



**ANNUAL REPORT 2008**

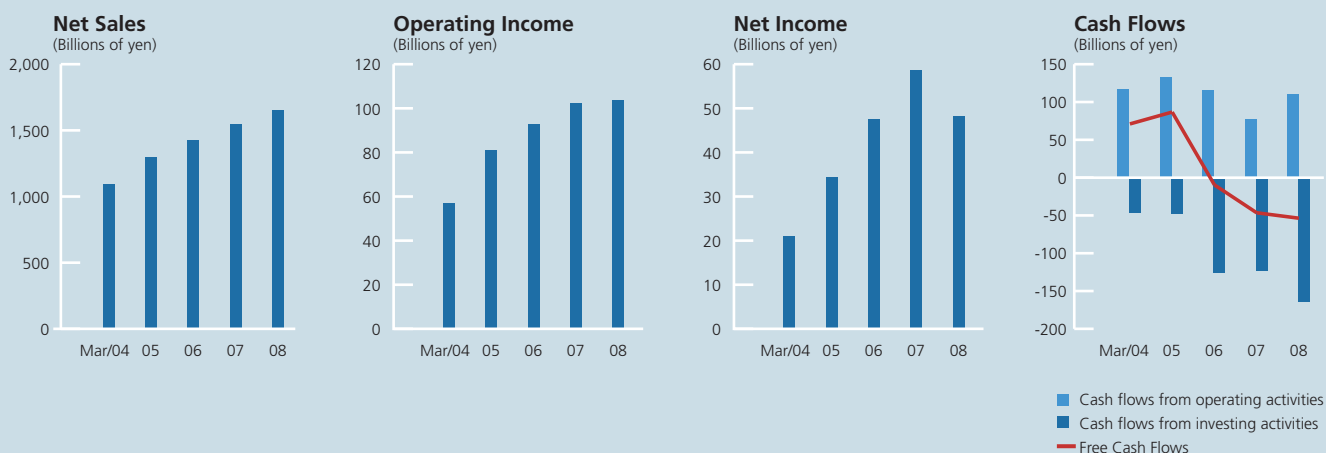
April 1, 2007 — March 31, 2008

## CONSOLIDATED FINANCIAL HIGHLIGHTS

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

	Millions of yen			Thousands of U.S. dollars
	2006	2007	2008	2008
<b>For the year:</b>				
Net sales	¥ 1,427,488	¥ 1,546,461	¥ 1,649,670	\$ 16,496,700
Operating income	93,043	102,423	103,429	1,034,290
Net income	47,409	58,577	48,069	480,690
Net cash provided by operating activities	116,022	77,539	110,367	1,103,670
Capital expenditures	104,127	126,444	146,787	1,467,870
<b>Per share of common stock (in yen and U.S. dollars):</b>				
Net income:				
Basic	¥ 33.72	¥ 41.84	¥ 34.34	\$ 0.34
Diluted	—	—	—	—
Cash dividends	8.00	10.00	10.00	0.10
Net assets	383.42	421.51	423.78	4.24
<b>At year-end:</b>				
Total assets	¥ 1,537,422	¥ 1,674,447	¥ 1,698,226	\$ 16,982,260
Net assets	537,026	649,670	642,159	6,421,590

Note: U.S. dollars amounts have been converted from yen at the exchange rate of ¥100=US\$1, the approximate exchange rate prevailing on March 31, 2008



### 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

For the **I**ssues of growi**N**g Concer**N**s—  
Toray will provide solutions that receive standing **OVATION**s.

Guided by its corporate slogan, “Innovation by Chemistry,” Toray is aiming to become a “global top company of advanced materials” by pursuing technological innovation in chemistry. Through expansion of our advanced materials business, we have also embraced the challenge of providing solutions to problems on a global level, including global warming, water shortages, and environmental pollution. By challenging “Innovation” across all of its activities, Toray aims to achieve the enhancement of our corporate value through sustained growth while realizing our corporate philosophy “Contributing to society through the creation of new value with innovative ideas, technologies and products.”

03

## CONTENTS

02

02 Consolidated Financial Highlights  
03 Profile  
08 Toray Technical and business Fields  
10 To Toray Stockholders  
14 Special Feature: Caring for the Environment through Automotive Materials and Water Treatment Business

34

34 Research & Development and Intellectual Property  
37 CSR  
38 Corporate Governance and Internal Control  
40 Risk Management  
41 Improving the Global Environment  
42 Board of Directors and Corporate Auditors  
43 Organization Chart  
44 Toray Group Worldwide Network  
46 Investor Information / Corporate Data

19

19 Review of Operations  
20 Toray's Business at a Glance  
22 Fibers & Textiles  
24 Plastics & Chemicals  
26 IT-Related Products  
28 Carbon Fiber Composite Materials  
30 Environment & Engineering  
32 Life Science & Other Businesses

47

47 Financial Section  
48 Six-Year Summary of Selected Financial Data  
49 Management's Discussion and Analysis  
54 Consolidated Balance Sheets  
56 Consolidated Statements of Income  
57 Consolidated Statements of Changes in Net Assets  
58 Consolidated Statements of Cash Flows  
59 Notes to Consolidated Financial Statements  
71 Report of Independent Auditors

Amid ongoing discussion on schemes to reduce worldwide emissions of carbon dioxide, the aircraft industry has moved to full-scale adoption of carbon fiber composites as structural materials in new aircraft as an effective means of raising fuel efficiency and lowering carbon dioxide emissions. Meanwhile, the automotive industry is working intensively to improve fuel efficiency by making vehicles lighter, stepping up adoption of hybrid engines, and developing fuel cells. The industry is also targeting new advances in vehicle safety and comfort, as well as incorporation of more electronic features.



