehime Plant, with an annual capacity of 400 tons. We will also boost production at CFA and SOFICAR by 1,800 tons each. In addition, we will build a precursor production line at CFA to address these increases in carbon fiber production capacity. We will also expand production of prepreg by 5.8 million square meters at Toray Composites (America), Inc. (TCA), a subsidiary in the state of Washington. In Japan, we will build a second prepreg production base at our Ishikawa Plant. Through these five manufacturing bases in three countries, we will establish a structure to ensure stable supply and optimize Toray's operations on a global scale.

\*Prepreg: sheet-form carbon fiber impregnated with resin

### Carbon fiber production capacity

(tons/year)

	Jan. 2007	Aug. 2007	Jan. 2008	Dec. 2008	Increase
Ehime Plant	6,900	6,900	7,300	7,300	+400
CFA (U.S.)	3,600	3,600	3,600	5,400	+1,800
SOFICAR (FRANCE)	2,600	3,400	3,400	5,200	+1,800
Group total	13,100	13,900	14,300	17,900	+4,000

### Prepreg production capacity

(10,000m<sup>2</sup>/year)

	Jan. 2007	Jul. 2008	Jan. 2009	Increase
Ehime Plant	1,080	1,080	1,080	—
TCA (U.S.)	1,140	1,720	1,720	+580
Ishikawa Plant	—	—	580	+580
Group total	2,220	2,800	3,380	+1,160

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries



Sales growth  
**+4.7%**



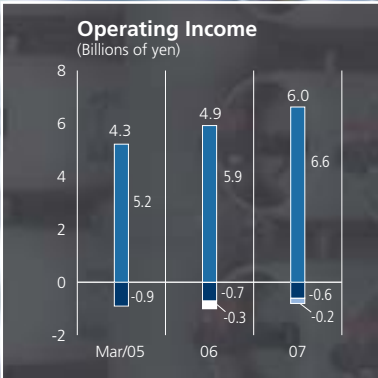
Operating income to net sales  
**3.7%**

ENVIRONMENT & ENGINEERING

Capital expenditures  
**3.6** billion yen  
(property, plant and equipment)



ROA  
**3.4%**



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

1. Demand is increasing for Toray's reverse osmosis membrane *Romembra\**, elements used in seawater desalination, amid a worsening water shortage worldwide.

2. Demand is expanding for immersed membrane modules for Membrane Bioreactor (MBR) to treat and reuse wastewater.

3. A plant in Sulaibiya, Kuwait is the largest wastewater reuse plant in the world. The plant uses Toray's stay-clean (low fouling) reverse osmosis (RO) membrane technology and has a production capacity of 320,000m<sup>3</sup> of water a day.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), the environment & engineering segment recorded a 4.7% increase in net sales, to ¥161.3 billion. Operating income rose 21.0% year-on-year, to ¥6.0 billion.

In the water treatment business, Toray posted large sales and improved profits through exports of reverse osmosis (RO) membranes.

In Japan, we recorded higher total sales and operating income of Japanese subsidiaries, owing to steady sales by our construction and engineering subsidiaries.

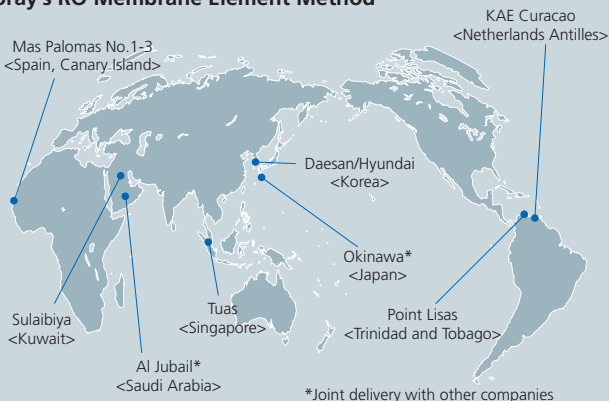
## OUTLOOK

We expect active capital expenditures by corporations to continue. In the water treatment business, we foresee ongoing difficulties in the water treatment engineering business stemming from cutbacks to public-works in Japan. However, demand is expanding for seawater desalination and the reuse of wastewater, globally.

Under these circumstances, we will endeavor to increase sales of plant engineering and engineering equipment by our engineering subsidiaries. We will also reinforce our global marketing and sales network to expand our water treatment membrane business. In addition, we will restructure the business of our water treatment engineering subsidiary in an effort to increase earnings.

As a result of the above measures, we forecast a 11.6% increase in segment sales, to ¥180.0 billion, and a 51.2% jump in operating income, to ¥9.0 billion in FY Mar/08.

### Water Treatment Plants Adopting Toray's RO Membrane Element Method



Cumulative installation : about 6,400,000 m<sup>3</sup>/day (as of seawater desalination over 1,000,000 m<sup>3</sup>/day)

## TOPICS

### Development of High Boron Rejection RO Membrane Element for Seawater Desalination

Toray was the first in the world to demonstrate a correlation between the boron rejection rate and pore diameter distribution in reverse osmosis (RO) membranes used for seawater desalination. We achieved this breakthrough by quantifying pore diameter distribution on a sub-nanometer level\*. We then used this information together with our proprietary molecular design technology to develop a "high boron rejection RO membrane" that controls pore diameter with sub-nanometer accuracy.

The rejection of boron molecules, which are very small, has long been a problem when desalinating water using RO membranes. Although Toray has previously developed RO membranes with a high rate of boron rejection, this time we combined our research findings and expertise in nanotechnology to design polymer molecules with an ideal pore diameter.

\* Sub-nanometer equals one-tenth of one-billionth of a meter

### Succession of Orders for RO Membranes for Mediterranean Desalination Plants

Toray has received a succession of orders for RO membranes for use in seawater desalination plants in the Mediterranean Sea. The plants are the Hamma desalination plant in Algeria, which will produce 200,000 cubic meters of water per day, a plant in Palmachim, Israel (93,000 cubic meters per day), and three desalination plants in Malta (54,000 cubic meters per day). All of the plants are scheduled to commence operation in 2007.

Countries in the Mediterranean region rank alongside those in the Arabian Gulf with respect to the scarcity of water resources\*\*. Production capacity of desalination plants on the Mediterranean Sea is forecast to increase 179% by 2015, a growth rate that is roughly double that for the Arabian Gulf states. Algeria and Israel, as well as Spain, where Toray has an extensive track record, are all planning to construct huge desalination plants that use the RO membrane element method.

The Hamma desalination plant in Algeria, currently under construction, is the largest plant of its kind in Africa. The plant ordered for Israel is the first such plant that Toray Group has supplied for that country. In Malta, it is the first time that Toray's products have been adopted as replacements for three desalination plants constructed on the island in the 1980s and 1990s.

\*\* Countries deemed to have scarce water resources are those where demand far outstrips supply and have a water shortage rate of at least 40%.  
Water shortage rate = (1 - water supply/water required) x 100.

■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries



Sales growth  
**+3.9%**

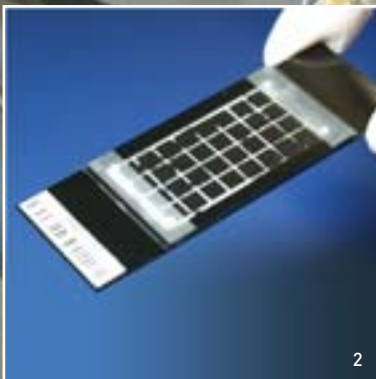


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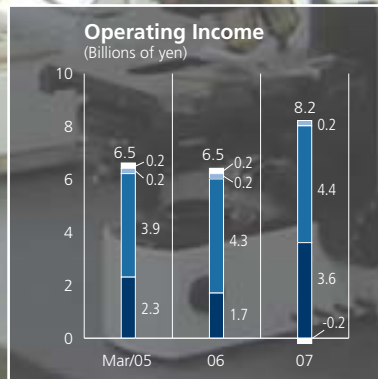
Operating income to net sales  
**11.7%**

LIFE SCIENCE & OTHER BUSINESSES

Capital expenditures  
**3.7** billion yen  
(property, plant and equipment)



ROA  
**7.5%**



■ Toray ■ Japanese Subsidiaries ■ Overseas Subsidiaries ■ Adjustment

3

1. *Feron\**, Japan's first natural Interferon drug, received approval to treat hepatitis C compensated cirrhosis in April 2006.

2. Toray's 9k series of *3D-Gene\** ultrahigh sensitivity DNA chip support human gene analysis research in the areas of immunity, metabolic syndrome and cancer.

3. Toray's New Frontiers Research Laboratories, established to foster collaboration with outside research groups, makes its laboratory space available for others to use. Joint research is conducted in a range of fields, including biotechnology and nanotechnology.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2007

In the fiscal year ended March 2007 (FY Mar/07), net sales in the life science & other businesses segment grew 3.9%, to ¥69.7 billion, and operating income rose 26.3%, to ¥8.2 billion.

Sales and operating income of the pharmaceuticals and medical products business increased through sales expansion of artificial kidneys and emergency intensive care devices, as well as increase in licensing revenues. Both sales and operating income of other businesses also increased, thanks to strong performance of Toray Research Center Inc.

## OUTLOOK

The pharmaceuticals market in Japan is forecasted to stay largely unchanged, while competition in the market for artificial kidneys will become increasingly intense.

Under these circumstances, we will seek approval for new drugs and new indications, and strive to increase sales of *Feron\** aided by the recently approved additional indication for hepatitis C compensated cirrhosis. In the medical products, we will work to increase sales of *Toraylite\**, a moist-type artificial kidney.

As a result of the above measures, we forecast a 0.4% increase in segment sales, to ¥70.0 billion, and a 1.9% decline in operating income, to ¥8.0 billion, stemming from lower operating income in FY Mar/08.

## TOPICS

### New Indication for Natural Interferon Beta Drug *Feron\**

In April 2006, Toray received approval for its natural Interferon Beta drug, *Feron\**, to be used in Japan to treat viremia\* associated with hepatitis C compensated cirrhosis. Consequently, *Feron\** is the first antiviral drug in Japan found to be effective in the treatment of hepatitis C compensated cirrhosis.

Hepatitis C compensated cirrhosis is caused by the hepatitis C virus, and can lead to decompensated cirrhosis and hepatocellular carcinoma. Until now, only drugs that stabilized liver function were permitted for the treatment of hepatitis C compensated cirrhosis. Thus, Toray's acquisition of approval for *Feron\** for treating the hepatitis C virus, which causes hepatitis C compensated cirrhosis, offers a new method of treatment for patients.

\*Except for the treatment of patients with hepatitis C virus serotype 1 and high viral loads.

## Development of High-Sensitivity DNA Chips for Analysis of High-Density Human Gene Expression

In November 2006, Toray developed the *3D-Gene\** Human Immunity & Metabolic Syndrome 9k chip and the *3D-Gene\** Human Digestive Cancer 9k chip. Both chips will be used for the analysis of human gene expression and were made using an ultrahigh sensitivity DNA chip *3D-Gene\** substrate.

The first of these two DNA chips has about 9,000 genes related to the human immune mechanism and metabolic syndrome\*\*. It will be used in a wide variety of research fields, ranging from basic research on immunology and endocrine metabolomics to research on allergies, autoimmune diseases, diabetes, metabolic syndrome, and other diseases. The second *3D-Gene\** Human Digestive Cancer 9k chip, which also carries about 9,000 genes, will be used in the detection of a broad spectrum of cancer-related genes, mainly associated with digestive cancer.

This new series of *3D-Gene\** 9k chips makes a huge contribution to research on immunity, metabolic syndrome, and cancer, fields in which Japan leads the world. They will be used in the analysis of human gene expression, including genes used for diagnostic purposes and for new drug discovery.

Toray's provision of these new products to corporate and academic research institutions will expedite medical research in Japan that includes the identification of new genes used for diagnosis. Moreover, the *3D-Gene\** chips are expected to lead to the development of DNA chips for testing and diagnostic applications that will serve as key tools in so-called "tailor-made" medicine.

Part of the research was undertaken with assistance from the Bio-IT Equipment Development Project sponsored by Japan's Ministry of Economy, Trade and Industry and the New Energy and Industrial Development Organization (NEDO).

\*\*According to the April 2005 definition of metabolic syndrome adopted as diagnostic criteria in Japan, a person with metabolic syndrome must have abdominal obesity caused by excessive nutritional intake or lack of exercise, an accumulation of visceral fat, plus two of the following three factors: raised glucose, lipid metabolism abnormality, and raised blood pressure.

## RESEARCH & DEVELOPMENT

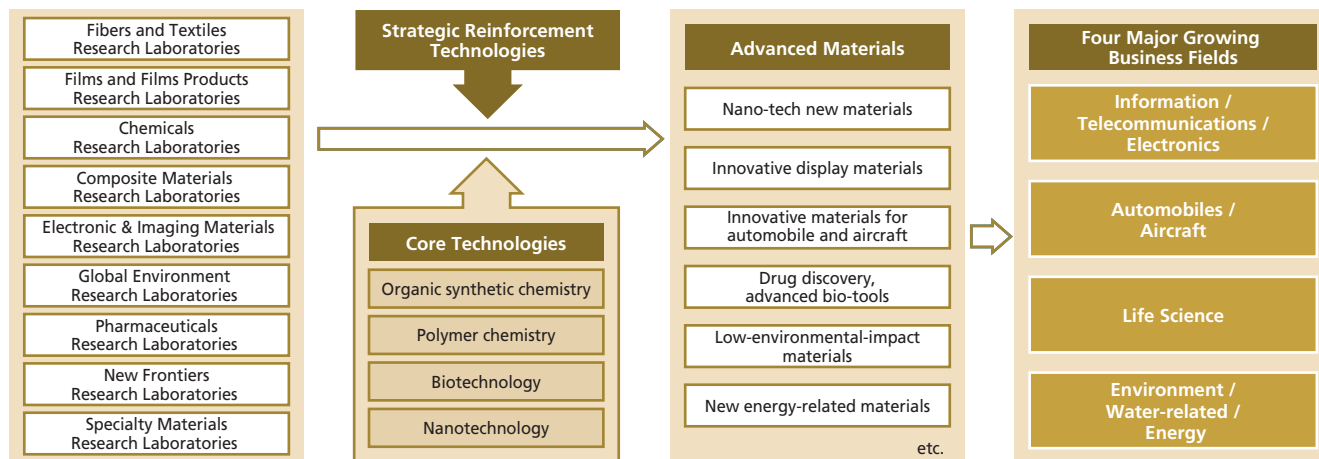
### RESEARCH & DEVELOPMENT STRATEGIES

#### Basic Approach

Technological innovations, underpinned by ongoing “materials innovation,” offer revolutionary solutions to a wide range of issues society confronts. Such issues include the advancement of highly information-based society, extended healthy life-span, and global environmental issues. Toray Group’s mission is to benefit society through the continuous creation of innovative advanced materials by employing its core technologies and their integration.

In line with this philosophy, Toray Group adopted the slogan “Innovation by Chemistry” for its long-term corporate vision, “AP-Innovation TORAY 21,” formulated in April 2006. The slogan reflects our goal of evolving into the global top Company of advanced materials by pursuing technological innovation in chemistry.

#### Advanced Materials R&D Strategies



#### Core Technologies and Priority Research & Development Themes

Under Project Innovation TORAY 2010 (“IT-2010”), which embodies the company’s mid-term business strategies, Toray Group will concentrate on developing advanced materials and bringing these materials to market in our four major growing business fields: Information, Telecommunications, and Electronics; Automobiles and Aircraft; Life science ; and Environment, Water-related, and Energy. To this end we will realize technological innovations in new materials, nano-materials, bio-processes, and nano-processes by strategically reinforcing key elemental technologies, centering on organic synthetic chemistry, polymer chemistry, biotechnology and nanotechnology, which represent four core technologies of Toray Group.

#### APEX 40 and Promoting Commercialization

To expedite R&D aimed at creating advanced materials, we established APEX 40, in which we selected 40 of Toray’s numerous research themes judged to have the great impact on the Group’s future businesses. We are now actively allocating managerial resources to those top priority 40 themes.

Seeking to swiftly commercialize the results of our R&D activities, we have initiated “Advanced Materials Projects” for major themes that have advanced from the research stage to the development stage and involve new infrastructure and concepts. Under the projects, we appoint a dedicated leader for each theme and determine which department will be in charge, with the aim of achieving commercialization within a maximum period of two years.

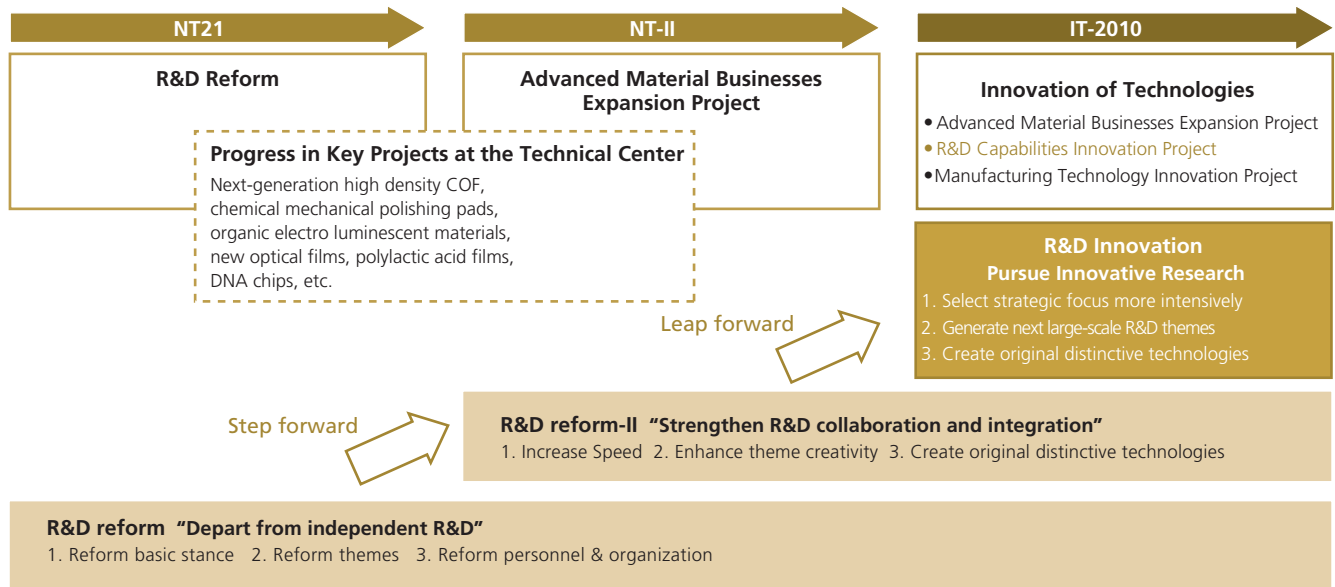
#### “APEX 40 ” and “APEX Challenge”



### Mid-term Business Strategies and R&D Strategies

IT-2010 calls for R&D innovation focusing on (1) select strategic focus more intensively, (2) generate next large-scale R&D themes, and (3) create of original distinctive technologies.

#### From R&D Reform to R&D Innovation

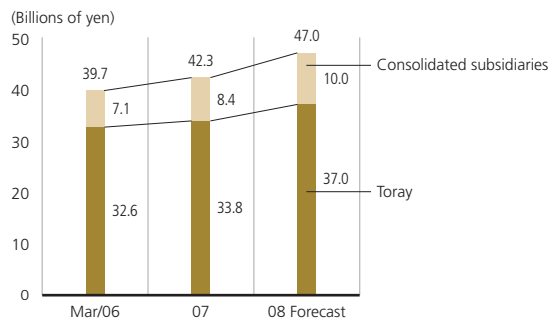


### Performance and Outlook

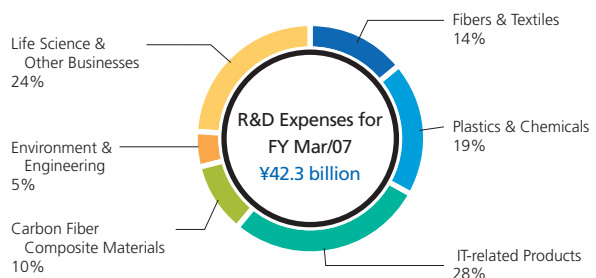
In FY Mar/07, we invested proactively in two Strategically Expanding Businesses (IT-related Products and Carbon Fiber Composite Materials) and two Strategically Developing Businesses (Life Science and water treatment). As a result, consolidated R&D expenses increased 6.5% from the previous year, to ¥42.3 billion. Non-consolidated R&D expenses totaled ¥33.8 billion.

