

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cash equivalents for the fiscal years ended March 31, 2007 and 2006 include cash, short-term time deposits which may be withdrawn on demand without diminution of principal and highly liquid investments with original maturities of three months or less.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
Year ended March 31, 2007:				
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
Year ended March 31, 2006:				
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
Year ended March 31, 2007:				
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

Year ended March 31, 2007:	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)	—
Total sales	¥ 608,677	¥ 407,799	¥ 270,872	¥ 69,809	¥ 226,456	¥ 88,891	¥ 1,672,504	¥ (126,043)	¥ 1,546,461
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)	—
Total sales	¥ 581,196	¥ 366,831	¥ 242,101	¥ 53,748	¥ 212,766	¥ 84,081	¥ 1,540,723	¥ (113,235)	¥ 1,427,488
Operating income	¥ 20,687	¥ 18,484	¥ 31,264	¥ 11,820	¥ 4,920	¥ 6,453	¥ 93,628	¥ (585)	¥ 93,043
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

Year ended March 31, 2007:	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)	—
Total sales	\$ 5,158,280	\$ 3,455,924	\$ 2,295,525	\$ 591,601	\$ 1,919,119	\$ 753,314	\$ 14,173,763	\$ (1,068,161)	\$ 13,105,602
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

Year ended March 31, 2007:	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)	—
Total sales	¥ 1,222,426	¥ 345,547	¥ 162,125	¥ 1,730,098	¥ (183,637)	¥ 1,546,461
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)	—
Total sales	¥ 1,151,497	¥ 287,036	¥ 145,056	¥ 1,583,589	¥ (156,101)	¥ 1,427,488
Operating income	¥ 71,762	¥ 13,450	¥ 8,510	¥ 93,722	¥ (679)	¥ 93,043
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
Year ended March 31, 2007:						
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
Year ended March 31, 2007:			
Overseas sales	¥ 422,266	¥ 238,068	¥ 660,334
Percentage of overseas sales against consolidated net sales	27.3%	15.4%	42.7%
Year ended March 31, 2006:			
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		
Year ended March 31, 2007:			
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