# I S S U E S   O F   G R O



Fresh water suitable for human consumption accounts for only 0.01% of all water on earth. However, this valuable resource is constantly threatened by drought, pollution accompanying industrialization of emerging nations, and surging demand due to rising populations, especially in such emerging nations. Therefore, water shortages are becoming a serious global issue.

While environmental problems have garnered worldwide attention, energy consumption is increasing in line with growth of emerging economies, while sharply rising crude oil prices in recent years are also having a strong impact. These factors underscore the urgent need to develop and commercialize alternative sources of energy, especially ones that do not emit carbon dioxide, nitrous oxide, and other harmful substances, as well as cleaner forms of energy with relatively low levels of their emission.

The world's population continues to age, particularly among advanced nations. Now, more than ever before, people are seeking longer and healthier lives, as well as higher quality of life. Meanwhile, governments are placing more emphasis on the preventative treatment, and swiftly identifying and treating chronic diseases, in order to minimize medical treatment expenditures.

The concept of "tailor-made" medicines (those optimized according to the genetic makeup of the individual patient) has attracted attention especially in Europe and North America, since the mid 1990s. As DNA base array analysis and other aspects of genome research has made a progress, the possibility of such treatments becoming a reality has increased giving considerable hope for the future.



# W I N G   C O N C E R N   →

05



The worldwide onslaught of information and communications technology (ICT) has sparked major advances in IT devices in terms of performance and multifunctionality, as well as compactness, thinness, and larger capacity. In this context, the market is demanding screen displays with exceptional resolution and visibility and is also demanding further advances in semiconductor device performance and compactness. Given rising environmental awareness, moreover, demand is growing for devices that consume minimal power and is free of environmentally harmful materials.

Meanwhile, networks that enable high-speed transmission of large information volumes are being established, while information terminals are advancing toward the advent of ubiquitous communications. These factors underscore the growing importance of advanced materials that help expedite progress in the information, telecommunications, and electronics sectors.

In the early 70's Toray became the first company in the world to start commercial production of carbon fiber and carbon fiber prepreg and today Toray Group is the world's No.1 maker of carbon fiber composite materials in terms of both quality and quantity. In 2006, we concluded a long-term supply agreement with The Boeing Company, under which we will provide carbon fiber composite materials over a 16-year period. The agreement is centered on Boeing 787, an "all-composite airplane" in which 50% (of the total weight) of structural materials will consist of carbon fiber reinforced plastics (CFRP). In this way, Toray has a particularly high share of the market for carbon fiber composite materials used in aircraft.

Toray's advanced materials, including fibers & textiles, plastic resins, films, and carbon fibers, are also widely used in automotive applications. By integrating its abundant resources of advanced materials and technologies, Toray Group works in partnership with customers to pursue new developments.



**Automobiles  
and Aircraft**

06 → **T O R A Y ' S**



**Environment,  
Water-related,  
and Energy**

Toray has world-class expertise in membrane technologies and is one of the few comprehensive membrane manufacturers of all types of high-performance water treatment separation membranes\*, including reverse osmosis (RO) membranes. In this role, we contribute significantly to solving water shortage problems by receiving orders to supply membranes to large-scale wastewater recycling and seawater desalination plants in major markets around the world.

With respect to the environment and recycling, we are focusing on developing and expanding sales of environmentally friendly products. Here, we are developing applications for fibers & textiles, plastic resins and films that use polylactic acid (PLA) and other non-petrochemical raw materials. We also actively recycle our fibers & textiles, plastic resins, films and develop materials for next-generation energy sources.

\* Others are nanofiltration (NF) membranes, ultrafiltration (UF) membranes, and microfiltration (MF) membranes.

Toray is a global manufacturer of artificial kidneys and also makes drugs for the treatment of chronic diseases, such as hepatitis C compensated cirrhosis and pulmonary arterial hypertension. We are building a strong track record in the development of innovative bio-tools integrating our skills in biotechnology and nanotechnology.

Having successfully developed the ultrahigh-sensitivity DNA chip in 2006, we are now developing the high-performance chip that enables bedside detection of disease marker proteins, with accuracy on a par with methods used in large-scale hospitals and medical examination centers. In these ways, we aim to make a contribution to emergency treatment, preventative treatment, and "tailor-made" medicines.