In FY Mar/08, we plan to increase R&D expenditures by a further 11%, to ¥47.0 billion. This is in line with the basic policy under IT-2010 of allocating ¥240 billion to research and development over the five-year period beginning April 2006. In FY Mar/08, we will continue to promote development of advanced materials for our four major growing business fields.

### R&D Expenses



### R&D Expenses by Business Segments



## INTELLECTUAL PROPERTY STRATEGY

### Basic Strategy and Patent Applications

Toray Group strives to obtain patents across all of its R&D initiatives, with the key focus on advanced materials. This is particularly true of the Strategically Expanding Businesses and Strategically Developing Businesses, which we have positioned as drivers of earnings growth over the medium and long term. In these businesses, we are reinforcing our competitiveness through rigorous patent applications both in Japan and overseas and use of patent rights.

To facilitate selection and concentration in its R&D activities, Toray has designated Rank-A Projects\* as top-priority themes. Under this approach, leaders and supervising executives are appointed, and progress is monitored regularly at meetings of technical division executives.

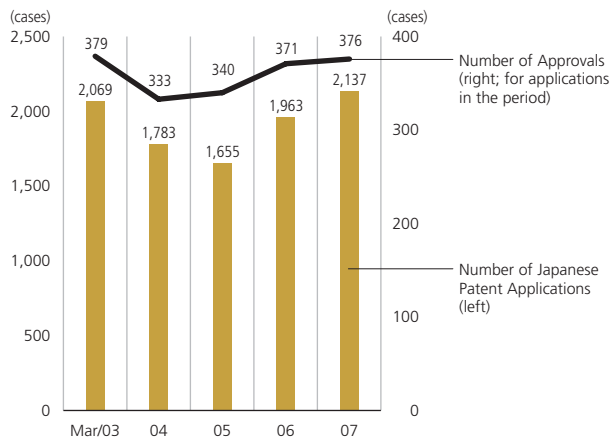
Most research themes related to advanced materials and other major business fields of the Group are accorded Rank-A Project status.

\* Rank-A Projects are classified into one of the following three categories, based on their objectives.

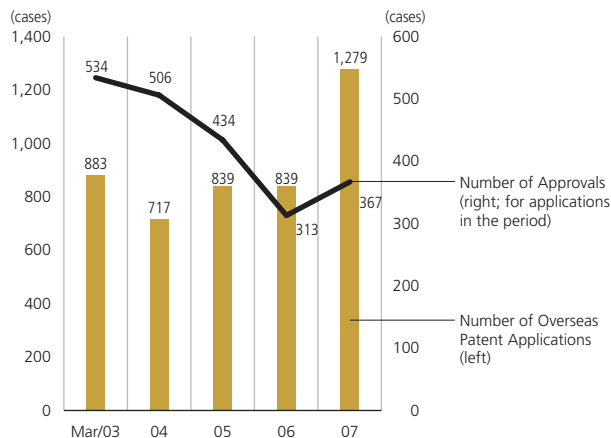
1. "Rank-A Patent Rights Projects," with the objective of establishing patent networks for new technologies and related peripheral technologies through application and pursuit of claims for patent rights.
2. "Rank-A Defense Projects," targeting early clarification of the relations with patents rights held by other companies for key research and technology development, and prompt determination of countermeasures for patents of other companies determined to have a major impact on Toray's business.
3. "Rank-A Rights Utilization Projects," structured to fight infringement of Toray patents by other companies through claims for the legitimacy of Toray rights, efforts to curb such infringement by other companies and the obtaining of rightful compensation for execution of Toray patents by other companies, to make contributions to Toray business.

### Patent Applications and Approvals

#### Japan



#### Overseas



FY MAR/07 R&D HIGHLIGHTS

**1** Metallic Luster Forming Film

In September 2006, Toray succeeded in developing the world's first metal-free metallic luster film with easy moldability. The film with high-luminance reflection of light features a luster similar to that of metal. This is achieved using Toray's proprietary nano-multilayer technologies (high-precision multilayer technologies), capable of laminating several hundreds, and even several thousands, of polymers with high precision. The film can be molded together with resin owing to its extremely high moldability, achieved by combining Toray's high-precision multilayer technologies and its proprietary polymeric design technologies.

Previously, applications for conventional metallic luster materials were limited because virtually no radio waves could pass through them, they lacked sufficient moldability, and they were not environmentally friendly. In addition to solving these problems, Toray's new film paves the way for a wide range of

applications, including in mobile phones, home appliances, and automobiles. This is attributable to Toray's proprietary technologies, which realize superior thermal resistance, chemical resistance, printability, and surface properties.

The film is Toray's second advanced film developed using its innovative nano-multilayer technologies, the first being a highly transparent, tear-resistant film already available in the market.



Metallic Luster Forming Film

**2** Impact-Energy Absorbing Plastic

In January 2007, Toray developed the world's first impact-energy absorbing plastic in collaboration with Professor Takashi Inoue and his group in Yamagata University. This research is sponsored by New Energy and Industrial Technology Development Organization (NEDO\*) in terms of project on Nanostructured Polymeric Materials, launched in 2001.

Normally characterizing as high-performance plastic, the energy-absorbing plastic changes its shape like rubbers under a drastic impact. This innovative material was developed using Toray's proprietary nano-alloy technology\*\*, which is used to combine two opposing material characteristics, high-strength, high-rigidity plas-

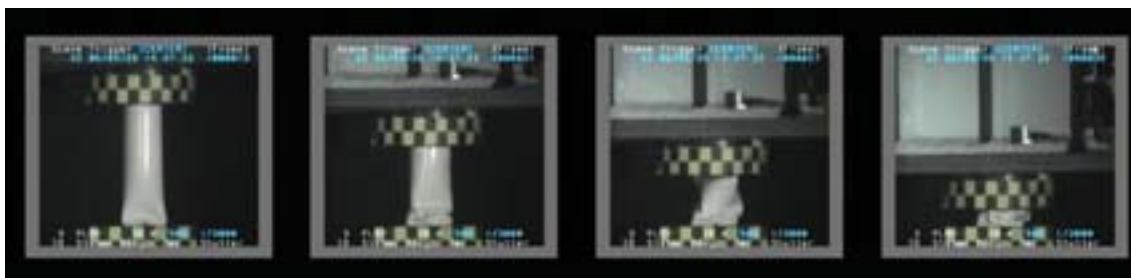
tic, which breaks easily when subjected to sudden impact, and a low-strength, low-rigidity rubber material, which is strong when subjected to sudden impact. The unique mechanical behavior suggests a potential application for the energy absorbing car parts; friendly to both pedestrians and drivers with less injury.

Toray will explore other uses in addition to the energy absorbing car parts. Examples include electric/electronic applications and sporting goods.

\* Ministry of Economy, trade and industry, Japan

\*\*Technologies that optimally blend two or more plastics at a nano-meter level.

High-speed impact test for new plastic (200kg, 50cm height)



Change shape flexibly and absorb the impact-energy

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### **3 Innovative Mass-Production Technology of Carbon Fiber Composites**

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In June 2006, Toray was the first in the world to develop mass-production technology for carbon fiber composites with complicated shapes by applying the new technologies.

The technologies realize a design capability and mass productivity for carbon fiber reinforced plastics (CFRP) comparable with that of other industrial materials, such as plastics and metals by drastically reorganizing the material design, molding processing, and assembly technologies.

1. Innovation of Material Designing Technology: Toray has established an innovative concept, by which the products are segmented into CFRP parts according to their shape and function, so each segmented component design is optimized.
2. Innovation of Molding Technology: Toray has constructed a

new press-molding system in order to achieve great reduction of molding time from material charge on the mold to de-molding of parts.

3. Innovation of Assembly Technology: Toray has also developed a CFRP hybrid technology, to combine CFRP parts using thermal welding, realizing short time and highly-efficient assembly.

These innovations exploit diverse possibilities for mass-production, including laptop computers and cellular phone casings, automotive parts, and medical devices.

In 2005, Toray received an award from The Society of Polymer Science, Japan, in recognition of the innovative features of these new technologies.

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### **4 Low Temperature Curable Photosensitive Polyimide Coatings Developed for Next-Generation Semiconductors**

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In February 2007, Toray developed the world's first photosensitive polyimide coatings that can be cured at temperatures below 200°C and can be developed with environmentally friendly alkaline developers.

Nanofabrication and faster-speed semiconductors are being developed in response to the increasingly high performance and multi functionality of information technology devices. Enhancing the reliability of such next-generation semiconductors requires photosensitive stress buffer coatings that can be cured at lower temperatures.

Using our proprietary polymeric design technologies, Toray succeeded in developing buffer coatings that achieve an optimal balance between thermal resistance and low-temperature curing – two antinomic properties in conventional polyimide

coatings. These new coatings will make a significant contribution to raising the reliability and high yield of next-generation semiconductor devices.

The semiconductor buffer coating market is forecasted to expand to approximately ¥30 billion by around 2010, from around ¥20 billion at present. Toray currently holds the world No.1 market share for the most advanced buffer coatings for sub-90nm circuit line width semiconductors. By adding this new low-cure temperature coatings to its lineup, Toray intends to develop new applications for next-generation semiconductors and gains a market share of at least 30% in the whole semiconductor buffer coating market.

CSR

PURSUING CSR ONLY  
A CHEMISTRY-BASED  
COMPANY WOULD DO.

All executives and employees in Toray Group constantly strive to fulfill their social responsibilities in all domains of Toray's business activities. Toray pursues a wide range of CSR (corporate social responsibility) activities in ensuring safety, accident prevention, environmental preservation, corporate ethics, legal compliance, and management transparency. The Group also engages in utilizing our unique research and technological development capabilities in developing products that provide solutions to global environmental problems, and provides grants for promoting basic research into science and technology along with support for the arts, culture, and sports.

## CORPORATE GOVERNANCE

### BASIC POLICY

Toray Group’s corporate philosophy centers on “contributing to society through the creation of new value with innovative ideas, technologies, and products.” In order to realize this philosophy, we are constantly enhancing corporate governance. Toray Group places top priority on gaining the trust of shareholders, as well as obtaining the trust and meeting expectations of society by acting fairly while maintaining high ethical standards, ensuring a strong sense of responsibility, and reinforcing management transparency.

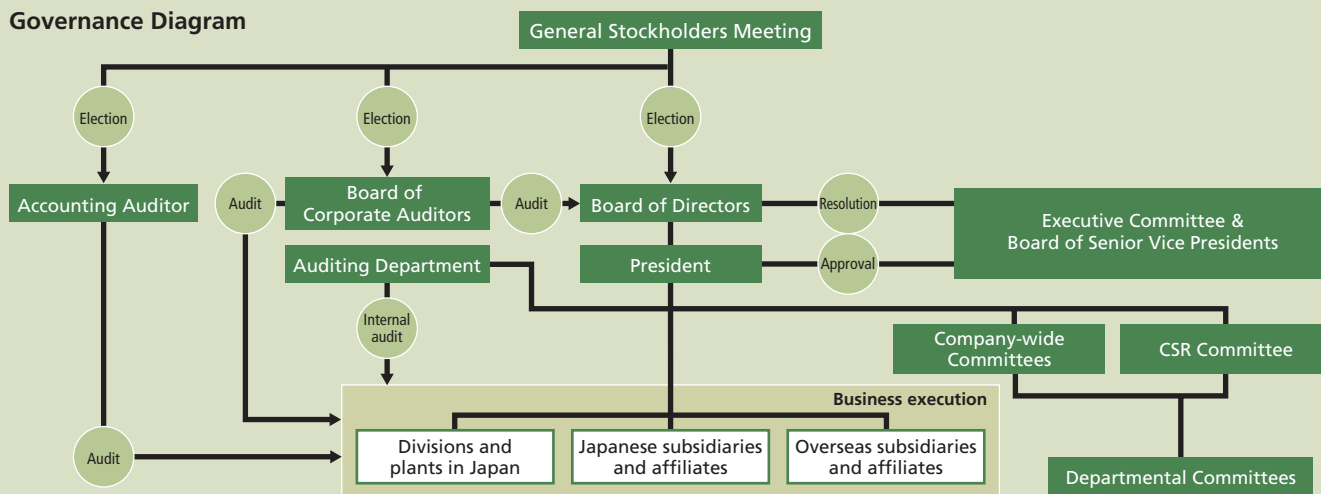
Since Toray Group supplies various basic materials to a wide range of industries and operates on a global scale, we believe that swift and flexible decision-making and the execution of duties by directors well-versed in the Group’s business situations is essential from the perspective of fulfilling our responsibilities to shareholders. For this reason, we have not implemented an operating officer system. At present, we do not appoint external directors. However, all of Toray’s top executives fully recognize the importance of incorporating valuable external perspectives, and in this respect we are continually examining the introduction of external directors who could fulfill a valuable and effective role in Toray Group.

### CORPORATE GOVERNANCE SYSTEM

As of June 27, 2007, the Board of Directors consisted of 30 members. Decisions concerning important matters related to Corporation Law are made at monthly Board of Directors meetings. At those meetings, directors present reports and exchange opinions as part of the mutual monitoring of the execution of each of their respective duties. To ensure timely and rigorous decision-making at Board of Directors meetings, we set and adhere strictly to limits on the authority of top management for each organization, and we operate both the Executive Committee to discuss policy matters and the Board of Senior Vice Presidents to discuss implementation as deliberative organs for decisions made at Board of Directors meetings and by the President. We have also established a CSR Committee and other company-wide committees for each important management theme, which play a supplementary role in decision-making and implementation.

As of June 27, 2007, there were four corporate auditors, of whom two were external auditors. The role of the auditors is to enhance the management monitoring function. All auditors attend Board of Directors meetings and, based on policies and plans adopted by Board of Corporate Auditors meetings held quarterly, perform regular audits of Toray offices and plants worldwide, including subsidiaries and affiliates. They also meet with the President, all directors and the heads of Toray’s various departments. In addition, support personnel aid the auditors in their duties, and the Auditing Department assists the auditors when requested.

Governance Diagram



## INTERNAL CONTROL

### BASIC POLICY

Toray Group has established an internal control system to enable all executives and employees to realize our corporate philosophy. It encompasses the creation of an appropriate framework, including the above-mentioned system of corporate governance, as well as formulation of rules and regulations, dissemination of information, and monitoring. We will ensure the legal and efficient execution of operations by constantly examining and improving this framework.

### MAIN ACTIVITIES

#### (1) Corporate Ethics and Legal Compliance

Corporate ethics and legal compliance are priority management issues on a par with maintaining safety, accident prevention and environmental preservation. Based on the clearly defined stance and active leadership of the CEO, Toray Group works together towards these goals.

Specifically, the Group's compliance activities are spearheaded by three committees: (1) the Corporate Ethics Committee (chaired by the President & CEO and including all member of the board and the chair of the labor union), which determines policies related to corporate ethics and legal compliance; (2) the Company-Wide Legal Compliance Committee, which emphasizes direct communication between top management and employees; and (3) the CSR and Legal Compliance Committee, which implements programs at division, department, office, and plant levels.

To ensure that all executives and employees observe corporate ethics and comply with laws and regulations, Toray has adopted a Corporate Ethics and Legal Compliance Code of Conduct and Corporate Ethics and Legal Compliance Guidelines. The code of conduct and guidelines have been combined in the Corporate Ethics and Legal Compliance Handbook to ensure thorough dissemination to all executives and employees. We are also establishing an Internal Reporting System for executives and employees to report violation of laws, regulations, or the company's Articles of Incorporation.

#### (2) Risk Management

Toray's risk management system works to mitigate risks and prevent crises under normal conditions and to respond immediately in the event of a major emergency. We have identified the

risks that are potentially present in our business activities and established Risk Management Regulations.

As a subordinate organ to the CSR Committee, the Risk Management Committee is charged with overseeing risk management under normal conditions. In the event of a company-wide crisis, the Committee will take action in coordination with the Company-Wide Emergency Headquarters and the On-Site Emergency Headquarters.

#### (3) Financial Reports

For fiscal periods beginning on or after April 2008, Japan's Financial Product Exchange Law will require companies to submit internal control system reports and audits on these systems to be performed by auditing firms. To meet these new requirements, Toray's Internal Control Department is establishing a new system for financial reporting, which will be completed during FY Mar/08. The system will be implemented after April 2008.

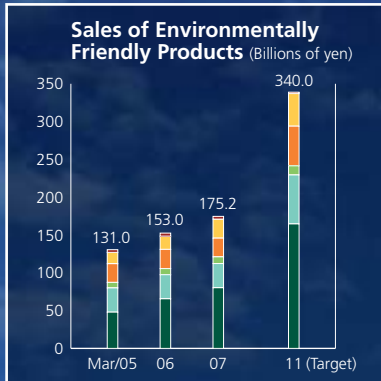
#### (4) Information Disclosure and Management

As a basic principle, Toray Group will continue functioning in an open manner by fulfilling its duty to provide information to all stakeholders. We are committed to independent and fair disclosure of information based on our Information Disclosure Principles. Business results are announced in quarterly financial reports, and important information related to the Group is disclosed in a timely manner through a variety of channels. These include filing reports with the Tokyo Stock Exchange, issuing press releases to media organizations, and posting information on the Toray website.

We have a robust system for storing and managing important documents and information, including minutes and financial reports related to management decision-making. Such information is made available to others when necessary. Confidential information is controlled by Confidential Information Management Regulations, which specify those in charge and methods of controlling such information, and we adopt measures to prevent improper access to such information by those outside the Group. Toray has also put in place a system for protecting personal information through our Personal Information Management Regulations.

*Ecodream* \*

- Reduction of carbon dioxide and energy
- Water purification
- Air purification
- Reduction of hazardous substances
- Recycling
- Others



Share of Environmentally Friendly Products in overall consolidated net sales

# 11.3

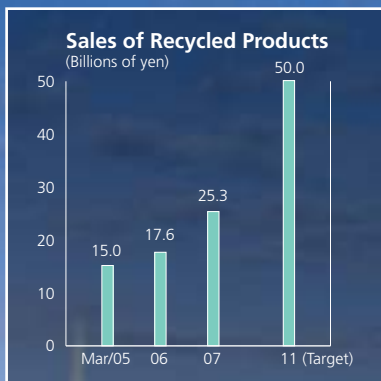
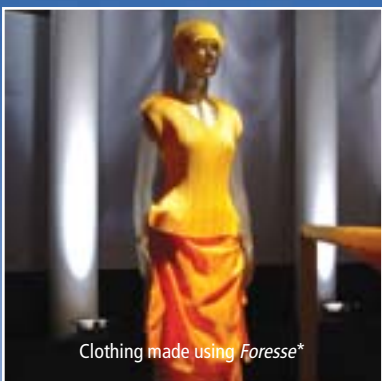
%

**CONTRIBUTING TO THE GLOBAL ENVIRONMENT THROUGH OUR BUSINESS**

Sales of Environmentally Friendly Products

# 14.5

% yoy increase



The length of blades used in large-capacity wind power generation continues to increase, and are now in the 40 to 60 meter range. Toray's carbon fiber is being adopted in these larger blades to reduce weight while maintaining strength.