**Life Science**

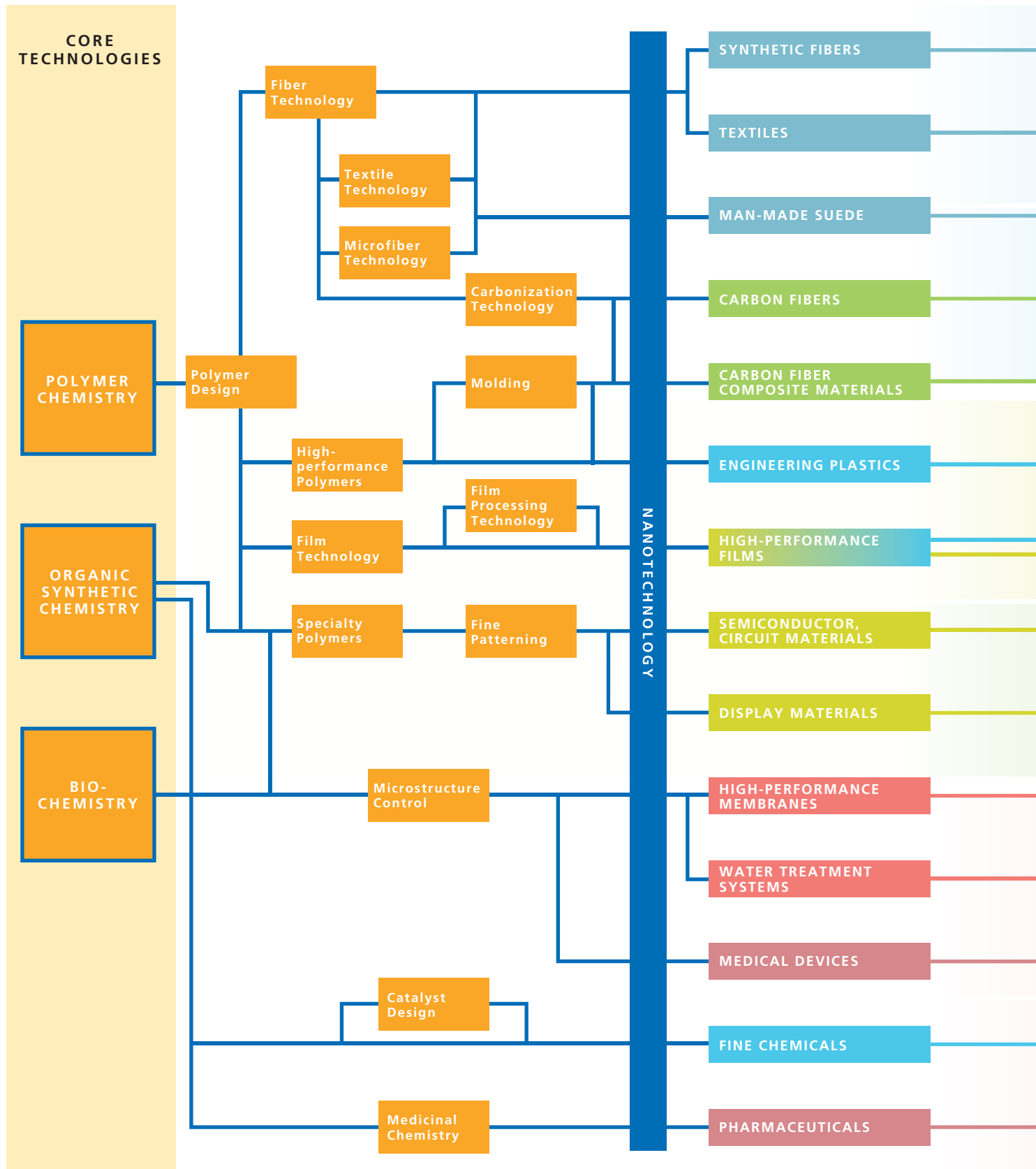
# S O L U T I O N S



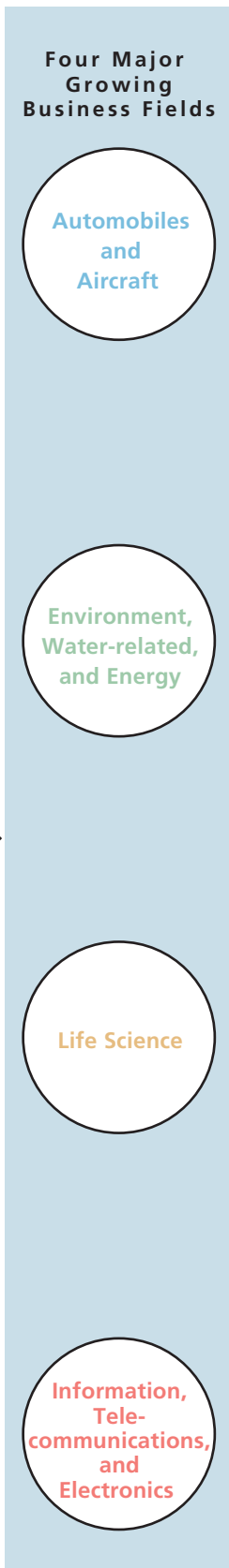
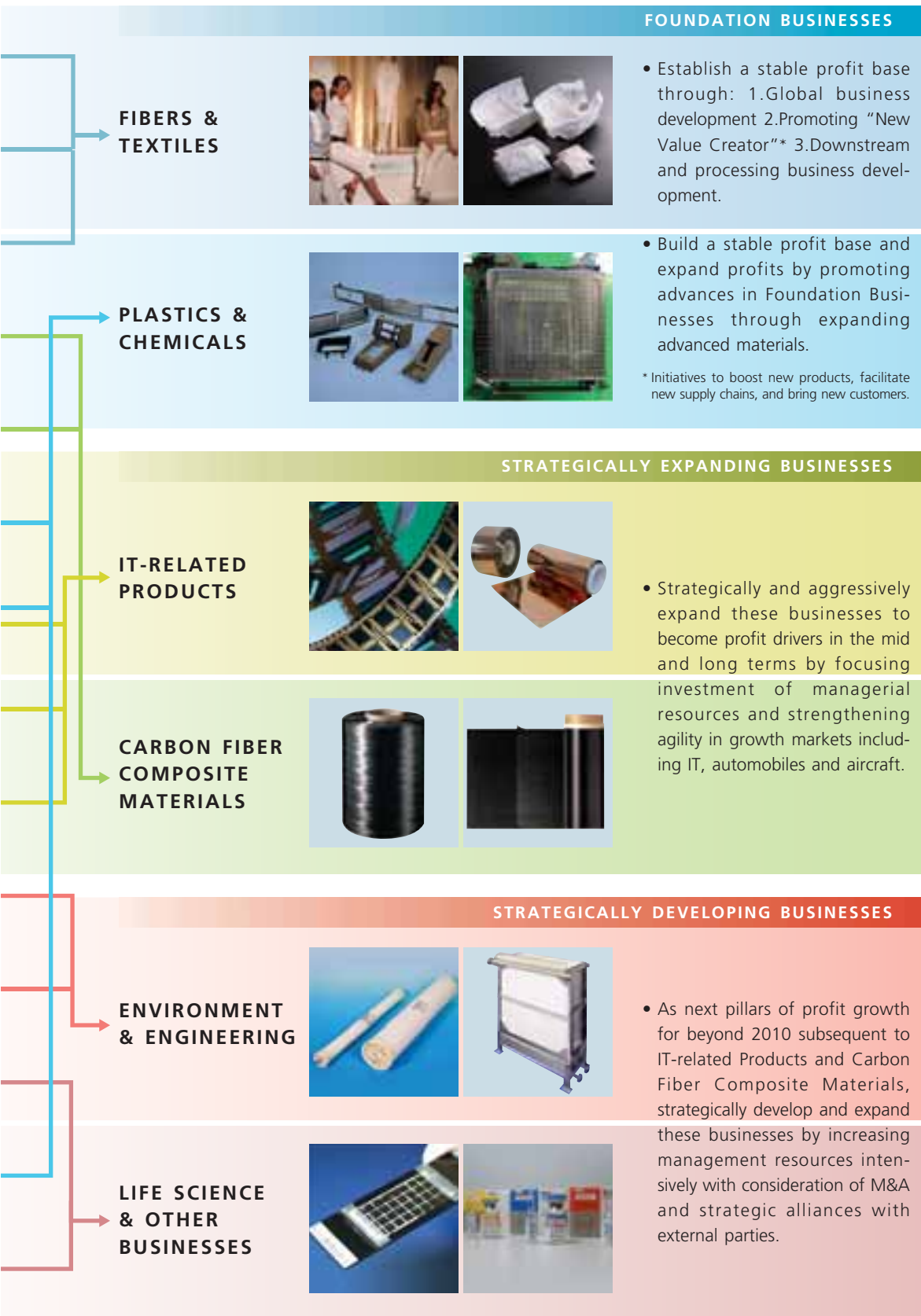
**Information,  
Telecommunications,  
and Electronics**

To serve the digital networking device market, characterized by rapid growth in flat panel display televisions and PCs, Toray supplies a range of advanced materials that combine its expertise in plastic resin design technologies, micro-fabrication technologies, and nanotechnology. In this way, we help underpin progress of ICT and society as a whole. In flat panel displays, for example, we develop and supply PET films, including reflective films that permit advances in LCD image quality and energy efficiency. We also develop and supply rear panel technologies and plasma display panel (PDP) paste materials for enhanced resolution of PDP televisions. For organic electroluminescence (EL) displays, regarded as the next-generation displays, we develop and supply emitting layer, electron transport layer, insulator, and other items. For leading-edge semiconductor devices, we have positive-tone polyimide coatings that facilitate micro-fabrication and use an environmentally friendly alkaline developer. In addition to materials, we make and sell IT equipment, including slit coaters used in the production of large-size liquid crystal displays.

# TORAY TECHNICAL AND BUSINESS FIELDS







## TO TORAY STOCKHOLDERS

On behalf of Toray Industries, Inc., I would like to thank Toray stockholders for their continued support. It is my pleasure to report our performance in the fiscal year ended March 31, 2008 (FY Mar/08).

### BUSINESS RESULTS

FY Mar/08 was another remarkable year for Toray. Guided by our new mid-term strategies "Project Innovation TORAY 2010" (IT-2010), we promoted expansion of our businesses and earnings with endeavors to reform business structure and reinforce corporate structure throughout the year.

As a result of these efforts, Toray Group achieved the fifth consecutive year of record high net sales and fourth consecutive year of record high operating income in FY Mar/08.

Taking into account the performance in the year and the outlook for the next fiscal year, Toray declared a year-end dividend of ¥5.00 per share, which brings total annual dividends to ¥10.00 per share after adding the interim dividend already paid.

### MID-TERM BUSINESS STRATEGIES "IT-2010" AND PROGRESS

In IT-2010, launched in October 2006, we have cited two basic strategies. The first is "transformation to a highly profitable business group." While maintaining stable earnings with our "Foundation Businesses" (represented by Fibers &

Textiles and Plastics & Chemicals), we aim to drive earnings growth through our "Strategically Expanding Businesses" (IT-related Products and Carbon Fiber Composite Materials) in parallel with nurturing our "Strategically Developing Businesses" (Life Science, water treatment and environmentally friendly products) as next drivers of our earnings growth in the future.

The second basic strategy of IT-2010 is "expansion of advanced materials in four major growing business fields." We aim to expand our businesses with our advanced materials in four business fields which are expected to expand greatly in the 21st century: (i) Information, Telecommunications, and Electronics; (ii) Automobiles and Aircraft; (iii) Life Science; and (iv) Environment, Water-related and Energy.

Aligned with these strategies, Toray Group laid a number of key stepping stones in FY Mar/08. Let me introduce three items:

First, we have promoted the production capacity expansion of carbon fiber composite materials at five manufacturing bases in three countries, Japan, the United States, and France to increase our supply principally for aircraft applications including for The Boeing Company based on the long-term supply agreement signed in May 2006. Our production capacity of carbon fiber will increase 65% over that at the end of 2006 to 17,900 tons by the end of 2008, representing 37% of total global carbon fiber production capacity. In addition, further expansion of carbon fiber composite materials business over the long term frame



SADAYUKI SAKAKIBARA President, CEO and COO, Representative Director

## BASIC STRATEGIES OF IT-2010

### 1 Transforming to a Highly Profitable Business Group

- Expanding Strategically Expanding Businesses (profit growth driver)
- Expanding Strategically Developing Businesses (next profit growth driver)
- Advancing business structure reform
- Expanding advanced materials

### 2 Expanding Advanced Materials in Four Major Growing Business Fields

#### Automobiles and Aircraft

- Development of products to meet expanding markets in hybrid cars and car electronics
- Expansion of application parts by widening advanced functional availability of carbon fiber composite materials and engineering plastics
- Aggressive capacity expansion to meet the growing demand for carbon fiber composite materials

#### Environment, Water-related, and Energy

- Development of new applications for fibers & textiles, plastics and films using such non-petrochemical raw materials as polylactic acids
- Global expansion of water treatment business with a core of high-performance separation membranes
- Development of new materials for next generation energy systems including solar cells, fuel cells, and wind power generation

#### Life Science

- Conclusive launch of new drugs which is under development and further expansion of new drug pipelines
- Development and commercialization of high value-added medical devices
- Creation of innovative bio-tools through bio/nano-technological integration

#### Information, Telecommunications, and Electronics

- Business expansion in the growing market of digital network-related products markets including flat panel display televisions, cellular phones, and personal computers
- Development and sales expansion of innovative products through vertical business integration with key customers
- Strengthen competitiveness through integrated operations from plastics/films materials to components

is our priority to meet rapidly growing demand in various applications ranging from aircraft and aerospace to general industrial applications.

The second was our decision to establish “Automotive & Aircraft Center (A&A Center)” at our Nagoya Plant in the center of Chukyo region, where many manufacturers of automobiles, aircraft and related components are concentrated in Japan. As comprehensive technical development center of advanced materials for automotive and aircraft applications, A&A Center will consist of the (i) “Automotive Center (AMC)” for the technological development of automotive parts and materials, (ii) “Advanced Composite Center (ACC)” for the technological development of composites (carbon fiber composite materials), and (iii) existing “Resin Applications Development Center” for the technological application development of plastic resins and compounds. We will take full advantage of our integrated strengths in carbon fiber, plastic resins and other advanced materials, aiming to expand the scale of our automobile and aircraft businesses from approximately ¥150 billion in FY Mar/08 to ¥500 billion around 2015.

The third was expansion of water treatment business, one of our Strategically Developing Businesses. We enhanced our production capacity by nearly double at two facilities in Japan and the United States in order to meet increasing demand for reverse osmosis (RO) membranes. Our water treatment business has made steady progress: we delivered our RO membranes for three large-scale seawater desalination plants in Algeria, Malta and Israel with water production capacities totaling 350,000m<sup>3</sup> per day; in

December 2007, we successfully got an order for a large seawater desalination plant in Saudi Arabia with a scheduled daily output of 150,000m<sup>3</sup> of water.

### **TIRELESS INNOVATION TOWARD BEING A GLOBAL TOP COMPANY OF ADVANCED MATERIALS**

FY Mar/08 marked a year of solid progress in addressing issues identified by the mid-term business strategies. Aspiring to become a global top company of advanced materials under IT-2010, Toray will continue its tireless innovation activities to share many fruits of these innovations with all Toray stockholders.

We look forward to your ongoing support for these endeavors.

August 2008



Sadayuki Sakakibara  
President, CEO and COO, Representative Director

## SPECIAL FEATURE: CARING FOR THE ENVIRONMENT THROUGH AUTOMOTIVE MATERIALS AND WATER TREATMENT BUSINESS

### STARTING POINT

14

Toray's corporate slogan, "Innovation by Chemistry," accurately portrays the company's history of continuing business structural reform centering on chemical technologies.