### **Ecodream\* — BASIC POLICY**

As a manufacturer committed to fulfilling its social responsibilities, Toray Group engages tirelessly in environmental preservation activities\*. These include reducing greenhouse gases and chemical emissions generated in the course of our business activities. At the same time, being a manufacturer of science and technology-based materials, we make our own contribution to society through the promotion of recycling and the development of technologies and products with minimal environmental impact. We have adopted the name *Ecodream\** for Group initiatives that place us at the forefront of global environmental protection initiatives, including the conservation of resources and the prevention of global warming, both of which aim to realize a sustainable recycling-oriented society.

\*For more details on environmental preservation initiatives, such as reducing greenhouse gases and chemical emissions, please refer to pages 48 and 49.

### **EXPANDING BUSINESSES' THROUGH THE *Ecodream\** PROJECT**

To communicate information both internally and externally about our environmental and recycling initiatives, we have adopted *Ecodream\** as the general brand name for our environmentally friendly products and recycled offerings. Initiatives to expand the business of these products have been collectively named the "*Ecodream\** Project."

Under the *Ecodream\** Project, we aim to increase total sales of eco-friendly products, featuring minimal environmental impact throughout their entire lifecycle, to ¥340 billion by FY Mar/11. This target is more than double the figure for these products recorded in FY Mar/06.

Total sales of environmentally friendly products are steadily increasing and reached ¥175.2 billion in FY Mar/07, up 14.5% from the previous year.

### **PROMOTING RECYCLING**

Toray Group's basic policy, which emphasizes "Less Energy Recycling," calls for the multilateral use of various recycling technologies suited to each material's properties. Here, our aim is to keep energy consumption and carbon dioxide emissions to the minimal levels necessary. To conserve resources and protect the global environment, we actively adopt recycling in our fibers and textiles, plastics, and carbon fiber composite materials businesses.

We are pursuing a "Total Recycling" program for our three major synthetic fiber: nylon, polyester, and acrylic. Specifically, we are using three recycling methods, based on their suitability to various raw materials and products. They are (1) "Material Recycling," in which the materials are recycled without decomposition of the polymers, (2) "Chemical Recycling," in which materials are recycled by chemically decomposing polymers into raw materials, and (3) "Thermal Recycling," in which heat recovered from the incineration processes is reused.

In FY Mar/07, we announced our intention to market clothes made of recycled nylon-6 fibers in collaboration with U.S.-based company, Patagonia, Inc. Compared with items made from virgin nylon-6 fiber, these textiles consume one-sixth of the energy and emit one-fifth of the carbon dioxide during the production process. This recycling initiative makes a substantial contribution to reducing environmental impact.

## Ecodream\* PRODUCTS

### Expected Effects on Environmentally Friendly Products and Technologies

Expected Effects	Products
<b>CO<sub>2</sub> Gas Reduction</b>	PLA (Polylactic Acid) fibers, plastic resins, films; 3GT fibers & textiles; Bamboo composite fibers; Cellulose fibers; Soybean protein fibers; Flexible and heat resistant films
<b>Energy Reduction</b>	Torayca* for transport machineries; Engineering plastic resins; Components for turbine generators; Components for fuel cells; Films for solar cells; films for capacitors for hybrid cars
<b>Water Purification (Water treatment)</b>	RO (reverse osmosis) membranes; UF-MF membranes; Immersed membranes for MBR; Water treatment system businesses; Torayvino*
<b>Air Purification</b>	Heat resistant bag filters (PPS, PTFE fibers); Air filters
<b>Hazardous Materials Reduction</b>	Non-halogen flame retardant (fibers & textiles, plastic resins, films); Waterless CTP plate; Non-halogen circuit materials; Heavy metal-free color filters
<b>Recycling</b>	PET; Nylon 6; PBT; ABS; PPS; CFRP; DMSO

■ Fibers & Textiles   
 ■ Plastics & Chemicals   
 ■ IT-related Products   
 ■ Carbon Fiber Composite Materials  
■ Environment & Engineering   
 ■ Life Science & Other Businesses

Product/technology	Description	Carbon dioxide reduction*1	Energy reduction*2	Water purification*3	Air purification**4	Hazardous substances reduction**5	Recycling**6	others
Torcon*, Toyoflon*, Teflon®, Tefaire®	PPS fibers and fluorofibers used to collect dust in the exhaust gas of garbage incinerators and coal-fired boilers.				●			
Ecodream*	Environmentally friendly polylactic acid fiber made from corn or other plants.	●	●					
Sotake*	Bamboo-based fiber combining the superior features of natural bamboo with Toray's technologies.	●						
Foresse*	Fiber made from non-petrochemicals, plant-based cellulose. Also, the spinning process does not involve organic solvents, but uses the melt spinning method.	●						
Aminos*	Plant protein fiber made from proteins derived from soybeans.	●						
UNFLA*-ex	Non-halogen flame resistant polyester material using phosphorous flame retardants.					●		
Warmsensor*	Moisture-absorbent, heat-generating, insulating material achieved through special fiber structure processing.		●					
Eco Dye® process	Low-energy carpet fiber dyeing method that reduces the amount of water needed for dyeing and cuts the number of processes through consistent dyeing and heat treatment technology.		●					
Fieldmate* biodegradable fishing line	Fishing line that largely breaks down into water and carbon dioxide to return to the natural environment if accidentally left in the water or on the ground after use.					●		
Fieldmate* biodegradable material	Used to provide underground support for trees but returns to the natural environment over time.					●		
Recyclon*	Recycled fiber made from used PET (Poly (ethylene terephthalate)) bottles, nylon fibers and other products.						●	
Nylon-6 recycling	Spent nylon-6 fiber products are depolymerized back into their constituent monomers, and then repolymerized to make new nylon-6.						●	
Acrylic recycling	Acrylic fiber scrap from spinners, knitters, and other manufacturers is collected and dissolved to make new fibers.						●	
Cellulose sponge	Environmentally friendly product that is made from wood pulp, does not generate harmful gases when incinerated, and is biodegradable when buried in the ground.	●				●		
Toraymicron*	Ultra-fine nonwoven fabric used in air filter and mask as it can clean foul air at the micro level.				●			
Wosep* microfiber nonwoven material	A non-woven fabric made from polypropylene ultrafinefibers that can separate the oil content of oil wastewater and does not generate harmful gases after disposal.		●					
Tekarisanari* oil-removing cloth	Oil-removing cloth made using microfiber technology that can be washed and reused.						●	
Ecodream*	High-functional plastic and film on the base of polylactic acid made from plant-origin materials like corn.	●	●					
Non-halogen flame retardant ABS, nylon, PBT resins	Non-halogen flame retardant plastics that do not generate harmful substances when incinerated or disposed of.					●		
Automotive engineering plastic resins	Plastics are lighter than conventional materials, and the use of Toray's products in components helps to improve fuel efficiency.		●					
Eco Toyolac*	Recycled ABS (Acrylonitrile Butadiene Styrene Copolymer) resin.						●	
Eco Amilan*	Recycled nylon resin.						●	
Eco Toraycon*	Recycled PBT (Poly (Butylene Terephthalate)) resin.						●	
Eco Torelina*	Recycled PPS (Poly (Phenylene Sulfide)) resin.						●	
Torcon* resin ceramic appearance grade	PBT resin for injection molding to substitute for china with fine texture and luster or thermoset plastic.					●		
Lumirror* ZV	Non-halogen flame resistant PET film that does not generate bromine-based harmful substances when incinerated or disposed of.					●		

Teflon® and Tefaire® are registered trademarks of Dupont. Eco Dye® is a registered trademark of the SUPERBA group of France.

### DIVERSE LINEUP OF Ecodream\* PRODUCTS

Embracing the concepts of “Clean” and “Less Energy,” Toray Group is developing and commercializing products and technologies that contribute to environmental protection from six perspectives: carbon dioxide reduction, energy reduction (“Less Energy”), water purification, air purification, hazardous substances reduction (“Clean”), and recycling. Toray Group has adopted the name *Ecodream\** for products created through these initiatives.

Product/technology	Description	Carbon dioxide reduction*1	Energy reduction**2	Water purification*3	Air purification*4	Hazardous substances reduction*5	Recycling*6	others
Steel sheet laminating films	PET films for laminating steel sheets as a replacement for PVC in unit bathrooms.				●			
Food can laminating films	PET films ideal for laminating cans as a replacement for chemical coatings or plating.				●			
Films for capacitors for hybrid cars	Ultra-thin polypropylene films that remain stable under the very high voltages needed to improve hybrid car efficiency.	●			●			
Solar cell films	PET films ideal for use as the base back sheet in solar cells.	●						
Films for solar control systems	PET films that helps reduce energy consumption in air conditioners and heaters by reflecting heat.	●						
Transparent evaporating film <i>Barriolox*</i>	Transparent gas barrier films that does not generate harmful gases when incinerated because it does not use chlorine- or nitrogen-based substances or aluminum foil as raw materials.					●		
<i>Thiokol LP*</i>	Liquid polysulfide polymer, used as a sealant material for laminated glass with strong heat resistance and other applications.	●						
<i>Ionex*</i>	Ion exchange fibers used in decontamination of water condensate, water quality testing filter papers, and water purification systems at nuclear power plants.		●					
Positive <i>Photoneece*</i>	Photosensitive polyimide that can be developed using an environmentally friendly alkali aqueous solution instead of organic developer.				●			
Type K, Type S Toray copper clad polyimide laminate films	Non-halogen polyimide films that do not generate bromine-based harmful substances when incinerated or disposed of.				●			
<i>Topical*</i> LCD color filter	Uses environmentally friendly black matrix resins and does not use harmful heavy metals.				●			
<i>Toray Waterless Plate*</i>	Offset printing plates that do not use dampening water, which is a harmful wastewater generated during printing.				●			
DMSO	DMSO (Dimethyl sulfoxide), recyclable, used in separating agent and cleaning solution for electronic components.						●	
Toray Slit Coater	Liquid crystal color filter production equipment that is able to cost coating material only by slit nozzles without a glass substrate spinning, thus preventing coating material loss and manufacturing loss as well as enabling lower energy consumption.	●			●			
<i>Torayca*</i> carbon fiber	In addition to contributions to weight reduction for aircraft and automobiles, used in wind mill blades for wind power generator and fuel tanks for environmentally friendly compressed natural gas (CNG) vehicles.	●						
<i>Torayca*</i> prepreg	Sheet-form carbon fiber <i>Torayca*</i> impregnated with resin, used as a lightweight structural material for aircraft.	●						
<i>Torayca*</i> advanced composite materials	Production of large-scale structural molding components using carbon fiber.	●						
Toray carbon paper	Used as an electrode material in fuel cells, which are expected to offer a clean source of energy.	●						
<i>Torayca*</i> fabric construction	A method for using <i>Torayca*</i> fabrics made from lightweight, reinforcing carbon fibers to extend the life of existing buildings and bridges.	●				●		
<i>Torayca*</i> laminate construction	A simple construction method of adhering carbon fiber reinforced sheets as a surface treatment, thereby shortening construction time, improving working environments and extending the life of existing structures.	●				●		
<i>Romembra*</i>	Reverse osmosis membrane element for the desalination of seawater used in the production of drinking water and ultrapure water for the semiconductor industry.		●					
Water treatment systems	Water purification systems for seawater and brackish water desalination.		●					
<i>Torayfil*</i>	Ultrafiltration, microfiltration membrane modules used in the production of drinking water.		●					
Membrane bioreactor (MBR) modules	Modules for MBRs systems, which allow effluent and waste water to be reused.		●					
<i>Torayvino*</i>	Home-use water purification systems that remove residual chlorine, impurities, and general bacteria by combining hollow membrane fibers and activated carbon.		●					
Air filters	Air conditioning and industrial process filters that trap microscopic particles using electrolyte microfiber non-woven fabrics.			●				
<i>Loop Bonding*</i> and <i>Tough Binder*</i> Construction	This construction method using a resin-molded binder and a nylon-cut fiber prevents external tiles from falling off.					●		
Water-permeable ceramic blocks <i>Toraysurou*</i>	Recycled ceramic material, with its water permeability and water-retention qualities, ideal for reducing the heat island effect and preventing flooding in cities.	●				●		
<i>Toraycool*</i>	A recycled product that uses 80% tile waste material, and its water-retention capability helps mitigate summer heat.	●				●		
Environmental measurement survey	Surveys various environmental problems, such as of dioxins and PCBs and extremely small concentrations of endocrine disruptors, persistent organic pollutants, and perfluorooctanyl sulfonate, and publishes reports.							●
Analysis and evaluation of industrial materials	Analysis of gases given off by materials, detection of hazardous materials defined in RoHS directives in electric and electronic equipment, combustion testing of materials.							●
Environmental consulting	Statutory environmental assessments, other consulting work covering survey and analysis of range of natural and living environments.							●

\*1 Associated with reduction or prevention of carbon dioxide generation and reduction in usage of exhaustible resources. \*2 Associated with lower energy consumption or energy generation. \*3 Associated with purification of water. \*4 Associated with purification of air. \*5 Associated with reduction or prevention of hazardous substances. \*6 Products and technologies associated with recycling.

Ecodream\*  
CASE STUDY

1

### Carbon Fiber (Reducing Energy)

### Energy savings through weight reduction in aircraft

Quantum increase of CFRP in aircraft application

- By increase in CFRP to up to 50% of structural material, weight can be reduced by approximately 20%.
- Including the adoption of advanced engines, fuel consumption can be reduced by 20%.

weight reduction

20  
%

reduction in  
fuel consumption

20  
%

reduction in  
body weight

36  
%

reduction in  
energy consumption

15  
%

### Energy savings through weight reduction in cars

To save energy (reduction in greenhouse gases), expanded utilization of engineering plastic resins and CFRP

Said to be stronger than steel and lighter than aluminum, carbon fiber weighs one-quarter that of steel but has 10 times the strength. Consequently, demand for carbon fiber is expanding owing to its increasing adoption by the transportation sector, particularly for aircraft due to the need to improve fuel economy, and is expected to be adopted in next-generation cars as well in the future. As the largest manufacturer of carbon fiber in the world, Toray has launched initiatives to not only fulfill its responsibility of meeting such demand for supply\*, but also to develop even more advanced technologies, expand applications and recycle carbon fiber materials.

\*Please refer to page 29 for more information on Toray's initiatives to meet this expansion in demand.

### LIGHTER WEIGHT TO REDUCE ENERGY CONSUMPTION

Carbon fiber reinforced plastic (CFRP) is used for approximately 50% of the main wings and body in the Boeing 787 Dreamliner, scheduled to enter service in 2008. Its adoption has improved weight and fuel economy by approximately 20% compared with conventional models. Owing to its lighter weight, this medium-sized plane\*\* has a maximum cruising range of 15,200 kilometers, the same as a large plane. Toray Group is carving out a dominant position for itself in the supply

of CFRP for aircraft applications. As for next-generation cars that make use of CFRP in earnest, it is said they will weigh around two-thirds that of conventional cars and will reduce energy consumption by around 15%.

\*\*Standard model with a seating capacity of 210-250.

### RECYCLING CARBON FIBERS

Waste CFRP is expected to increase worldwide, with some calculations putting it as high as 20,000 tons by 2010, twice the current level. To date, however, nearly all carbon fiber, which is highly flame retardant, has been disposed of in landfills.

To remedy this situation, in 2006 the Japan Carbon Fiber Manufacturers' Association, of which Toray is a member, launched a carbon fiber recycling initiative. At present, the Association and Mitsui Mining Co., Ltd. are cooperating in constructing a pilot carbon fiber recycling plant in Fukuoka Prefecture. The recycling facility is scheduled to commence operations in April 2008, and is expected to produce 60 tons a month.

Carbon fiber recycling plants are rare worldwide, and this plant is the first such endeavor in Japan. Requiring roughly one-twentieth the amount of energy used to manufacture normal carbon fiber, the recycling process is expected to yield considerable energy savings.

Ecodream\*  
CASE STUDY

2

**Water Treatment Business  
(Water Purification)**

In today's world of growing populations, global warming, environmental pollution, and other problems, there is a worsening shortage of good-quality water worldwide. Roughly 1.1 billion people among the current global population of 6.5 billion are unable to obtain drinking water (including water for daily use). Approximately 2.4 billion people live without sanitation facilities, such as sewerage treatment. Moreover, it is estimated that by 2025 more than 40% of the world's regions will face serious water shortages.





Toray Group is making a global contribution to solving the problem of insufficient clean water through its lineup of products and cutting-edge membrane treatment technologies, used for the high-speed treatment of water with high-accuracy control of water quality.

**FULL LINEUP OF HIGH-PERFORMANCE WATER TREATMENT MEMBRANES**

Water treatment using membranes is being introduced as a substitute for the conventional slow filtration and rapid filtra-

tion methods of water treatment. These methods bring various problems, such as acquiring land for facilities and dealing with deterioration in the quality of raw water, such as stamping out cryptosporidium — which is hard to do using chlorination.

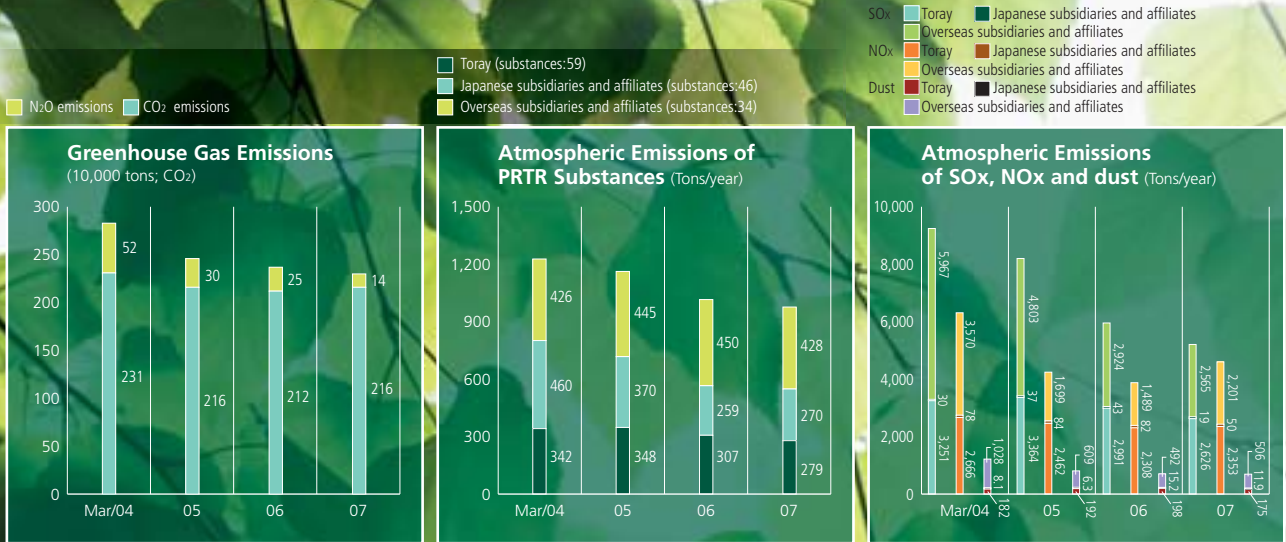
Toray Group has a 16% share of the world market for reverse osmosis (RO) membranes used to desalinate seawater, which accounts for 97.5% of the world's total water. We also possess a technological edge in hollow-fiber microfiltration (MF) membranes used to purify underground water and river water, and immersed membrane for MBR, which treat and recycle wastewater. Our RO membranes, in particular, are highly recognized for their excellent performance, including their high removal rate of boron, a chemical element that is difficult to remove and toxic to the human body. Today, Toray's products are found in seawater desalination plants in 30 countries around the world. They produce more than 1.9 million cubic meters of water a day, enough to satisfy the daily needs of approximately 7.6 million people. By continuing to increase production capacity, we seek to become the No.1 global supplier of water treatment membranes.