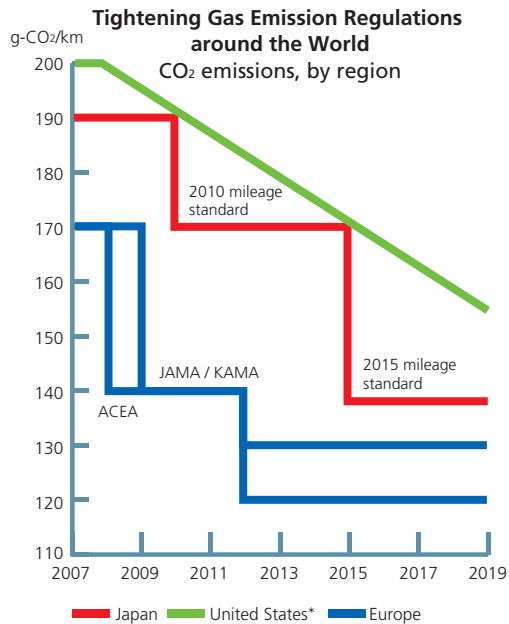
Founded in 1926, Toray commenced operations as a rayon filament manufacturer and soon established a leading position in Japan's fiber and textile industry in the three major synthetic fibers of nylon, polyester, and acrylic sectors. Encouraged by the advancement of Japan's petrochemical industry, Toray also entered the plastics industry and built a wealth of technological expertise in such areas as organic synthetic chemistry, polymer chemistry, and biochemistry. Deploying their expertise, Toray has grown into a worldwide chemical conglomerate in wide-ranging areas, such as fine chemicals, electronic materials, carbon fiber composite materials, pharmaceuticals and medical products, and water treatment membranes. Moreover, our operations cover the full spectrum ranging from basic materials to processed products.

At present, Toray is mobilizing its strengths in four core technologies—organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology—to strategically expand its water treatment business and operations in the automotive applications. Water treatment membrane technologies are much anticipated as an effective means of addressing the worldwide problem of water shortages. In this field, Toray launched Japan's first reverse osmosis (RO) membrane, called *Romembra\**, in 1980 and has since advanced its business with a full lineup of separation membranes. In the automotive applications field, in 1971 we were the first in the world to start full-scale commercial production of carbon fiber composite materials, much hailed as key to making lighter vehicles. Since then, we have built a position as a top supplier of such materials, and we are strengthening our competitive edge through further technological development and expansion of production facilities.

Automobile demand continues to grow; at the end of 2006, there were 921,839,128 automobiles operating on roads around the world. This equates to 139 vehicles per 1,000 people, or one vehicle for every 7.2\* people on the planet. Given growing concern about global warming and climate change caused by greenhouse gases, finding ways to reduce carbon dioxide emissions is a growing worldwide issue. For this reason, governments around the world are tightening regulations on gases, including carbon dioxide, emitted by automobiles. Meanwhile, the cost of automobile fuel continues to rise amid surging prices of crude oil, highlighting the urgency in the automobile industry to develop low-fuel-consuming vehicles.

Against this background, major automakers are working to replace metal components of cars with plastics and other lightweight materials. In addition, a project has recently started to make vehicles lighter through to the full-scale use of carbon fiber reinforced plastic (CFRP). Recently, carbon fiber is especially attracting widespread attention as a material that simultaneously addresses two issues facing the automotive industry: cutting carbon dioxide emissions and lowering fuel costs.

\* Source: Japan Automobile Manufacturers Association, Inc. (JAMA)



\* U.S. standard is based on reduction to 35mpg (156g-CO<sub>2</sub>/km) by 2020, with 4% annual reductions thereafter, as approved by the U.S. Senate. Because the standard for the period to 2020 is unclear, we have drawn a straight line from the 2008 level for practical purposes.

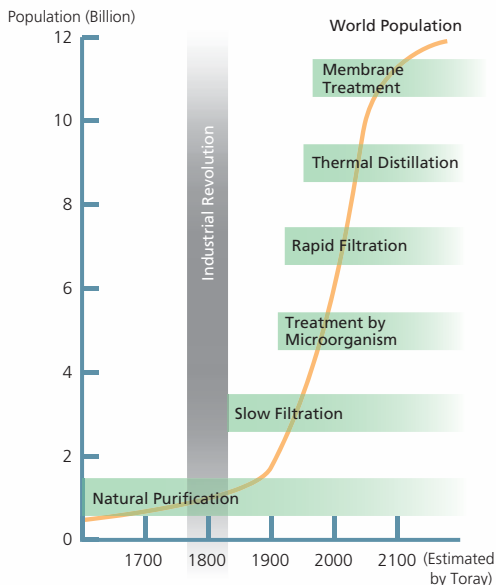


AUTOMOBILES

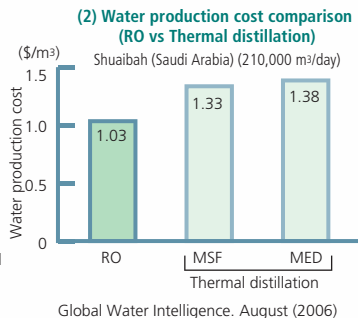
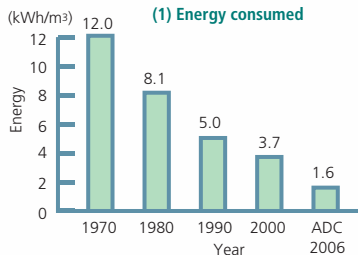
NEEDS

WATER TREATMENT

### Increase of World Population and Development of Water Treatment Technologies



### Advanced Membrane Treatment Technology for Seawater Desalination



Although the Earth is often referred to as the “water planet,” only 0.01% of its water is fit for human consumption. However, demand for water is growing rapidly, due to rising populations and the expansion of emerging economies, and the problem is further exacerbated by global warming-induced drought and water pollution caused by industrialization. It is estimated that around 1.1 billion people around the world do not have regular access to safe drinking water, while water shortages are predicted even in North America, Europe, and other regions by 2025.

Today, it is difficult to secure ample water supplies, both quantitatively and qualitatively, depending on self-purification processes. Accordingly, the world is eagerly awaiting proliferation of membrane treatment methods, which allow high-speed treatment with water quality controlled to high levels of accuracy. Membrane treatment is attracting worldwide attention because it consumes less energy and entails lower water production costs compared with traditional thermal distillation methods.