	RO/NF membrane	MF/UF membrane	Immersed membrane for MBR	Home water purifier Torayvino*
Appearance of product				
Removable material	Ion, Dissolved organic matter	Suspended solid, Bacteria, Virus	Contaminant water Bacteria	Wastes, rust Residual chlorine, Lead
Application	Seawater desalination, Brackish water desalination Wastewater reuse, Ultra pure water production	Drinking water production, Treatment of wastewater, Pre-treatment for RO membrane, Industrial process water production	Treatment and reuse of wastewater	Water purification

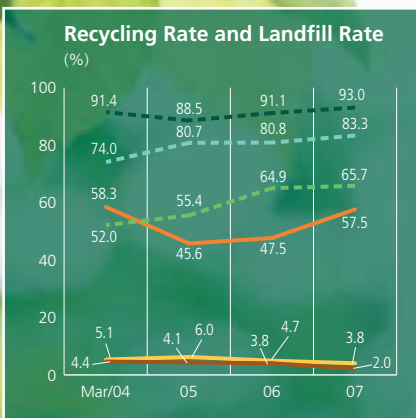
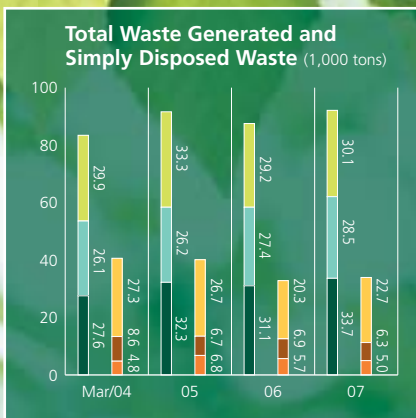
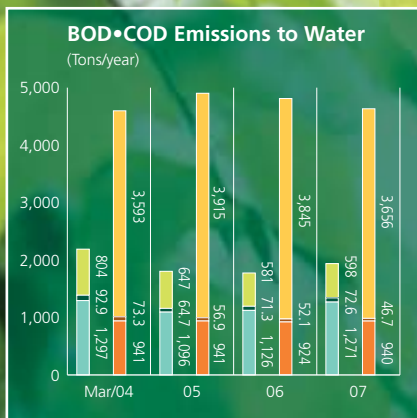


# TORAY'S INITIATIVES FOR "OUR COMMON FUTURE"

## 1) ENVIRONMENT



**TORAY IS COMMITTED TO REDUCING THE ENVIRONMENTAL BURDEN**



**BOD** Toray (12 plants, 1 research institute)  
 Japanese subsidiaries and affiliates (24 plants at 19 companies)  
 Overseas subsidiaries and affiliates (33 plants at 24 companies)

**COD** Toray (6 plants subjects to Total Pollutant Load Control)  
 Japanese subsidiaries and affiliate (7 plants at 7 companies subjects to Total Pollutant Load Control)  
 Overseas subsidiaries and affiliates (33 plants at 24 companies)

**Total waste generated** Toray Japanese subsidiaries and affiliates Overseas subsidiaries and affiliates  
**Simply disposed waste** Toray Japanese subsidiaries and affiliates Overseas subsidiaries and affiliates

Note: Data for overseas subsidiaries and affiliates exclude that for Toray Seahan Inc. which has started calculation since FY Mar/07

**Recycling rate** Toray Japanese subsidiaries and affiliates Overseas subsidiaries and affiliates  
**Landfill rate** Toray Japanese subsidiaries and affiliates Overseas subsidiaries and affiliates

1. Regenerative Combustion Facility at the Toray Chiba Plant for organic gases

2. Wastewater Treatment Facility at Toray Plastics (Shenzhen) Ltd. (China)

Graph 1	Graph 2	Graph 3
Photo. 1		Photo. 2
Graph 4	Graph 5	Graph 6

**POLICY FOR INITIATIVES**

Toray Group's most important Corporate Guiding Principle is "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." In line with this principle, we promote measures aimed at creating a sustainable recycling-oriented society by reducing emissions and waste and strengthening recycling initiatives.

The Group's policy toward environmental preservation is embodied in the Ten Basic Environmental Rules adopted in 2000. Adhering to these rules, the Group adopts a unified approach to environmental protection activities.

**Ten Basic Environmental Rules**

1. Prioritize environmental preservation
2. Prevent global warming
3. Achieve zero emissions of environmental pollutants
4. Use safer chemical substances
5. Promote recycling
6. Improve the level of environmental management
7. Contribute to society through environmental improvement technologies and products
8. Improve the environmental management of our overseas businesses
9. Improve employees' environmental awareness
10. Share environmental information with society

**THE FISCAL YEAR ENDED MARCH 2007 ACHIEVEMENTS**

**Preventing Global Warming (Graph 1)**

Toray is targeting a 10% reduction by FY Mar/09 of its greenhouse gas emissions over FY Mar/91. Measures adopted to meet this target include establishing an N<sub>2</sub>O (dinitrogen monoxide) thermal decomposition facility, converting to natural gas as a fuel source, and promoting energy conservation. In FY Mar/07, we converted our boilers to city gas and opened a natural gas cogeneration facility. Having already reduced emissions that cause greenhouse gases by 9.6% compared with FY Mar/91, we are well on track to meet our 10% target.

**Reducing Atmospheric Emissions of Chemical Substances\* (Graph 2)**

Toray Group adopts initiatives aimed at reducing the volume of chemical emissions released into the atmosphere. In FY Mar/07, for example, the Toray Chiba Plant installed a regenerative combustion facility (2nd stage) to process organic gases. As a result, in FY Mar/07 we achieved a 57% reduction in chemical emissions compared with the year when we launched Group-wide initiatives. We will continue to promote measures targeting reduced levels of these emissions.

\*Substances designated by the PRTR (Pollutant Release and Transfer Register) Law. The PRTR Law establishes a system under which businesses that handle chemical substances report to the national government about the release into the environment of waste transfer designated substances. The government calculates total figures and publishes the results.

**Preventing Air Pollution (Graph 3)**

Conversion to natural gas and other proactive measures adopted by the Group have contributed to a reduction in SO<sub>x</sub> (sulfur oxide), NO<sub>x</sub> (nitrogen oxide), and dust emissions compared with FY Mar/04 levels.

**Preventing Water Pollution (Graph 4)**

Biochemical oxygen demand (BOD) and chemical oxygen demand (COD) levels have remained more or less unchanged since FY Mar/04 for the overall Toray Group. We will continue striving to prevent water pollution.

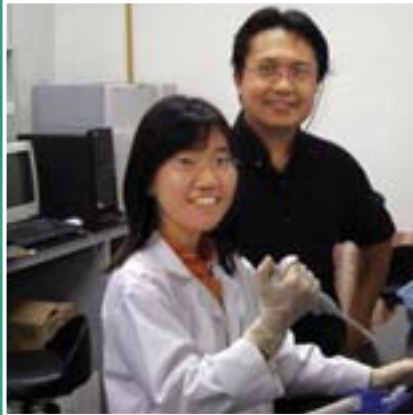
**Reducing Waste (Graph 5 and 6)**

Although increasing production capacity results in higher levels of waste and would normally impede a waste reduction program, the total volume of waste generated by Toray Group's facilities has remained unchanged. Efforts to reuse waste have contributed to a reduction in "simply disposed waste," (waste disposed of by means of incineration, landfill, and other methods). Toray Group's recycling rate is also improving.

Toray Group also pursues zero emission activities. In FY Mar/07, 13 plants operated by nine Group companies achieved zero emission status. We will continue to promote such activities with the aim of achieving zero emissions.

# TORAY'S INITIATIVES FOR "OUR COMMON FUTURE"

## 2) SCIENCE



### I've taken my first step as a researcher

**CHEW GUAT SIEW** (left)  
PhD student, School of Biological Sciences,  
Universiti Sains Malaysia, Penang

### Receiving 2006 MTSF Science and Technology Research Grant:

My supervisor and co-researcher, Dr Tengku Sifzizul Tengku Muhammad and I were elated when I was bestowed with the Science and Technology Research Grant 2006 sponsored by Toray Science Foundation, Japan (TSF) and the Malaysia Toray Science Foundation (MTSF). I was truly honoured to be selected as the competition was intense due to the high quality and number of entries. My research topic was new to our department and I started with nothing. Thanks to the grant, I was able to purchase the necessary equipment and materials to initiate the early phases of our project. More importantly, this research grant proved the feasibility of my proposed dissertation work. These factors were instrumental in providing me the impetus to other funding overtures. Thus began the journey of my research discovery, ascertained to be a formative experience of my life, setting not just my master and doctoral thesis research, but the course of my entire life and career. I remain to this day eternally grateful.

### Receiving the 47th (FY Mar/07) Toray Science and Technology Grant:

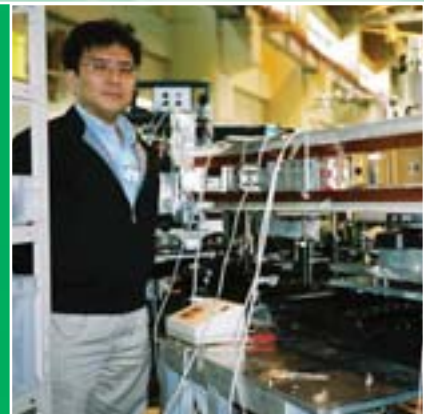
The objective of this research is to develop innovative, high-precision measurement technology. The point is the use of long wavelength neutrons. As with electrons used in an electron microscope, neutrons also have both particle and wave properties. Utilizing long wavelength neutrons, that is low-energy (cold) neutrons, we search for interferometric techniques that can distinguish the slightest changes in energy. In order to increase the range of detection of very low level interactions, we are developing large interferometers for cold neutrons making full use of multilayer mirrors. This innovative research has originated in Japan. With the assistance of this research grant, we hope to make breakthroughs in the development and manufacture of smooth, flat substrate for multilayer mirrors and high-precision flat base plates for positioning those mirrors.

**TORAY'S GRANT IS USEFUL FOR SCIENTIFIC DEVELOPMENT**

### Useful in innovative research unlike anything else in the world

**Dr. HARUHIKO FUNAHASHI**  
Associate professor  
in the Department of Engineering Science,  
Faculty of Engineering at  
Osaka Electro-Communication University

The 47th (FY Mar/07) Toray Science and Technology Grant has been awarded to Dr. Funahashi for his project on the development of a multilayer cold-neutron interferometer for fundamental physics. The grant is awarded annually to young researchers to subsidize fundamental research projects in science and technology.



One of Toray Group's Corporate Missions is "to establish ties and develop mutual trust as a responsible corporate citizen" for society. We continue fostering the sustainable advancement of society as a good corporate citizen of both local and international communities through our activities.

One priority activity is the promotion of science and technology through Japanese and international financial support to the Toray Science Foundation. We believe that discovering and nurturing scientists who will play a significant role in the science of tomorrow helps stimulate scientific and technological innovation, which in turn contributes to the growth and progress of society general. Such support is also integral to the development and continued existence of Toray Group.

### TORAY SCIENCE FOUNDATION

#### Results for FY Mar/07

Toray Science and Technology Prize	10 Million yen (2 awards)
Toray Science and Technology Grant	130 Million yen (10 awards)
Toray Science Education Prize	3.6 Million yen (9 awards)

### ASEAN TORAY SCIENCE FOUNDATION FUNDING

#### Foundation

	Funding amount	Funding amount (Million yen)		Forex rate
		At establishment	As of Dec 2006	
Indonesia Toray Science Foundation (ITSF)	3,000 million Rp.	200	40	6.67 yen/100 Rp.
				1.33 yen/100 Rp.
Thailand Toray Science Foundation (TTSF)	40 million baht	200	136	5.00 yen/baht
				3.41yen/baht
Malaysia Toray Science Foundation (MTSF)	4 million RM.	200	135	50 yen/RM.
				33.7 yen/RM.

\*All of these foundations were established in 1993-1994

#### Award & Grant Results for FY Mar/07

	ITSF		TTSF		MTSF	
	Award/grant	Thousand yen	Award/grant	Thousand yen	Award/grant	Thousand yen
Science & Technology Award	0	0	2	2,728	2	2,022
Science Education Award	10	2,749	6	2,387	16	2,089
Science & Technology Research Grant	19	9,740	20	15,345	11	9,773
Total	29	12,489	28	20,460	29	13,884

### TORAY SCIENCE FOUNDATION AND TORAY ASEAN SCIENCE FOUNDATIONS

In 1960, Toray invested ¥1 billion to set up the Toray Science Foundation in Japan. As a pioneering initiative by the private sector, the Foundation has earned a high reputation for its activities, including the provision of large grants to young researchers. In 1993 and 1994, the Foundation established three ASEAN science foundations — in Malaysia, Thailand, and Indonesia — to foster scientific and technological advancement in those countries.

The Toray Science Foundation awards prizes and provides research grants annually. The Toray Science and Technology Prize is awarded for outstanding achievements in science and technology. Toray Science and Technology Grants are given to young researchers engaged in basic research projects in the fields of science and technology. We also present the Toray Science Education Prize to junior and senior high school teachers who achieve outstanding results through creative and innovative teaching. The Toray Science and Technology Prize is a prestigious award, and two of its recipients have gone on to receive the Nobel Prize for Chemistry.

## SOCIETAL CONTRIBUTION IN A VARIETY OF AREAS

Contributing to society is a major element of Toray Group's long-term corporate vision. We engage in a variety of activities, with the aim of serving as an excellent business group that is valued by all of its stakeholders.

As explained earlier, more than half of our contributions are directed at the fields of scientific research and education. However, another feature of our activities is Toray Group's diverse initiatives including support for the arts and culture at the local community level, environmental preservation efforts and international cultural exchanges.

### TORAY GROUP SOCIAL INITIATIVE POLICIES

1. Based on its Corporate Philosophy of "contributing to society through the creation of new value with innovative ideas, technologies, and products," we will contribute to sustainable development of local and international society as a good corporate citizen while continuously supporting employee social initiatives.
2. We will pursue unique programs dedicated to improvement of social welfare in local communities, international exchange through traditional culture, sports promotion, and especially the advancement of science.
3. Using company awards as other measures, we will create a culture that encourages employees to participate in society in constructive ways like volunteer activities, all the while performing aid activities with an eye to local needs.
4. We will examine all marketing and advertising activities from the perspective of social contribution before finalizing them.
5. We will contribute funds amounting to about 1% of our consolidated ordinary income to social initiatives.

Adopted May 2005

Toray Group, Social Contributions in FY Mar/07

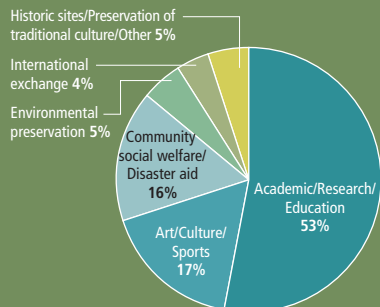
# 10.4

100 million yen



2

### Toray Group, Social Contributions by Category (FY Mar/07)



1



3

1. Support for the Musée D'Orsay exhibition (this picture was featured in promotional posters)
2. Sponsorship of a Science Camp for high school students
3. Volunteering in relief efforts for the Noto Peninsula earthquake

## FINANCIAL SECTION

page <b>54</b> <b>Six-Year Summary of Selected Financial Data</b>	page <b>55</b> <b>Management's Discussion and Analysis</b>	page <b>60</b> <b>Consolidated Balance Sheets</b>	page <b>62</b> <b>Consolidated Statements of Income</b>	page <b>63</b> <b>Consolidated Statements of Changes in Net Assets</b>
page <b>64</b> <b>Consolidated Statements of Cash Flows</b>	page <b>65</b> <b>Notes to Consolidated Financial Statements</b>	page <b>76</b> <b>Report of Independent Auditors</b>		



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

During the fiscal year ended March 31, 2007 (FY Mar/07), the world economy was solid overall, despite some negative factors, including sharp increases in the price of crude oil in the first half of the period and a downturn in the U.S. housing market in the second half. The pace of growth in the U.S. economy slowed due to a decline in housing investment, but showed a firm trend overall, driven by personal consumption. Economies in Europe continued to recover in general, while Asian economies, led by China, continued expanding. Despite lack of strength in the household sector, the Japanese economy remained on a path of growth, albeit moderate, thanks to strength in the corporate sector.

Amid these conditions, Toray (the "Company") and its Group companies worked hard to achieve targets outlined under Project NT-II, its mid-term management reform program that began in April 2004. In October 2006, we launched our new mid-term business strategies, called Project Innovation TORAY 2010, which calls for even higher targets. Guided by the program and strategies, the Group strove exhaustively to expand operations and earnings by reinforcing its corporate structure and implementing business structure reforms. As a result of these efforts, revenue and earnings increased year-on-year. Toray Group achieved record-high figures for net sales (fourth consecutive year), operating income (third consecutive year), as well as net income (second consecutive year). Moreover, operating income exceeded ¥100 billion, a target set for early achievement under Project NT-II.

## INCOME ANALYSIS

### Net Sales

Consolidated net sales in FY Mar/07 amounted to ¥1,546.5 billion, up ¥119.0 billion, or 8.3%, from the previous fiscal year. Sales increased in all business segments.

### Sales by Business Segment

#### Fibers and Textiles

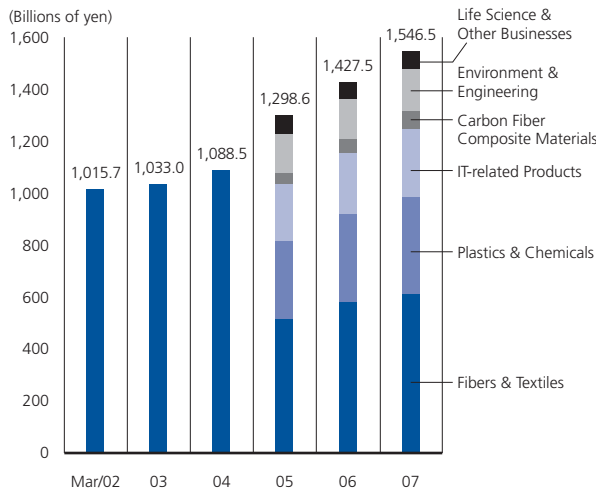
Total segment sales grew ¥27.2 billion, or 4.7%, to ¥607.8 billion.

Regarding the Company and its domestic consolidated subsidiaries, nylon fiber sales increased, driven by demand for use in woven fabric for apparel and carpet applications. Despite continued downturn trends in demand for filament yarn, sales of *Tetoron*\* polyester fiber were solid, backed by strong textile exports to Europe and North America, as well as firm demand for staple fiber in automotive applications. We also posted increased sales of *Toraylon*\* acrylic fiber, *Ecsaine*\* man-made suede and high-performance fibers, as well as increased sales from its garment businesses. In addition, special demand from the uniform business contributed to growth in overall sales of the Company and its domestic consolidated subsidiaries in this segment.

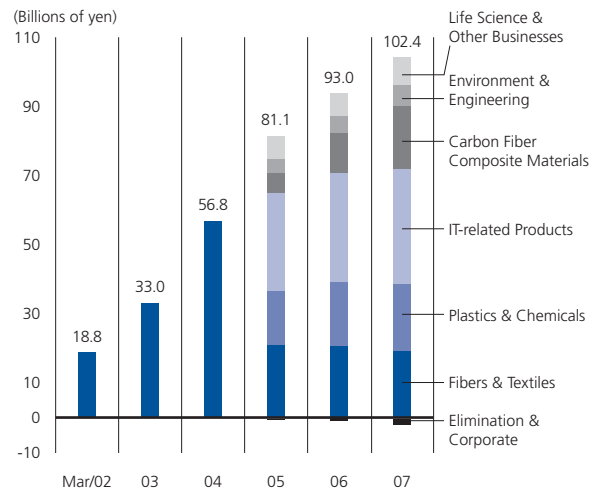
Overall sales of overseas consolidated subsidiaries in this segment also rose. Contributing factors included increased sales from the polypropylene spunbond operations in Korea, nylon fiber operations for airbag applications in Thailand, and filament yarn textile operations in China. During the period, the Group also commenced cotton-blended polyester textile operations in China.

In response to the steep rise in raw materials and fuel prices worldwide, we worked to transfer cost increases on to the selling prices.

Net Sales by Business Segment



Operating Income by Business Segment



\* Net sales and operating income by the reclassified business segment are only available for fiscal year ended March 31, 2005 onward.

**Plastics and Chemicals**

Total segment sales climbed ¥37.3 billion, or 11.0%, to ¥375.3 billion.

Overall sales in the Group's plastic resins business increased. Sales of the Group's engineering plastic resins grew steadily thanks to strong growth in demand for *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. Steady expansion of our resin compound business in China also contributed to overall sales growth in this business.

Overall sales of our films business increased. Sales of the mainstay *Lumirror*\* polyester film continued to advance, reflecting strong demand in industrial applications both in Japan and overseas. Sales of *Torayfan*\* polypropylene film also expanded steadily thanks to applications in capacitors for hybrid cars, as well as packaging applications in overseas markets.

Sales from the chemicals business increased, owing mainly to the Group's efforts to expand sales of fine chemicals, such as xylene isomerization catalysts and *Thiokol LP*\* liquid polysulfide polymer used as a sealant.

In this business as well, we responded to the steep rises in raw materials and fuel prices worldwide by transferring cost increases on to our sales prices.

**IT-related Products**

Total segment sales grew ¥28.8 billion, or 12.3%, to ¥263.8 billion.

Sales in the IT-related plastics and films business increased, boosted by efforts to expand sales for such applications as flat panel displays and digital home electrical/electronic appliances.

The electronic materials business generated an increase in sales owing to growth in demand for polyimide coatings and printing materials, as well as higher sales of plasma-display-related materials.

Sales in the LCD materials business declined amid intensified competition, both in Japan and overseas, stemming from price declines for small and medium-sized LCD panels.

**Carbon Fiber Composite Materials**

Total sales in this segment jumped ¥15.9 billion, or 30.1%, to ¥68.6 billion.

Sales of carbon fiber *Torayca*\* and *Torayca*\* prepreg (carbon fiber sheets impregnated with epoxy resin) expanded strongly,

spurred by rapid growth in demand in aircraft applications, such as for the Boeing B787. Our carbon fiber business also benefited from a sharp increase in demand for applications in sports, such as golf shafts, fishing rods and high-end bicycles, as well as in civil engineering and other industrial applications, notably CNG tanks for natural gas vehicles. Sales of carbon fiber molded products (composites) also grew robustly in the IT devices field, such as for PC chassis, and in the industrial machinery field.

**Environment and Engineering**

Total segment sales rose ¥7.2 billion, or 4.7%, to ¥161.3 billion.

The water treatment business benefited from solid sales of the reverse osmosis membrane element *Romembra*\* in the Middle East and Europe. Our Japanese subsidiary in the construction business also reported increased revenue.

**Life Science and Other Businesses**

Total segment sales grew ¥2.6 billion, or 3.9%, to ¥69.7 billion.

In the pharmaceuticals and medical products business, we reported an overall increase in sales despite difficult conditions, characterized by intensified competition and sales price declines stemming from the reduction of National Health Insurance (NHI) drug prices and prices reimbursement. In response, we expanded sales of such products as artificial kidneys, dialysis devices and *Toraymyxin*\*, a blood purification device for treating septicemia. Revenues from licensing also increased.

**Sales by Geographic Segment**

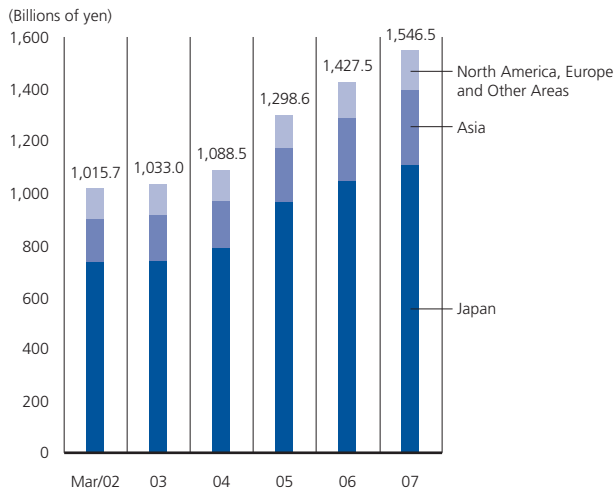
**Japan**

Sales of the Company and its domestic consolidated subsidiaries grew ¥61.6 billion, or 5.9%, to ¥1,104.9 billion, thanks mainly to increased revenues generated in the plastics and chemicals business and the IT-related products business. The share of this segment in consolidated net sales declined from 73.1% to 71.4%.

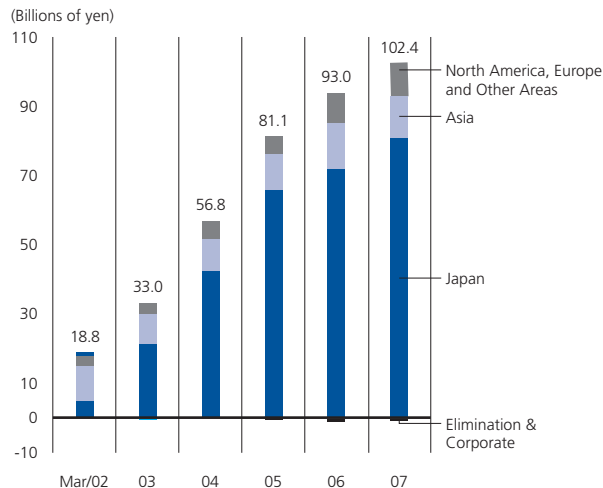
**Asia**

Sales of consolidated subsidiaries in China, Indonesia, Thailand, Malaysia, Korea and other Asian countries, excluding Japan, climbed ¥44.9 billion, or 18.3%, to ¥290.6 billion. This was attrib-

**Net Sales by Geographic Segment**



**Operating Income by Geographic Segment**



utable to growth in sales in Southeast Asia of fibers and textiles, as well as plastic resins, together with expansion of our IT-related films business in Korea. Sales of this segment accounted for 18.8% of consolidated net sales, up from 17.2%.

#### **North America, Europe and Other Areas**

Sales of consolidated subsidiaries in the United States, United Kingdom, France, Italy, the Czech Republic and other countries in North America, Europe and other areas grew ¥12.4 billion, or 9.0%, to ¥151.0 billion. This was largely due to favorable growth of our carbon fiber composite materials business in response to growing demand, as well as increased production in the business by subsidiaries in the United States. The share of this segment in consolidated net sales edged up from 9.7% to 9.8%.

#### **Overseas Sales**

Overseas sales, which included export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, grew ¥70.6 billion, or 12.0%, to ¥660.3 billion. Sales in Asia increased owing mainly to solid demand for fibers and textiles, as well as plastic resins, in Southeast Asia, as well as good performance by our IT-related films business in Korea. Sales in North America, Europe and other areas also increased, thanks to higher exports from Japan, as well as expansion of our carbon fiber composite materials business in Europe and the United States. Overseas sales accounted for 42.7% of consolidated net sales, up 1.4 percentage points year-on-year. Of this, sales in Asia amounted to ¥422.3 billion, or 27.3% of consolidated net sales, while sales in North America, Europe and other areas totaled ¥238.1 billion, or 15.4%.

#### **Costs and Expenses**

The ratio of total costs and expenses to net sales for the year was 93.4%, down 0.1 percentage point from the previous fiscal year. Consolidated net sales grew 8.3%, and the cost of sales increased 8.6%. As a result, the cost of sales ratio edged up 0.2 percentage points, to 79.0%.

Selling, general and administrative expenses increased ¥12.4 billion, or 5.9%, to ¥222.6 billion. The ratio of selling, general and administrative expenses to net sales was down 0.3 percentage points, to 14.4%.

#### **Operating Income and Net Income**

Operating income grew ¥9.4 billion, or 10.1%, to ¥102.4 billion from the previous fiscal year. Operating income to net sales edged up 0.1 percentage point to 6.6%. Operating income increased in the Plastics and Chemicals, IT-related Products, Carbon Fiber Composite Materials, Environment and Engineering, and Life Science and Other Businesses segments. However, the Fibers and Textiles segment posted a decline.

Operating income in the Fibers and Textiles segment declined ¥1.5 billion, or 7.0%, to ¥19.2 billion, due to the impact of high raw materials and fuel prices. Operating income in the Plastics and Chemicals segment grew ¥0.7 billion, or 4.0%, to ¥19.2 billion, largely due to the strong growth of sales in plastic resins business, mainly for automotive applications, as well as higher sales of fine chemical products. Operating income in the IT-related Products segment increased ¥2.2 billion, or 7.0%, to ¥33.5 billion, thanks to

healthy growth in sales of films for flat-panel displays, films for electronic components and materials related to plasma displays and semiconductors. Our IT-related equipments subsidiary in Japan also posted improved earnings. In the Carbon Fiber Composite Materials segment, operating income jumped ¥6.3 billion, or 53.0%, to ¥18.1 billion as the Group worked to expand sales mainly for aircraft, sports and industrial applications. Segment income also benefited from higher sales as expansion of manufacturing facilities led to increased production. In the Environment and Engineering segment, operating income grew ¥1.0 billion, or 21.0%, to ¥6.0 billion, owing mainly to solid performance in our water treatment and construction businesses. In the Life Science and Other Businesses segment, operating income grew ¥1.7 billion, or 26.3%, to ¥8.2 billion, thanks to sales expansion and higher licensing revenues in the pharmaceuticals and medical products business.

By geographic segment, operating income increased in Japan and North America, Europe and other areas, but declined in Asia. In Japan, operating income grew ¥9.0 billion, or 12.5%, to ¥80.7 billion, primarily as a result of higher profit from the plastics and chemicals and carbon fiber composite materials businesses. In Asia, operating income fell ¥1.4 billion, or 10.2%, to ¥12.1 billion. This was due mainly to a decline in profits from the fibers and textiles business stemming from high prices of raw materials and fuel. In North America, Europe and other areas, operating income grew ¥1.3 billion, or 15.4%, to ¥9.8 billion, largely due to growth in the carbon fiber composite materials business in Europe and the United States.

In net other income (expenses), the Group reported ¥20.7 billion in expenses, up ¥8.0 billion year-on-year. Interest and dividend income rose ¥0.7 billion to ¥3.2 billion, while interest expense grew ¥1.9 billion to ¥9.8 billion. As a result, net financial expenses increased ¥1.2 billion to ¥6.6 billion. Equity in earnings of unconsolidated subsidiaries and affiliated companies increased ¥2.1 billion over the previous fiscal year to ¥8.3 billion. Loss on impairment of fixed assets increased ¥13.1 billion to ¥14.9 billion, and gain on sales and loss on write-down of investment securities, net, came to a gain of ¥8.1 billion, an increase of ¥4.6 billion from the previous fiscal year.

As a result, income before income taxes and minority interests grew ¥1.4 billion to ¥81.7 billion. Net income rose ¥11.2 billion to ¥58.6 billion, after deducting income taxes and minority interests in earnings of consolidated subsidiaries. Net income per share rose ¥8.12 to ¥41.84. The Company declared a year-end cash dividend of ¥5.00 per share, taking into account its earnings performance in FY Mar/07 and the outlook for FY Mar/08. Added to the interim cash dividend, this brought total annual dividends to ¥10.00 per share, up ¥2.00 from the previous year.

## FINANCIAL POSITION

### Assets

At March 31, 2007, total assets stood at ¥1,674.4 billion, up ¥137.0 billion, or 8.9%, from the end of the previous fiscal year. This was mainly the result of increases in trade receivables (total of notes and accounts receivable), inventories and property, plant and equipment. Overseas assets accounted for 30.7% of total assets, up 2.8 percentage points.

### Current Assets

Current assets grew ¥65.2 billion, or 9.9%, to ¥727.5 billion. Liquid assets, including cash, time deposits and short-term investment securities, decreased ¥14.9 billion, or 17.1%, to ¥72.2 billion. Trade receivables increased ¥31.5 billion, or 12.2%, to ¥288.9 billion. Inventories increased ¥38.6 billion, or 14.6%, to ¥302.9 billion.

### Property, Plant and Equipment

Property, plant and equipment, net, increased ¥57.2 billion, or 9.7%, to ¥643.4 billion. Capital expenditures rose ¥22.3 billion, or 21.4%, to ¥126.4 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 ¥23.4 billion and included establishment and expansion of power generation facilities at P.T. Easterntex and P.T. Indonesia Toray Synthetics. In the Plastics and Chemicals segment, capital expenditures amounted to ¥29.3 billion, which included additional ABS resin facilities at Toray Plastics (Malaysia) Sdn. Berhad. Capital expenditures in the IT-related Products segment totaled ¥31.2 billion and included additional TAB and COF tape production facilities at STEMCO, Ltd., as well as additional film processing facilities for electronic circuits at Toray Saehan Inc. In the Carbon Fibers Composite Materials segment, capital expenditures totaled ¥36.0 billion, which included additional carbon fiber production facilities at the Company and Société des Fibres de Carbone S.A. In the Environment and Engineering segment, capital expenditures amounted to ¥4.5 billion, while in the Life Science and Other Businesses segment, capital expenditures totaled ¥3.8 billion.

### Liabilities

Total liabilities rose ¥78.1 billion, or 8.2%, to ¥1,024.8 billion, due mainly to the issuance of corporate bonds.

Total interest-bearing liabilities — consisting of short-term bank loans, current portion of long-term debt, commercial paper and long-term debt — grew ¥52.5 billion, or 10.8%, to ¥536.9 billion.

### Net Assets

Net assets came to ¥649.7 billion and net assets less minority interests in consolidated subsidiaries stood at ¥590.0 billion. As a result, net assets per share rose ¥38.09 to ¥421.51. The equity ratio grew 0.3 percentage points to 35.2%, and the debt/equity ratio edged up 0.01 point to 0.91.

## CASH FLOWS

In FY Mar/07, net cash used in investing activities exceeded net cash provided by operating activities by ¥46.6 billion. This was mainly due to capital expenditures exceeding depreciation and amortization, as well as increases in trade receivables and inventories. Net cash provided by financing activities, such as proceeds from bond issuances, was ¥30.3 billion. As a result, cash and cash equivalents at the fiscal year-end stood at ¥72.1 billion, down ¥14.9 billion from the end of the previous fiscal year.

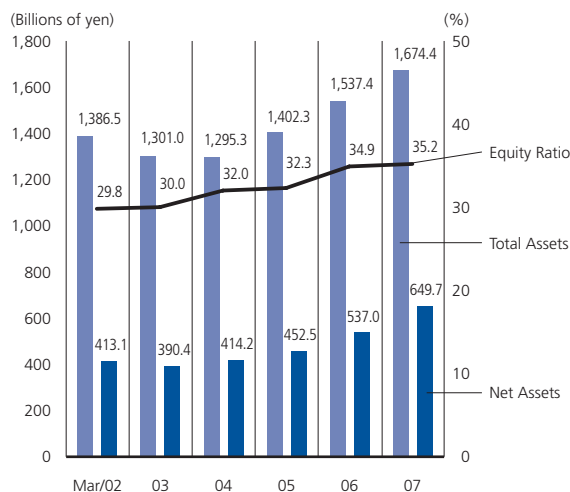
### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥77.5 billion, down ¥38.5 billion from the previous fiscal year. This was due to income before income taxes and minority interests of ¥81.7 billion, depreciation and amortization of ¥72.7 billion, increase in trade receivables of ¥23.5 billion, increase in inventories of ¥32.1 billion, and income taxes paid of ¥20.9 billion led to lower cash flows.

### Cash Flows from Investing Activities

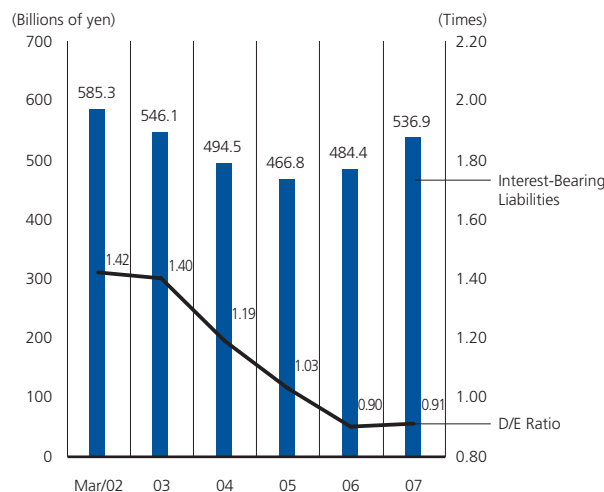
Net cash used in investing activities totaled ¥124.1 billion, down ¥1.6 billion. This stemmed from proceeds from sales of investment securities of ¥11.0 billion, capital expenditures totaled ¥123.4 billion and purchases of investment securities ¥11.6 billion.

**Total Assets and Net Assets**



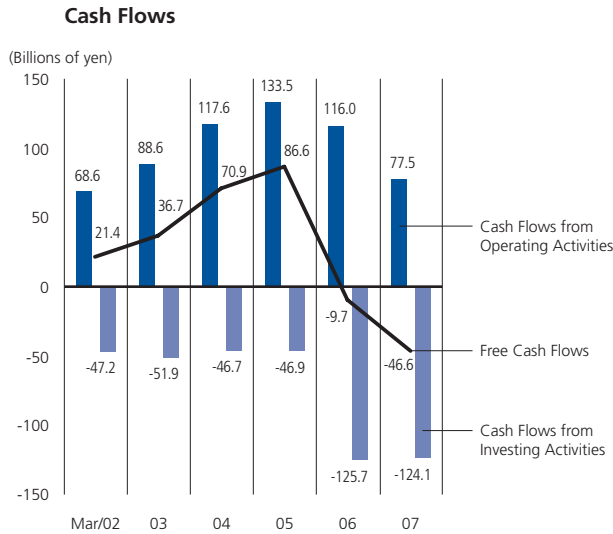
\* By adoption of new accounting standard for presentation of net assets, "minority interests in consolidated subsidiaries" and "net deferred gains on hedges" are included in net assets for the year ended March 31, 2007.

**Interest-Bearing Liabilities and D/E Ratio**



**Cash Flows from Financing Activities**

Net cash provided by financing activities was ¥30.3 billion, up ¥35.3 billion. This was the result of proceeds from long-term debt of ¥129.5 billion, net decrease in short-term debt of ¥39.2 billion, repayment of long-term debt totaling ¥46.4 billion, and cash dividends paid of ¥14.0 billion.



**BUSINESS RISKS**

Operational and other risks faced by Toray Group that could have a major influence on the decisions of investors are described below. Toray Group works constantly to avoid such potential risks, minimize the impact, and build a system to enable swift responses and accurate information disclosure on the occurrence of unforeseen situations.

Please note that the risks described below are those identified by Toray Group when this annual report was produced, and do not represent all the operational and other risks that could affect Toray Group.

**(1) Domestic and overseas demand and market trends**

Toray Group's major products include items for which demand could suddenly decline due to worldwide supply-demand conditions, as well as items subject to significant price fluctuations. Price fluctuations, stemming from the reduction of National Health Insurance (NHI) drug prices and reimbursement prices, also affect the pharmaceuticals and medical products businesses. A decline in demand for, or falling prices of, such items could have a negative impact on Toray Group's results of operations and financial conditions.

**(2) Foreign currency exchange rate fluctuations**

Foreign currency exchange rate fluctuations affect Toray Group's consolidated financial statements when the financial statements of the overseas operations presented in local currencies are translated into yen. Toray Group takes measures, such as entering forward exchange contracts, to alleviate risks associated with transactions denominated in foreign currencies. However, unforeseen exchange rate fluctuations could have an impact on Toray Group's results of operations and financial conditions.