Membrane treatment can be used to desalinate seawater, which accounts for 97.5% of the Earth’s total water system. Thanks to technological advances, moreover, membrane technology is being used increasingly to purify sewage and water from lakes, rivers, and underground, because it removes harmful bacteria and permits highly accurate treatment.

Toray has a proven track record as a supplier of materials for wide-ranging automotive applications, with a broad array of products that include fibers & textiles, plastic resins, and carbon fiber composite materials. Underpinning these businesses is a strong base of advanced technologies, which Toray Group is harnessing to provide optimal solutions to its customers in the automotive industry.

Carbon fiber composite materials hold considerable promise for facilitating major advances in vehicle weight reduction. In addition to high-quality, high-performance carbon fiber that excels against the competition, Toray supplies intermediate, composite, and other materials. Accordingly, Toray holds global top market share for carbon fiber composite materials used in automotive applications.

In 2007, Toray decided to establish "Automotive & Aircraft Center (A&A Center)" in Nagoya. We have opened the "Automotive Center (AMC)" as a technological base for developing automotive components and materials, and the "Advanced Composite Center (ACC)" for the development of composite technologies. By integrating our capabilities in these ways, we are stepping up development of technologies for the automotive industry.

\* Please see page 29 for more details on the A&A Center.

Others 17%



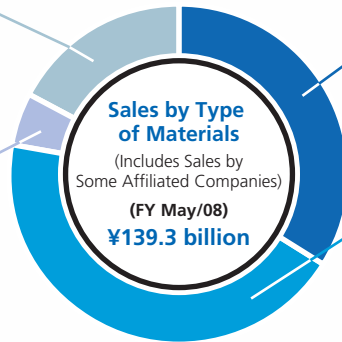
Optical Fibers  
Color Filters for LCDs  
Films for Capacitors

Carbon Fiber Composite Materials 5%



Propeller Shaft  
Rear Spoiler  
Hood

Toray Group Sales of Automotive Materials



Fibers & Textiles 34%



Materials for Airbags  
Materials for Seatbelts  
Materials for Car Seats

Plastic Resins 44%



Intake Manifold and Materials for Cylinder Head Covers  
Package for Capacitors for Hybrid Cars

16



Toray has world-leading membrane technologies on the back of Toray's core technologies, organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology. Prominent among these is the RO membrane, which requires the most advanced technology while being capable of separating very tiny substances. Toray has developed a number of high-performance RO membranes, including a high boron rejection RO membrane that separates boron from seawater with high efficiency, as well as a low-fouling membrane that can be used in wastewater recycling. In terms of both technological standard and market share, Toray holds a world-leading position in this field.

In addition to RO membranes, Toray has also developed nanofiltration (NF) membranes, ultrafiltration (UF) membranes, and microfiltration (MF) membranes. We also have process technologies for combinations of these four membrane types. In addition, utilizing microbial technology, we have commercialized a membrane bioreactor (MBR) for wastewater treatment. Indeed, our strengths lie in our wide-ranging technologies and our full product lineup. Mobilizing these strengths, we offer optimal integrated membrane systems tailored to the water source and intended usage, boasting unparalleled performance and cost-competitiveness.

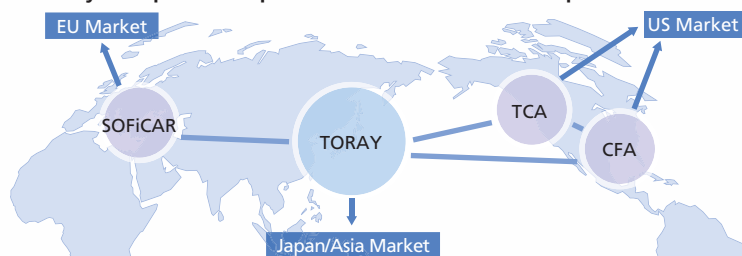
### Types of Membranes and Toray's Products

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



Toray supplies fibers & textiles, plastic resins, and carbon fiber composite materials, which are major materials used in automotive applications. For all of these materials, we are building a global operation system that promotes "right productions and sales bases at the right place" by linking our production facilities around the world. To best serve the automotive industry, for example, we have three production bases—one each in Japan, United States, and Europe—for carbon fiber composite materials, for which we anticipate further increases in demand. Moreover, we have maintained our global top market share by developing a vertically integrated business covering everything from yarns (precursors) to composites. With respect to carbon fiber and prepreg (intermediate) materials, we will continue making proactive capital investments aimed at further broadening our supply capability to meet future demand.