**(3) Rising prices of fuel and raw materials**

The prices of petrochemical raw materials and fuel used by Toray Group are subject to significant fluctuations. If Toray Group is unable to fully pass the increases in such prices on to its product prices, or cannot raise its product prices due to lack of progress in shifting to high value-added products, its results of operations and financial conditions could be negatively affected.

**(4) Overseas operations**

Toray Group is developing a broad geographical presence, with operations in various countries of Asia, Europe, and the Americas. Some of the major potential risks associated with various regions are summarized below. If such risks were to become reality, Toray Group's results of operations and financial conditions could be negatively affected.

- Unforeseen introduction, changes or abolition of laws and regulations such as changes in taxation system
- Unforeseen economic or political events
- Social upheaval, including acts of terror or war

**(5) Product liability**

Toray Group strives to supply the world's best-in-class products quality. However, it cannot always guarantee against a major unforeseen quality problem. If quality-related serious situations were to occur, Toray Group's results of operations and financial conditions could be negatively affected.

**(6) Lawsuit**

In the course of conducting its wide range of business activities, Toray Group faces the risk of being targeted by legal action pertaining to various matters such as intellectual property, product liability, environment, and labor issues. If Toray Group were subject to a major lawsuit, its results of operations and financial conditions could be negatively affected.

**(7) Laws and regulations**

Various laws and regulations apply in the countries and regions where Toray Group conducts its business. In addition to investment approval protocols and import / export controls, these laws and regulations include regulations related to environment, commercial trading, labor, intellectual property, taxation, and foreign exchange. Any changes in such laws and regulations could affect Toray Group's results of operations and financial conditions.

**(8) Natural disasters and accidents**

Toray Group places top priority on safety, accident prevention, and environmental preservation. To minimize losses caused by suspension of production, Toray Group conducts regular accident prevention inspections, and maintenance of its manufacturing facilities, and safety activities. However, the advent of a major natural disaster or unprecedented accident could cause damage to Toray Group's manufacturing facilities, which could have a negative impact on its results of operations and financial conditions.

**CONSOLIDATED BALANCE SHEETS**Toray Industries, Inc. and Consolidated Subsidiaries  
March 31, 2007 and 2006

<b>Assets</b>	Millions of yen		Thousands of U.S. dollars (Note 2)
	<b>2007</b>	2006	<b>2007</b>
<b>Current assets:</b>			
Cash	¥ 57,342	¥ 76,187	\$ 485,949
Time deposits	14,023	9,853	118,839
Short-term investment securities (Note 5)	800	987	6,780
Trade receivables:			
Notes receivable	40,184	37,433	340,542
Accounts receivable (Note 4)	248,675	219,912	2,107,415
Inventories (Note 3)	302,934	264,299	2,567,237
Deferred tax assets (Note 8)	21,903	18,181	185,619
Prepaid expenses and other current assets	45,276	37,915	383,695
Allowance for doubtful accounts	(3,608)	(2,477)	(30,576)
Total current assets	<b>727,529</b>	662,290	<b>6,165,500</b>
<b>Property, plant and equipment</b> (Notes 4 and 11):			
Land	81,661	77,730	692,042
Buildings	449,369	422,554	3,808,212
Machinery and equipment	1,456,313	1,361,020	12,341,636
Construction in progress	65,821	73,996	557,805
	<b>2,053,164</b>	1,935,300	<b>17,399,695</b>
Accumulated depreciation	(1,409,794)	(1,349,085)	(11,947,407)
Property, plant and equipment, net	<b>643,370</b>	586,215	<b>5,452,288</b>
<b>Intangible assets</b>	<b>13,490</b>	11,522	<b>114,322</b>
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliated companies	76,676	70,267	649,797
Investment securities (Notes 4 and 5)	157,657	164,961	1,336,076
Long-term loans receivable	1,373	3,270	11,636
Deferred tax assets (Note 8)	26,748	21,491	226,678
Other (Note 7)	31,411	25,755	266,195
Allowance for doubtful accounts	(3,807)	(8,349)	(32,263)
Total investments and other assets	<b>290,058</b>	277,395	<b>2,458,119</b>
<b>Total assets</b>	<b>¥ 1,674,447</b>	¥ 1,537,422	<b>\$ 14,190,229</b>

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Current liabilities:</b>			
Short-term bank loans (Note 4)	¥ 124,583	¥ 102,438	\$ 1,055,788
Current portion of long-term debt (Note 4)	45,667	40,566	387,008
Commercial paper	—	55,000	—
Trade payables:			
Notes payable	54,383	56,164	460,873
Accounts payable	156,088	152,211	1,322,780
Income taxes payable (Note 8)	24,241	12,917	205,432
Accrued liabilities	54,288	50,480	460,068
Other current liabilities (Note 8)	81,713	68,110	692,483
Total current liabilities	540,963	537,886	4,584,432
<b>Long-term debt</b> (Note 4)	366,686	286,407	3,107,508
<b>Deferred tax liabilities</b> (Note 8)	23,975	33,391	203,178
<b>Accrued employees' retirement benefits</b> (Note 7)	72,300	71,221	612,712
<b>Customers' guarantee deposits and other liabilities</b>	20,853	17,817	176,721
Total liabilities	1,024,777	946,722	8,684,551
<b>Commitments and contingent liabilities</b> (Note 10)			
<b>Net assets</b> (Note 9):			
Stockholders' equity:			
Common stock:			
Authorized — 4,000,000,000 shares			
Issued — 1,401,481,403 shares	96,937	96,937	821,500
Capital surplus	85,814	85,804	727,237
Retained earnings	352,994	307,227	2,991,475
Treasury stock, at cost	(998)	(703)	(8,458)
Total stockholders' equity	534,747	489,265	4,531,754
Valuation, translation adjustments and other:			
Net unrealized gains on securities	56,937	66,886	482,517
Net deferred gains on hedges	799	—	6,771
Foreign currency translation adjustments	(2,463)	(19,125)	(20,873)
Total valuation, translation adjustments and other	55,273	47,761	468,415
Minority interests in consolidated subsidiaries	59,650	53,674	505,509
Total net assets	649,670	590,700	5,505,678
Total liabilities and net assets	¥ 1,674,447	¥ 1,537,422	\$ 14,190,229

**CONSOLIDATED STATEMENTS OF INCOME**

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Net sales</b>	<b>¥ 1,546,461</b>	¥ 1,427,488	<b>\$ 13,105,602</b>
<b>Costs and expenses:</b>			
Cost of sales (Notes 7, 11 and 12)	1,221,411	1,124,233	10,350,941
Selling, general and administrative expenses (Notes 7, 11 and 12)	222,627	210,212	1,886,669
	<b>1,444,038</b>	1,334,445	<b>12,237,610</b>
Operating income	102,423	93,043	867,992
<b>Other income (expenses):</b>			
Interest expense	(9,831)	(7,969)	(83,314)
Interest and dividend income	3,206	2,514	27,169
Equity in earnings of unconsolidated subsidiaries and affiliated companies	8,331	6,214	70,602
Loss on sales and disposal of property, plant and equipment, net	(3,688)	(2,540)	(31,254)
Loss on impairment of fixed assets (Note 13)	(14,873)	(1,741)	(126,042)
Gain on sales and loss on write-down of investment securities, net	8,080	3,483	68,475
Loss on liquidation and devaluation of subsidiaries and affiliated companies (Note 14)	(1,772)	(915)	(15,017)
Restructuring costs	(1,544)	(2,004)	(13,085)
Loss on transition to defined contribution pension plan (Note 7)	—	(1,410)	—
Loss on adjustment of employees' retirement benefits of the U.K. subsidiary (Note 7)	(1,731)	(1,814)	(14,669)
Other, net	(6,896)	(6,519)	(58,442)
	<b>(20,718)</b>	(12,701)	<b>(175,577)</b>
Income before income taxes and minority interests	81,705	80,342	692,415
<b>Income taxes</b> (Note 8):			
Current	32,071	17,864	271,788
Deferred	(12,412)	10,301	(105,186)
	<b>19,659</b>	28,165	<b>166,602</b>
Income before minority interests	62,046	52,177	525,813
<b>Minority interests in earnings of consolidated subsidiaries</b>	<b>(3,469)</b>	(4,768)	<b>(29,398)</b>
Net income	<b>¥ 58,577</b>	¥ 47,409	<b>\$ 496,415</b>

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2007 and 2006

	Millions of yen										
	Stockholders' equity					Valuation, translation adjustments and other					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains on securities	Net deferred gains on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
<b>Balance as of March 31, 2005</b>	¥ 96,937	¥ 85,800	¥ 270,489	¥ (461)	¥ 452,765	¥ 38,785	¥ —	¥ (39,031)	¥ (246)	¥ 53,328	¥ 505,847
Changes in:											
Dividends			(10,506)		(10,506)						(10,506)
Bonuses to directors and corporate auditors			(138)		(138)						(138)
Net income			47,409		47,409						47,409
Acquisition and disposition of treasury stock, net		4		(242)	(238)						(238)
Other			(27)		(27)						(27)
Items other than stockholders' equity, net						28,101	—	19,906	48,007	346	48,353
<b>Total changes</b>	—	4	36,738	(242)	36,500	28,101	—	19,906	48,007	346	84,853
<b>Balance as of March 31, 2006</b>	96,937	85,804	307,227	(703)	489,265	66,886	—	(19,125)	47,761	53,674	590,700
Changes in:											
Dividends			(12,606)		(12,606)						(12,606)
Bonuses to directors and corporate auditors			(201)		(201)						(201)
Net income			58,577		58,577						58,577
Acquisition of treasury stock				(304)	(304)						(304)
Disposition of treasury stock		10		9	19						19
Other			(3)		(3)						(3)
Items other than stockholders' equity, net						(9,949)	799	16,662	7,512	5,976	13,488
<b>Total changes</b>	—	10	45,767	(295)	45,482	(9,949)	799	16,662	7,512	5,976	58,970
<b>Balance as of March 31, 2007</b>	¥ 96,937	¥ 85,814	¥ 352,994	¥ (998)	¥ 534,747	¥ 56,937	¥ 799	¥ (2,463)	¥ 55,273	¥ 59,650	¥ 649,670

	Thousands of U.S. dollars (Note 2)										
	Stockholders' equity					Valuation, translation adjustments and other					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains on securities	Net deferred gains on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
<b>Balance as of March 31, 2006</b>	\$ 821,500	\$ 727,153	\$ 2,603,619	\$ (5,958)	\$ 4,146,314	\$ 566,830	\$ —	\$ (162,076)	\$ 404,754	\$ 454,864	\$ 5,005,932
Changes in:											
Dividends			(106,831)		(106,831)						(106,831)
Bonuses to directors and corporate auditors			(1,703)		(1,703)						(1,703)
Net income			496,415		496,415						496,415
Acquisition of treasury stock				(2,576)	(2,576)						(2,576)
Disposition of treasury stock		84		76	160						160
Other			(25)		(25)						(25)
Items other than stockholders' equity, net						(84,313)	6,771	141,203	63,661	50,645	114,306
<b>Total changes</b>	—	84	387,856	(2,500)	385,440	(84,313)	6,771	141,203	63,661	50,645	499,746
<b>Balance as of March 31, 2007</b>	\$ 821,500	\$ 727,237	\$ 2,991,475	\$ (8,458)	\$ 4,531,754	\$ 482,517	\$ 6,771	\$ (20,873)	\$ 468,415	\$ 505,509	\$ 5,505,678

See accompanying notes to consolidated financial statements.

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

Toray Industries, Inc. and Consolidated Subsidiaries  
 Years ended March 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 81,705	¥ 80,342	\$ 692,415
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	72,689	64,444	616,008
Loss on impairment of fixed assets	14,873	1,741	126,042
Interest and dividend income	(3,206)	(2,514)	(27,169)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(8,331)	(6,214)	(70,602)
Interest expense	9,831	7,969	83,314
Loss on sales and disposal of property, plant and equipment, net	3,688	2,540	31,254
Gain and loss on sales and loss on write-down of investment securities, net	(7,545)	(3,476)	(63,941)
Increase (decrease) in accrued employees' retirement benefits	240	(3,938)	2,034
(Increase) decrease in trade receivables	(23,494)	7,075	(199,102)
Increase in inventories	(32,132)	(21,264)	(272,305)
Decrease in trade payables	(3,687)	(12,236)	(31,246)
Other, net	(5,020)	10,435	(42,541)
Subtotal	99,611	124,904	844,161
Interest and dividends received	8,102	14,087	68,661
Interest paid	(9,231)	(7,795)	(78,229)
Income taxes paid	(20,943)	(15,174)	(177,483)
Net cash provided by operating activities	77,539	116,022	657,110
<b>Cash flows from investing activities:</b>			
Capital expenditures	(123,404)	(102,002)	(1,045,797)
Purchases of investment securities	(11,551)	(24,162)	(97,890)
Proceeds from sales of investment securities	11,029	4,917	93,466
Proceeds from sales of property, plant and equipment	2,774	2,163	23,508
Additional acquisition of shares of consolidated subsidiaries	—	(6,636)	—
Other, net	(2,963)	45	(25,109)
Net cash used in investing activities	(124,115)	(125,675)	(1,051,822)
<b>Cash flows from financing activities:</b>			
Net (decrease) increase in short-term debt	(39,194)	11,966	(332,153)
Proceeds from long-term debt	129,515	47,495	1,097,585
Repayment of long-term debt	(46,418)	(53,622)	(393,373)
Cash dividends paid	(13,967)	(11,803)	(118,364)
Other, net	334	939	2,830
Net cash provided by (used in) financing activities	30,270	(5,025)	256,525
<b>Effect of exchange rate changes on cash and cash equivalents</b>	1,394	2,647	11,814
<b>Net decrease in cash and cash equivalents</b>	(14,912)	(12,031)	(126,373)
<b>Cash and cash equivalents at beginning of year</b>	86,961	98,739	736,958
<b>Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation</b>	53	253	449
<b>Cash and cash equivalents at end of year</b>	¥ 72,102	¥ 86,961	\$ 611,034

See accompanying notes to consolidated financial statements.

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2007 and 2006

### 1. SIGNIFICANT ACCOUNTING POLICIES

#### a) Basis of Presenting Consolidated Financial Statements

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

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

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 of the 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 have been 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, 2007 and 2006 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
	2007	2006	2007
Cash	¥ 57,342	¥ 76,187	\$ 485,949
Time deposits	14,023	9,853	118,839
Less—Time deposits with maturities of over 3 months	(46)	(58)	(390)
Short-term investment securities and others with maturities of 3 months or less	783	979	6,636
Cash and cash equivalents	¥ 72,102	¥ 86,961	\$ 611,034

#### 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 consolidated 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 net assets 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 a separate item of net assets at a net-of-tax amount 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 consolidated subsidiaries are principally interest rate swaps and forward foreign 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 consolidated subsidiaries.

The Company and its consolidated 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 consolidated 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 consolidated 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 consolidated subsidiaries is principally computed by the declining balance method, and depreciation for those of its overseas consolidated 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 consolidated 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 consolidated 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 consolidated 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 funded contributory pension plan and the defined contribution pension plan provide, in general, pension payments for life commencing from age 60.

Accrued employees' 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.

Allowance for retirement benefits for directors and corporate

auditors ("officers") of the Company and certain of its domestic consolidated 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 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 adjustments" in net assets except for the portion belonging to minority stockholders, which is included in "minority interests in consolidated subsidiaries" in net assets.

**n) Bonuses to Directors and Corporate Auditors**

Effective from the year ended March 31, 2007, the Company adopted "Accounting Standard for Bonuses to Directors and Corporate Auditors" (Statement No. 4 issued by the Accounting Standards Board of Japan on November 29, 2005). Under the new accounting standard, bonuses to directors and corporate auditors must be expensed and are no longer allowed to be directly charged to retained earnings. The companies must accrue bonuses to directors and corporate auditors for the year to which such bonuses are attributable. As a result of the adoption of this new accounting standard, operating income decreased by ¥229 million (\$1,941 thousand) and income before income taxes and minority interests decreased by ¥241 million (\$2,042 thousand), respectively.

**o) Accounting Standard for Presentation of Net Assets in the Balance Sheets**

Effective from the year ended March 31, 2007, the Company adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheets" (Statement No. 5 issued by the Accounting Standards Board of Japan on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Guidance No. 8 issued by the Accounting Standards Board of Japan on December 9, 2005). The amount corresponding to conventional "total stockholders' equity" in the consolidated balance sheet is ¥589,221million (\$4,993,398 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 ¥118 to \$1.00, the approximate exchange

rate prevailing on March 31, 2007. 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, 2007 and 2006, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Finished goods and work in process	¥ 237,817	¥ 211,209	\$ 2,015,398
Raw materials and supplies	65,117	53,090	551,839
	¥ 302,934	¥ 264,299	\$ 2,567,237

## 4. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2007 and 2006 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, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Loans principally from banks and insurance companies with interest rates primarily from 0.5400% to 5.9150%, maturing serially through 2016:			
Secured	¥ 3,752	¥ 69	\$ 31,796
Unsecured	208,601	206,904	1,767,804
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	169,491
Yen notes with an interest rate of 2.03% due 2008	10,000	10,000	84,746
Yen notes with an interest rate of 2.00% due 2013	10,000	10,000	84,746
Yen notes with an interest rate of 1.95% due 2009	10,000	10,000	84,746
Yen notes with an interest rate of 1.94% due 2010	10,000	10,000	84,746
Yen notes with an interest rate of 1.93% due 2009	10,000	10,000	84,746
Yen notes with an interest rate of 1.61% due 2013	10,000	10,000	84,746
Yen notes with an interest rate of 1.48% due 2011	20,000	20,000	169,491
Yen notes with an interest rate of 0.60% due 2006	—	20,000	—
Zero coupon convertible bonds due 2012	50,000	—	423,729
Zero coupon convertible bonds due 2014	50,000	—	423,729
	412,353	326,973	3,494,516
Less amounts due within one year	45,667	40,566	387,008
	¥ 366,686	¥ 286,407	\$ 3,107,508

At March 31, 2007, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Accounts receivable	¥ 27	\$ 229
Property, plant and equipment, net	9,885	83,771
Investment securities at carrying value	40	339
	¥ 9,952	\$ 84,339

The annual maturities of long-term debt subsequent to March 31, 2007 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2008	¥ 45,667	\$ 387,008
2009	44,545	377,500
2010	49,008	415,322
2011	37,232	315,525
2012	82,454	698,763
2013 and thereafter	153,447	1,300,398
	¥ 412,353	\$ 3,494,516

## 5. SECURITIES

At March 31, 2007 and 2006, the acquisition cost 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			
	2007				Acquisition cost	Unrealized gains	Unrealized losses	Fair value
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥ 109	¥ —	¥ —	¥ 109	¥ 40	¥ —	¥ —	¥ 40
Other securities	54,643	96,113	842	149,914	44,838	112,778	287	157,329

	Thousands of U.S. dollars			
	2007			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$ 924	\$ —	\$ —	\$ 924
Other securities	463,076	814,517	7,135	1,270,458

At March 31, 2007 and 2006, 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
	2007	2006	2007
Held-to-maturity debt securities	¥ 60	¥ 26	\$ 508
Other securities	8,372	8,545	70,949

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 redemption schedule for securities classified as held-to-maturity debt securities and other securities with maturity dates at March 31, 2007 and 2006 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2007		2006		2007	
	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	¥ 17	¥ 10	¥ 4	¥ —	\$ 144	\$ 85
Due after one year through five years	127	10	45	20	1,076	85
Due after five years through ten years	25	—	17	—	212	—
Due after ten years	—	649	—	447	—	5,500

## 6. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2007 and 2006:

	Millions of yen					
	2007			2006		
	Contract amount	Fair value	Unrealized gain	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Buying U.S. dollar	¥ 9,152	¥ 9,377	¥ 225	¥ 428	¥ 423	¥ (5)
Buying Japanese yen	2,393	2,436	43	642	638	(4)
Buying euro	100	100	0	—	—	—
Selling U.S. dollar	210	205	5	3,578	3,522	56
Selling euro	639	638	1	636	636	0
Selling British pound	92	92	0	—	—	—
Selling Japanese yen	1,004	966	38	—	—	—
Interest rate swaps:						
Fixed-rate payment, floating-rate receipt	—	—	—	4,500	(40)	(40)

	Thousands of U.S. dollars		
	2007		
	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:			
Buying U.S. dollar	\$ 77,559	\$ 79,466	\$ 1,907
Buying Japanese yen	20,280	20,644	364
Buying euro	847	847	0
Selling U.S. dollar	1,780	1,738	42
Selling euro	5,415	5,407	8
Selling British pound	780	780	0
Selling Japanese yen	8,508	8,186	322
Interest rate swaps:			
Fixed-rate payment, floating-rate receipt	—	—	—

The derivatives contracts to which hedge accounting is applied are excluded from the above tables.

## 7. RETIREMENT BENEFIT PLAN

Accrued employees' retirement benefits as of March 31, 2007 and 2006 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligations	¥ (249,523)	¥ (247,596)	\$ (2,114,602)
Plan assets	221,116	206,657	1,873,865
	(28,407)	(40,939)	(240,737)
Unrecognized actuarial differences	2,401	8,881	20,347
Unrecognized prior service cost	(36,222)	(39,122)	(306,966)
	(62,228)	(71,180)	(527,356)
Prepaid pension cost (included in other assets)	10,072	41	85,356
Accrued employees' retirement benefits	¥ (72,300)	¥ (71,221)	\$ (612,712)

The components of net periodic benefit cost related to the employees' retirement benefits for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 6,579	¥ 7,425	\$ 55,754
Interest cost	4,688	4,842	39,729
Expected return on plan assets	(6,069)	(4,904)	(51,432)
Amortization of actuarial differences	1,748	5,063	14,813
Amortization of prior service cost	(2,866)	(2,908)	(24,288)
Net periodic benefit cost	4,080	9,518	34,576
Loss on transition to defined contribution pension plan	—	1,410	—
Loss on adjustment of employees' retirement benefits of the U.K. subsidiary	1,731	1,814	14,669
Contribution to defined contribution pension plan and other	3,395	1,495	28,772
	¥ 9,206	¥ 14,237	\$ 78,017

In addition to the above, special severance payments of ¥2,652 million (\$22,475 thousand) and ¥1,360 million were charged to net income for the years ended March 31, 2007 and 2006, respectively.

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

	2007	2006
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

## 8. INCOME TAXES

The statutory tax rate in Japan used for calculating deferred tax assets and liabilities for the years ended March 31, 2007 and 2006 was 40.7%.

At March 31, 2007 and 2006, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Accrued bonuses	¥ 7,098	¥ 6,537	\$ 60,153
Accrued employees' retirement benefits	30,341	29,133	257,127
Tax loss carryforwards	20,621	16,878	174,754
Unrealized intercompany profits	14,417	13,592	122,178
Investments in subsidiaries and affiliated companies	27,528	—	233,288
Other	29,552	23,710	250,441
	129,557	89,850	1,097,941
Valuation allowance	(34,268)	(15,174)	(290,407)
Total deferred tax assets	95,289	74,676	807,534
Deferred tax liabilities:			
Reserve for advanced depreciation	12,760	13,088	108,136
Depreciation	4,354	2,623	36,898
Undistributed earnings of foreign subsidiaries and affiliated companies	9,693	6,667	82,144
Unrealized gain on securities	38,706	45,720	328,017
Other	5,102	384	43,237
Total deferred tax liabilities	70,615	68,482	598,432
Net deferred tax assets	¥ 24,674	¥ 6,194	\$ 209,102

At March 31, 2007 and 2006, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets - current	¥ 21,903	¥ 18,181	\$ 185,619
Deferred tax assets - non-current	26,748	21,491	226,678
Deferred tax liabilities - current (included in other current liabilities)	2	87	17
Deferred tax liabilities - non-current	23,975	33,391	203,178

The reconciliation of the statutory tax rate and the effective income tax rate for the years ended March 31, 2007 and 2006 was as follows:

	2007	2006
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from:		
Permanent differences	0.8	0.7
Gains and losses of subsidiaries not utilizing deferred tax accounting	—	(2.6)
Decrease in deductible temporary differences not providing deferred tax assets	(12.6)	—
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(4.1)	(3.1)
Other	(0.7)	(0.6)
Effective income tax rate	24.1%	35.1%

## 9. NET ASSETS

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.

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 stockholders' equity in the accompanying consolidated balance sheets. Net gain on resale of treasury stocks is presented under capital surplus in stockholders' equity in the accompanying consolidated balance sheets.

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Japanese Commercial Code, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the earned reserve) be transferred to the capital reserve and the earned reserve, respectively, until the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the stockholders, or by the Board of Directors if certain conditions are met.

At the June 2007 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥5.00 per share, aggregating ¥7,003 million (\$59,347 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007.

## 10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2007, commitment line of credit was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥ 4,205	\$ 35,635
Outstanding borrowings	3,271	27,720
Balance	¥ 934	\$ 7,915

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

At March 31, 2007 and 2006, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥ 8,030	¥ 10,943	\$ 68,051
Other	7,408	6,785	62,780
	¥ 15,438	¥ 17,728	\$ 130,831
Notes discounted	¥ 126	¥ 75	\$ 1,068
Export bills discounted	¥ 2,517	¥ 2,485	\$ 21,331
Contingent liabilities associated with securitization of receivables	¥ 12,299	¥ 15,722	\$ 104,229

**11. LEASES****Finance Leases**

The Group holds certain buildings, machinery and equipment and intangible assets by leases. Total lease payments under these leases were ¥3,155 million (\$26,737 thousand) and ¥2,864 million for the years ended March 31, 2007 and 2006, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation/amortization and accumulated loss on impairment 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 years ended March 31, 2007 and 2006 was as follows:

	Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
<b>Year ended March 31, 2007:</b>				
Buildings	¥ 2,225	¥ 512	¥ —	¥ 1,713
Machinery and equipment	13,700	6,822	136	6,742
Intangible assets	1,220	638	—	582
	¥ 17,145	¥ 7,972	¥ 136	¥ 9,037

	Millions of yen			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
<b>Year ended March 31, 2006:</b>				
Machinery and equipment	¥ 3,991	¥ 1,643	¥ —	¥ 2,348
Other	11,804	5,662	—	6,142
	¥ 15,795	¥ 7,305	¥ —	¥ 8,490

	Thousands of U.S. dollars			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
<b>Year ended March 31, 2007:</b>				
Buildings	\$ 18,856	\$ 4,339	\$ —	\$ 14,517
Machinery and equipment	116,102	57,813	1,153	57,136
Intangible assets	10,339	5,407	—	4,932
	\$ 145,297	\$ 67,559	\$ 1,153	\$ 76,585

Future minimum lease payments under finance leases subsequent to March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 3,004	¥ 2,643	\$ 25,458
Due after one year	6,146	5,847	52,085
Total	¥ 9,150	¥ 8,490	\$ 77,543
Allowance for loss on impairment on leased property	¥ 113	¥ —	\$ 958

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 subsequent to March 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Due within one year	¥ 1,389	¥ 1,123	\$ 11,771
Due after one year	5,859	6,185	49,653
Total	¥ 7,248	¥ 7,308	\$ 61,424

## 12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 were ¥42,263 million (\$358,161 thousand) and ¥39,710 million, respectively.

## 13. LOSS ON IMPAIRMENT OF FIXED ASSETS

The Company and its consolidated subsidiaries grouped assets used for business based on the classification under the management accounting. For idle assets, each asset is considered to constitute a group.

For the year ended March 31, 2007, the carrying amount of the certain assets used for business was devalued to the recoverable amount, mainly due to their declining profitability. As a result, the Company and its consolidated subsidiaries recognized loss on impairment of fixed assets in the amount of ¥14,873 million (\$126,042 thousand).

The major assets of which the Company and its consolidated subsidiaries recognized loss on impairment were as follows:

Location	Use	Type of assets	Millions of yen	Thousands of U.S. dollars
			Loss on impairment	
Fukushima, Japan	Production facilities for construction materials	Buildings	727	6,161
		Machinery and equipment and other	1,646	13,949
Jiangsu, China	Polyester polymerization facilities, polyester filament production facilities and nylon filament production facilities	Machinery and equipment and other	1,430	12,119
Penang, Malaysia	Polyester film production facilities	Machinery and equipment and other	1,716	14,542
St-Maurice de Beynost, France	Polyester film production facilities	Buildings	2,105	17,839
		Machinery and equipment and other	6,561	55,602

The recoverable amount of the above assets was measured at their value in use. For the assets in Japan, China and Malaysia, value in use was calculated by discounting future cash flows at discount rates from 5% to 6%. For the assets in France, value in use was calculated by using undiscounted future cash flows in accordance with accounting principles generally accepted in France.

## 14. LOSS ON LIQUIDATION AND DEVALUATION OF SUBSIDIARIES AND AFFILIATED COMPANIES

Loss on liquidation and devaluation of subsidiaries and affiliated companies for the years ended March 31, 2007 and 2006 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Write-down of investment securities	¥ 515	¥ —	\$ 4,364
Provision for doubtful accounts	846	915	7,170
Loss on liquidation and other	411	—	3,483
	¥ 1,772	¥ 915	\$ 15,017

## 15. SEGMENT INFORMATION

### Results by Business Segment

The Company and its consolidated 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.

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, materials for plasma display panels and graphic materials and IT-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.

**Results by Business Segment**

Millions of yen

<b>Year ended March 31, 2007:</b>	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	Consolidated total
Sales to outside customers	¥ 607,752	¥ 375,292	¥ 263,808	¥ 68,593	¥ 161,310	¥ 69,706	¥ 1,546,461	¥ —	¥ 1,546,461
Intersegment sales	925	32,507	7,064	1,216	65,146	19,185	126,043	(126,043)	—
<b>Total sales</b>	<b>¥ 608,677</b>	<b>¥ 407,799</b>	<b>¥ 270,872</b>	<b>¥ 69,809</b>	<b>¥ 226,456</b>	<b>¥ 88,891</b>	<b>¥ 1,672,504</b>	<b>¥ (126,043)</b>	<b>¥ 1,546,461</b>
Operating income	¥ 19,236	¥ 19,232	¥ 33,457	¥ 18,084	¥ 5,953	¥ 8,151	¥ 104,113	¥ (1,690)	¥ 102,423
Total assets	¥ 509,482	¥ 458,972	¥ 318,671	¥ 170,140	¥ 175,256	¥ 111,448	¥ 1,743,969	¥ (69,522)	¥ 1,674,447
Depreciation and amortization	24,175	19,761	17,375	6,666	2,518	3,314	73,809	(1,120)	72,689
Loss on impairment of fixed assets	1,743	7,524	2,899	14	2,687	6	14,873	—	14,873
Capital expenditures	23,441	29,254	31,244	36,026	4,454	3,776	128,195	(1,751)	126,444

Year ended  
March 31, 2006:

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)	—
<b>Total sales</b>	<b>¥ 581,196</b>	<b>¥ 366,831</b>	<b>¥ 242,101</b>	<b>¥ 53,748</b>	<b>¥ 212,766</b>	<b>¥ 84,081</b>	<b>¥ 1,540,723</b>	<b>¥ (113,235)</b>	<b>¥ 1,427,488</b>
Operating income	¥ 20,687	¥ 18,484	¥ 31,264	¥ 11,820	¥ 4,920	¥ 6,453	¥ 93,628	¥ (585)	¥ 93,043
Total 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

Thousands of U.S. dollars

<b>Year ended March 31, 2007:</b>	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	Consolidated total
Sales to outside customers	\$ 5,150,441	\$ 3,180,441	\$ 2,235,661	\$ 581,296	\$ 1,367,034	\$ 590,729	\$ 13,105,602	\$ —	\$ 13,105,602
Intersegment sales	7,839	275,483	59,864	10,305	552,085	162,585	1,068,161	(1,068,161)	—
<b>Total sales</b>	<b>\$ 5,158,280</b>	<b>\$ 3,455,924</b>	<b>\$ 2,295,525</b>	<b>\$ 591,601</b>	<b>\$ 1,919,119</b>	<b>\$ 753,314</b>	<b>\$ 14,173,763</b>	<b>\$ (1,068,161)</b>	<b>\$ 13,105,602</b>
Operating income	\$ 163,017	\$ 162,983	\$ 283,534	\$ 153,255	\$ 50,449	\$ 69,076	\$ 882,314	\$ (14,322)	\$ 867,992
Total assets	\$ 4,317,644	\$ 3,889,593	\$ 2,700,602	\$ 1,441,864	\$ 1,485,220	\$ 944,475	\$ 14,779,398	\$ (589,169)	\$ 14,190,229
Depreciation and amortization	204,873	167,466	147,246	56,491	21,339	28,085	625,500	(9,492)	616,008
Loss on impairment of fixed assets	14,771	63,763	24,568	118	22,771	51	126,042	—	126,042
Capital expenditures	198,652	247,915	264,780	305,305	37,746	32,000	1,086,398	(14,839)	1,071,559

**Results by Geographic Segment**

Millions of yen

<b>Year ended March 31, 2007:</b>	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
Sales to outside customers	¥ 1,104,923	¥ 290,570	¥ 150,968	¥ 1,546,461	¥ —	¥ 1,546,461
Intersegment sales	117,503	54,977	11,157	183,637	(183,637)	—
<b>Total sales</b>	<b>¥ 1,222,426</b>	<b>¥ 345,547</b>	<b>¥ 162,125</b>	<b>¥ 1,730,098</b>	<b>¥ (183,637)</b>	<b>¥ 1,546,461</b>
Operating income	¥ 80,712	¥ 12,079	¥ 9,818	¥ 102,609	¥ (186)	¥ 102,423
Total assets	¥ 1,189,690	¥ 344,248	¥ 183,824	¥ 1,717,762	¥ (43,315)	¥ 1,674,447

Year ended March 31, 2006:

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)	—
<b>Total sales</b>	<b>¥ 1,151,497</b>	<b>¥ 287,036</b>	<b>¥ 145,056</b>	<b>¥ 1,583,589</b>	<b>¥ (156,101)</b>	<b>¥ 1,427,488</b>
Operating income	¥ 71,762	¥ 13,450	¥ 8,510	¥ 93,722	¥ (679)	¥ 93,043
Total assets	¥ 1,130,751	¥ 276,986	¥ 159,994	¥ 1,567,731	¥ (30,309)	¥ 1,537,422

Thousands of U.S. dollars

	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
<b>Year ended March 31, 2007:</b>						
Sales to outside customers	\$ 9,363,754	\$ 2,462,458	\$ 1,279,390	\$ 13,105,602	\$ —	\$ 13,105,602
Intersegment sales	995,788	465,906	94,551	1,556,245	(1,556,245)	—
Total sales	\$10,359,542	\$ 2,928,364	\$ 1,373,941	\$ 14,661,847	\$ (1,556,245)	\$ 13,105,602
Operating income	\$ 684,000	\$ 102,365	\$ 83,203	\$ 869,568	\$ (1,576)	\$ 867,992
Total assets	\$10,082,119	\$ 2,917,356	\$ 1,557,830	\$ 14,557,305	\$ (367,076)	\$ 14,190,229

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

### Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries for the years ended March 31, 2007 and 2006 were as follows:

	Millions of yen		
	Asia	North America, Europe and other areas	Total
<b>Year ended March 31, 2007:</b>			
Overseas sales	¥ 422,266	¥ 238,068	¥ 660,334
Percentage of overseas sales against consolidated net sales	27.3%	15.4%	42.7%
<b>Year ended March 31, 2006:</b>			
Overseas sales	¥ 377,306	¥ 212,456	¥ 589,762
Percentage of overseas sales against consolidated net sales	26.4%	14.9%	41.3%

	Thousands of U.S. dollars		
<b>Year ended March 31, 2007:</b>			
Overseas sales	\$ 3,578,526	\$ 2,017,525	\$ 5,596,051

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

## 16. AMOUNTS PER SHARE

Basic net income per share is computed based on the net income available for distribution to stockholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the stockholders and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of war-

rants and stock subscription rights.

Amounts per share of net assets are computed based on the net assets available for distribution to the stockholders and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors applicable to the respective years together with any interim cash dividends paid.

	Yen		U.S. dollars
	2007	2006	2007
Net income:			
Basic	¥ 41.84	¥ 33.72	\$ 0.35
Diluted	—	—	—
Cash dividends applicable to the period	¥ 10.00	¥ 8.00	\$ 0.08
Net assets	¥ 421.51	¥ 383.42	\$ 3.57



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## Report of Independent Auditors

The Board of Directors  
Toray Industries, Inc.

We have audited the accompanying consolidated balance sheet of Toray Industries, Inc. and consolidated subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The consolidated financial statements of the Company and consolidated subsidiaries as of March 31, 2006 and for the year then ended were audited by other auditors whose report dated June 28, 2006 expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toray Industries, Inc. and consolidated subsidiaries at March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

*Ernst & Young ShinNihon*

June 27, 2007

A MEMBER OF ERNST & YOUNG GLOBAL

**INVESTOR INFORMATION** (As of March 31, 2007)**Common Stock:**

Authorized:	4,000,000,000 shares
Issued:	1,401,481,403 shares
Number of Stockholders:	171,017

**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

	2007		2006	
	High	Low	High	Low
<b>Common stock range</b>				
First quarter	¥ 1,128	¥ 827	¥ 527	¥ 454
Second quarter	1,023	837	619	495
Third quarter	903	806	984	575
Fourth quarter	950	816	1,011	806

**Cash dividends per share**

	2007	2006
Total for the year	¥ 10.00	¥ 8.00
Interim	5.00	4.00

**Composition of stockholders**

	Percent of total	Thousands of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	5.49	76,936
Japan Trustee Services Bank, Ltd. (Trust account)	4.44	62,282
Nippon Life Insurance Co.	4.22	59,151
Mitsui Life Insurance Co., Ltd.	3.42	47,948
State Street Bank and Trust Company 505103	2.55	35,703
Japan Trustee Services Bank, Ltd. (Trust 4 account)	2.54	35,644
Sumitomo Mitsui Banking Corporation	2.14	30,022
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

**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>

**Established:**

January 1926

**Paid-in Capital:**

¥ 96,937,230,771

**Number of Employees:**

36,553

Parent company: 6,830  
Japanese subsidiaries: 9,589  
Overseas subsidiaries: 20,134

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](mailto:ir@nts.toray.co.jp)

**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)  
Verulam Gardens, 70 Gray's Inn Road,  
London, WC1X 8NH, U.K.  
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Facsimile: 44 (20) 7663-7770

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

**Seoul**

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Kongdug-dong, Mapo-gu, Seoul,  
121-721 Korea  
Telephone: 82 (2) 707-0381~2  
Facsimile: 82 (2) 707-0067

## BOARD OF DIRECTORS AND CORPORATE AUDITORS (As of June 27, 2007)

### Chairman of the Board



Akikazu Shimomura

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



Sadayuki Sakakibara

### Executive Vice Presidents and Representative Directors



Chiaki Tanaka



Motoo Yoshikawa



Yukihiko Sugimoto



Akihiro Nikkaku

### Senior Vice President and Representative Member of the Board (Member of the Executive Committee)

Osamu Nakatani

### Senior Vice Presidents (Members of the Board & Members of the Executive Committee)

Masayoshi Kamiura

Junichi Fujikawa

Eizo Tanaka

Shinichi Koizumi

### Senior Vice Presidents (Members of the Board)

Kozo Nagai

Norihiko Saitou

Kazuhiro Maruyama

Hideyasu Okawara

Kazushi Hashimoto

Toshiyuki Takeda

Takeo Togano

### Vice Presidents (Members of the Board)

Akira Karasawa

Kenichiro Oka

Kiyoshi Fukuchi

Akira Uchida

Koichi Abe

Toshiyuki Asakura

Nobuo Suzui

Moriyuki Onishi

Takao Sano

Shinichi Okuda

Hidekatsu Nakagawa

Shogo Masuda

### Corporate Auditors

Motonori Nishida

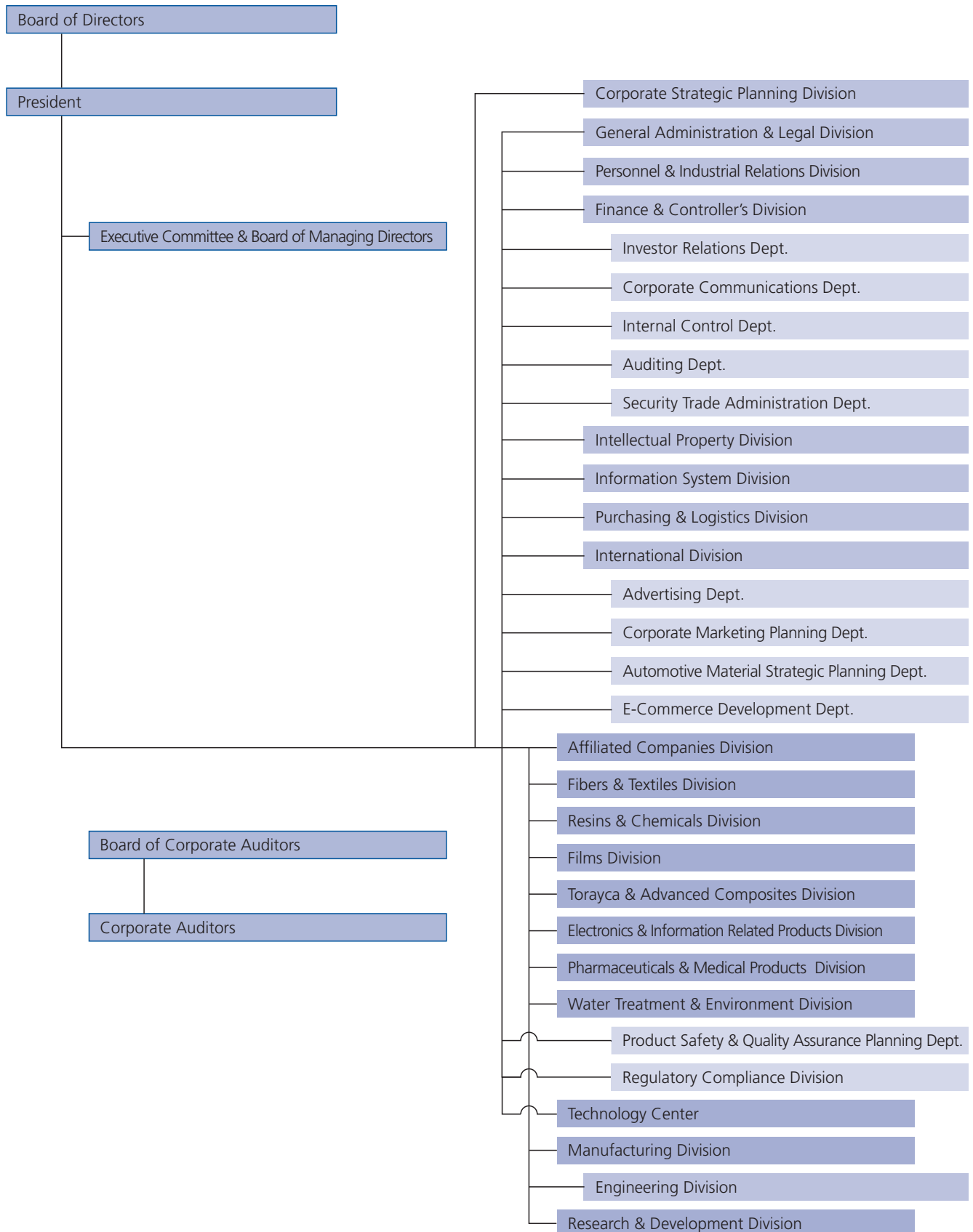
Hiroshi Otani

Ichiro Sakai\*

Mitsuaki Yahagi\*

\*Outside Corporate Auditors under the Commercial Code of Japan.

**ORGANIZATION CHART** (As of July 1, 2007)



**TORAY GROUP WORLDWIDE NETWORK** (As of March 31, 2007)

**EUROPE**

**United Kingdom**

**Consolidated Subsidiaries**

- Toray Textiles Europe Ltd. (TTEL)
- Toray Europe Ltd. (TEL)

**France**

**Consolidated Subsidiaries**

- Toray Plastics Europe S.A. (TPEu)
- Société des Fibres de Carbone S.A. (SOFICAR)

**Switzerland**

**Subsidiaries Accounted for by Equity Method**

- Toray Membrane Europe AG (TMEu)

**Italy**

**Consolidated Subsidiaries**

- Alcantara S.p.A.

**Subsidiaries Accounted for by Equity Method**

- Toray Italia S.r.l. (TITA)

**Czech**

**Consolidated Subsidiaries**

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

**Germany**

**Consolidated Subsidiaries**

- Toray Deutschland GmbH (TDG)

**ASIA**

**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. (RKH)
- Toray Industries (H.K.) Ltd. (THK)
- Toray Trading (Shanghai) Co., Ltd. (TSL)

**Subsidiaries Accounted for by Equity Method**

- Toray Industries (South China) Co., Ltd. (TSCN)

**Affiliates Accounted for by Equity Method**

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

**Korea**

**Consolidated Subsidiaries**

- ■ Toray Saehan Inc. (TSI)
- STEMCO, Ltd. (STEMCO)

**Affiliates Accounted for by Equity Method**

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

**Chinese Taipei**

**Subsidiaries Accounted for by Equity Method**

- Tong Shing Inc.

**Malaysia**

**Consolidated Subsidiaries**

- Penfabric Sdn. Berhad (PAB)
- ■ Penfibre Sdn. Berhad (PFR)
- Toray Plastics (Malaysia) Sdn. Berhad (TPM)

**Subsidiaries Accounted for by Equity Method**

- Toray Industries (Malaysia) Sdn. Berhad (TML)

**Affiliates Accounted for by Equity Method**

- Toray BASF PBT Resin Sdn. Berhad (TBPR)

**Singapore**

**Consolidated Subsidiaries**

- Toray Industries (Singapore) Pte. Ltd. (TSP)

●	Regional Supervisory Organization
●	Fibers & Textiles
■	Plastics & Chemicals
■	IT-related Products
●	Carbon Fiber Composite Materials
●	Environment & Engineering
■	Life Science & Other Businesses
■	Trading

**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

**NORTH AMERICA**

**U.S.A**

**Consolidated Subsidiaries**

- Toray Fluorofibers (America), Inc. (TFA)
  - Toray Ultrasuede (America), Inc. (TUA)
  - Toray Plastics (America), Inc. (TPA)
  - Toray Resin Co. (TREC)
  - Toray Carbon Fibers America, Inc. (CFA)
  - Toray Composites (America), Inc. (TCA)
  - Toray Marketing and Sales (America), Inc. (TOMAC)
- Others

**Subsidiaries Accounted for by Equity Method**

- Toray Membrane America, Inc. (TMA)

Others

**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. (TTTTM)
- 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	77
	Total	144
Subsidiaries Accounted for by Equity Method	Japan	35
	Overseas	22
	Total	57
Total Subsidiaries	Japan	102
	Overseas	99
	Total	201
Affiliates Accounted for by Equity Method	Japan	16
	Overseas	25
	Total	41
Companies Subject to Consolidation	Japan	118
	Overseas	124
	Total	242

**PRINCIPAL SUBSIDIARIES AND AFFILIATED COMPANIES** (As of March 31, 2007)**Consolidated Subsidiaries**

Company Name	Country	Capital (Million Yen)* <sup>2</sup>	Ownership of Voting Rights (%)* <sup>7</sup>	Main Business* <sup>1</sup>
Toray Textiles, Inc.	Japan	100	100.0	Fibers & Textiles
Toray Coatex Co., Ltd.	Japan	110	100.0	Fibers & Textiles
Towa Orimono Co., Ltd.* <sup>4</sup>	Japan	600	50.3	Fibers & Textiles
Toray Monofilament Co., Ltd.	Japan	600	100.0	Fibers & Textiles
Toyo Tire Cord Co., Ltd.	Japan	100	100.0	Fibers & Textiles
Ichimura Sangyo, Co., Ltd.	Japan	1,000	85.0	Fibers & Textiles, Plastics & Chemicals
Marusa Co., Ltd.	Japan	312	74.5	Fibers & Textiles
Toray Diplomode, Inc.	Japan	2,500	100.0	Fibers & Textiles
Toray Fine Chemical Co., Ltd.	Japan	474	100.0	Fibers & Textiles, Plastics & Chemicals, IT-related Products
Toyo Plastic Seiko Co., Ltd.	Japan	360	66.7	Plastics & Chemicals, IT-related Products
Toray PEF Products Inc.	Japan	120	100.0	Plastics & Chemicals
Toray Advanced Film Co., Ltd.	Japan	736	94.3	Plastics & Chemicals, IT-related Products
Soda Aromatic Co., Ltd.* <sup>4</sup>	Japan	1,490	50.04	Plastics & Chemicals
Toray Engineering Co., Ltd.	Japan	1,500	99.9	IT-related Products, Environment & Engineering
Toray Precision Co., Ltd.	Japan	200	100.0	IT-related Products, Environment & Engineering
Toray Systems Center, Inc.	Japan	200	100.0	IT-related Products
Suido Kiko Kaisha, Ltd.* <sup>4</sup>	Japan	1,948	51.2	Environment & Engineering
Toray Medical Co., Ltd.	Japan	575	100.0	Life Science & Other Businesses
Toray Research Center Inc.	Japan	250	100.0	Life Science & Other Businesses
Toray Enterprise Corp.	Japan	3,100	100.0	Life Science & Other Businesses
Toray Agency Inc.	Japan	160	100.0 (90.0)	Life Science & Other Businesses
Toyo Jitsugyo Co., Ltd.	Japan	100	100.0	Life Science & Other Businesses
Mishima Shokusan Inc.	Japan	20	100.0	Life Science & Other Businesses
Toray Ireeve Corp.	Japan	120	100.0	Trading
Toray International, Inc.* <sup>3</sup> * <sup>8</sup>	Japan	1,600	100.0	Trading
Chori Co., Ltd.* <sup>4</sup> * <sup>8</sup>	Japan	6,800	51.7	Trading

Company Name	Country	Capital (Million Yen)* <sup>2</sup>	Ownership of Voting Rights (%)* <sup>7</sup>	Main Business* <sup>1</sup>
Toray Textiles Europe Ltd. (TTEL)	United Kingdom	9,529 (41,120 Thousand Stg£)	97.4	Fibers & Textiles
Alcantara S.p.A.	Italy	1,699 (10,800 Thousand Euro)	70.0	Fibers & Textiles
Toray Textiles Central Europe s.r.o. (TTCE)	Czech Republic	6,744 (1,200,000 Thousand CZK)	100.0	Fibers & Textiles
P.T. Century Textile Industry Tbk (CENTEX)* <sup>5</sup>	Indonesia	130 (10,000 Million RP)	40.1 (10.2)	Fibers & Textiles
P.T. Easterntex (ETX)	Indonesia	1,487 (12,600 Thousand US\$)	69.8	Fibers & Textiles
P.T. Indonesia Synthetic Textile Mills (ISTEM)	Indonesia	1,216 (10,300 Thousand US\$)	50.1	Fibers & Textiles
P.T. Indonesia Toray Synthetics (ITS)	Indonesia	6,469 (54,800 Thousand US\$)	80.1 (14.6)	Fibers & Textiles
Luckytex (Thailand) Public Company Limited (LTX)	Thailand	1,903 (518,400 Thousand Baht)	51.0 (2.0)	Fibers & Textiles
Thai Toray Textile Mills Public Company Limited (TTTM)* <sup>5</sup>	Thailand	220 (60,000 Thousand Baht)	40.0 (5.2)	Fibers & Textiles
Thai Toray Synthetics Co., Ltd. (TTS)* <sup>3</sup>	Thailand	11,297 (3,078,141 Thousand Baht)	90.0 (19.2)	Fibers & Textiles, Plastics & Chemicals, IT-related Products
Penfabric Sdn. Berhad (PAB)	Malaysia	2,940 (86,000 Thousand RM)	100.0	Fibers & Textiles
Penfibre Sdn. Berhad (PFR)* <sup>3</sup>	Malaysia	11,967 (350,000 Thousand RM)	100.0	Fibers & Textiles, Plastics & Chemicals, IT-related Products
Toray Industries (China) Co., Ltd. (TCH)* <sup>3</sup>	China	12,304 (104,231 Thousand US\$)	100.0	Fibers & Textiles, Life Science & Other Businesses
Toray Fibers (Nantong) Co., Ltd. (TFNL)* <sup>3</sup>	China	23,790 (1,578,626 Thousand RMB)	100.0 (10.0)	Fibers & Textiles
Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. (TSD)* <sup>3</sup>	China	21,731 (1,442,000 Thousand RMB)	84.8 (15.4)	Fibers & Textiles
TAL Knits Ltd. (TAK)	China	5,234 (346,400 Thousand HK\$)	100.0	Fibers & Textiles

Company Name	Country	Capital (Million Yen) <sup>*2</sup>	Ownership of Voting Rights (%) <sup>*7</sup>	Main Business <sup>*1</sup>
Toray Saehan Inc. (TSI) <sup>*3</sup>	Korea	44,827 (356,900 Million Won)	90.0	Fibers & Textiles, Plastics & Chemicals, IT-related Products
Toray Plastics (America), Inc. (TPA) <sup>*3</sup>	U.S.A.	28,123 (238,231 Thousand US\$)	100.0 (100.0)	Plastics & Chemicals, IT-related Products
Toray Plastics Europe S.A. (TPEu) <sup>*3</sup>	France	15,660 (99,533 Thousand Euro)	100.0	Plastics & Chemicals, IT-related Products
Toray Plastics (Malaysia) Sdn. Berhad (TPM)	Malaysia	8,718 (255,000 Thousand RM)	100.0 (7.8)	Plastics & Chemicals, IT-related Products
STEMCO, Ltd. (STEMCO)	Korea	3,014 (24,000 Million Won)	70.0	IT-related Products
Toray Carbon Fibers America, Inc. (CFA) <sup>*3</sup>	U.S.A.	13,576 (115,000 Thousand US\$)	100.0 (100.0)	Carbon Fiber Composite Materials
Toray Composites (America), Inc. (TCA)	U.S.A.	5,194 (44,000 Thousand US\$)	100.0 (100.0)	Carbon Fiber Composite Materials
Société des Fibres de Carbone S.A. (SOFICAR)	France	5,475 (34,800 Thousand Euro)	70.0	Carbon Fiber Composite Materials
Toray Holding (U.S.A.), Inc. <sup>*3</sup>	U.S.A.	0 (100 US\$)	100.0	Life Science & Other Businesses
Toray Marketing & Sales (America), Inc. (TOMAC)	U.S.A.	354 (3,000 Thousand US\$)	100.0 (100.0)	Trading
Toray Europe Ltd. (TEL)	United Kingdom	428 (1,849 Thousand Stg£)	100.0 (15.0)	Trading
Toray Deutschland GmbH (TDG)	Germany	193 (1,227 Thousand Euro)	100.0 (25.0)	Trading
Toray Industries (Singapore) Pte. Ltd. (TSP)	Singapore	156 (2,000 Thousand S\$)	100.0 (30.0)	Trading
Toray Industries (H.K.) Ltd. (THK)	China	234 (15,500 Thousand HK\$)	100.0 (30.0)	Trading
88 Other Companies				

**Affiliates Accounted for by Equity Method**

Company Name	Country	Capital (Million Yen)* <sup>2</sup>	Ownership of Voting Rights (%)* <sup>7</sup>	Main Business* <sup>1</sup>
Du Pont-Toray Co., Ltd.	Japan	3,208	50.0	Fibers & Textiles, Plastics & Chemicals, IT-related Products
Opelontex Co., Ltd.	Japan	3,510	50.0	Fibers & Textiles
Dow Corning Toray Co., Ltd.	Japan	6,198	35.0	Plastics & Chemicals
Sanyo Chemical Industries, Ltd.* <sup>4</sup> * <sup>6</sup>	Japan	13,051	17.5	Plastics & Chemicals
Matsushita PDP Co., Ltd.	Japan	25,600	25.0	IT-related Products
P.T. Petnesia Resindo	Indonesia	3,376 (28,600 Thousand US\$)	47.1 (11.1)	Plastics & Chemicals
STECO, Ltd. (STECO)	Korea	3,014 (24,000 Million Won)	49.0	IT-related Products

34 Other Companies

\*1 Main Business refers to operations under the segment to which the company belongs, except for Trading companies - for which business is classified by the products being handled.

\*2 Capital in overseas companies is translated into Yen at the exchange rate prevailing at the end of March 2007.

\*3 Among consolidated subsidiaries listed above, Toray International, Inc.; Thai Toray Synthetics Co., Ltd.; Penfibre Sdn. Berhad; Toray Industries (China) Co., Ltd.; Toray Fibers (Nantong) Co., Ltd.; Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd.; Toray Saehan Inc.; Toray Plastics (America), Inc.; Toray Plastics Europe S.A.; Toray Carbon Fibers America, Inc.; and Toray Holding (U.S.A.), Inc. are specified subsidiaries (special designation under Japanese law).

\*4 Among subsidiaries & affiliates listed above, Towa Orimono Co., Ltd.; Soda Aromatic Co., Ltd.; Suido Kiko Kaisha, Ltd.; Chori Co., Ltd.; and Sanyo Chemical Industries, Ltd. file annual financial statements (*yukashoken hokokusho*) with regulators.

\*5 Among consolidated subsidiaries listed above, P.T. Century Textile Industry Tbk and Thai Toray Textile Mills Public Company Limited are consolidated despite voting rights of less than 50% due the presence of control over operations.

\*6 Among affiliates accounted for by equity method listed above, Sanyo Chemical Industries, Ltd. is an affiliates accounted for by equity method despite voting rights of less than 20% due the presence of significant influence.

\*7 Voting rights figures in parenthesis represent indirect share of voting rights.

\*8 Among consolidated subsidiaries listed above, sales for Toray International, Inc. and Chori Co., Ltd. represent more than 10 percent of total consolidated sales (excluding internal sales).

## Toray Industries, Inc.

1-1, Nihonbashi-Muromachi 2-chome, Chuo-ku, Tokyo 103-8666, Japan

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Facsimile: 81(3)3245-5459

e-mail: [ir@nts.toray.co.jp](mailto:ir@nts.toray.co.jp)



Toray developed and marketed the first waterless plate and printing system in 1979. Today, as a world leader in waterless printing, Toray continues to meet the needs of the rapidly growing waterless printing market. Waterless printing is an environmentally friendly method that reduces volatile organic compound (VOC) emissions by approximately 80% over conventional printing methods. Moreover, it does not generate any waste liquid from strong alkaline developers. In addition, it delivers excellent printing reproducibility, improved and stable printing quality, and is extremely economical as it reduces costs.

In FY Mar/07, Toray was awarded the GSC Prize\* in recognition of its development of waterless printing, which embodies the principle of "Green and Sustainable Chemistry (GSC)" necessary for a sustainable society.

\* The GSC Prize is awarded for outstanding contributions to the promotion of "Green and Sustainable Chemistry" by the GSC Network, a voluntary organization established by chemical-related associations, foundations, and national research institutes in Japan.



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The Dow Jones Sustainability World Index comprises more than 300 companies in the world that represent the top 10% of the leading sustainability companies.

The MS-SRI, 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.