### Toray Group Global Operation for Carbon Fiber Composite Materials



Production Capacity of Each Production Base

	Société des Fibres de Carbone S.A. (SOFICAR) (FRA)	TORAY (Ehime/Ishikawa) (JPN)	Toray Composites (America) (TCA) (USA)	Toray Carbon Fibers America (CFA) (USA)
Carbon Fiber (t)	3,400 → 5,200 (Jan, 08) (Dec, 08)	7,300 → 8,300 (Jan, 08) (Jul, 09)		3,600 → 5,400 (Jan, 08) (Dec, 08)
Prepreg (1,000m <sup>2</sup> )		10,800 → 16,600 (Jan, 08) (Jan, 09)	11,400 → 17,200 (Jan, 08) (Jul, 08)	



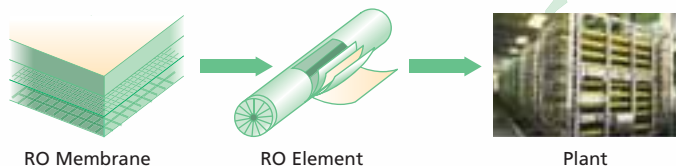
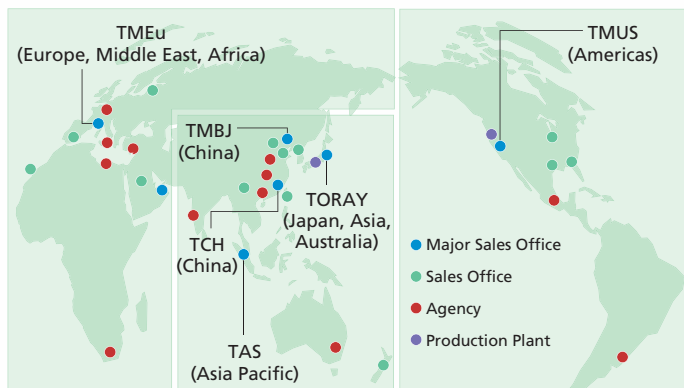
## SUPPLY POWER

AUTOMOBILES

WATER TREATMENT

In water treatment, Toray is building a global team-based sales system covering major world markets, with sales operations in North America, Europe, the Middle East, Southeast Asia, China, and Japan. In FY Mar/08, we boosted the RO membrane production capacity of our Ehime Plant in Japan to 1.8 times the level of March 2007. During the year, we also increased production capacity for RO elements at the Ehime Plant and at Toray Membrane USA, Inc. (TMUS), based in San Diego, California.

### Global Supply System for Water Treatment Business



Paralleling growth in capacity has been a sharp increase in orders. In seawater desalination, for example, we secured RO membrane orders for the Hamma Seawater Desalination Plant in Algeria (capacity of producing 200,000 cubic meters per day) and the Shuaibah Desalination Plant in Saudi Arabia (150,000 cubic meters per day). In wastewater recycling, a decision was reached in June 2008 to use Toray's RO membranes in the Changi Water Reclamation Plant in Singapore, the world's second-largest wastewater recycling plant, with an output of 228,000 cubic meters per day. This follows an order for the world's largest wastewater recycling facility, the Sulaihiya Wastewater Treatment and Reclamation Plant in Kuwait (output of 320,000 cubic meters per day), which we shipped in 2004. Accordingly, Toray's cumulative orders in the RO membrane field equate to more than 14 million cubic meters per day, providing sufficient water to meet the needs of 57 million people.

Toray is the only RO membrane maker in the world accepting orders for large-scale seawater desalination plants with capacities of producing 100,000 cubic meters per day or higher from major markets in the Caribbean, the Middle East, and East Asia. We believe this is testimony to our exceptional technological prowess that addresses technological requirements in different regions around the world.

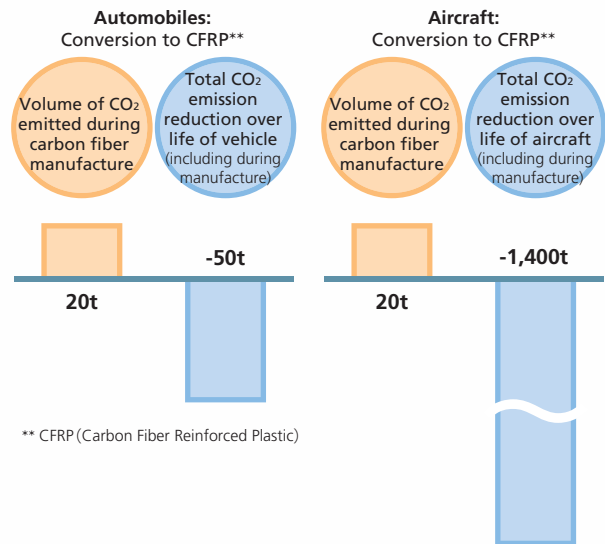
Using carbon fiber in automobile production brings major benefits in reducing carbon dioxide emissions. Although 20 tons of carbon dioxide are emitted in the manufacture of one ton of carbon fiber, the resulting weight reduction in an automobile achieves a 50-ton\* reduction in carbon dioxide emissions over a typical vehicle's 10-year life span.

At present, demand for carbon fiber for automotive applications centers on high-end vehicles priced at ¥30 million or higher, and is limited to around 400 tons per year. If carbon fiber is adopted in vehicles priced at ¥5 million or higher, however, carbon fiber for automotive applications demand will potentially explode to exceed 50,000 tons per year, up from 35,000 tons, worldwide carbon fiber demand in FY Mar/08.

To encourage more widespread use of carbon fiber in automobile application, we must consider ways to lower the cost of carbon fiber itself while developing low-cost molding technologies for carbon fiber composites. We are pursuing cost reduction of carbon fiber by increasing the scale of production facilities. With respect to molding technologies, we are cutting costs by minimizing the time required for molding. Through these initiatives, Toray plans to tap latent demand for carbon fiber composite materials in automotive applications and thus help address global environmental issues. At the same time, the materials will help boost total Toray Group sales in the automotive business applications (including sales of fibers & textiles and plastic resins) to ¥200 billion by FY Mar/11 and ¥350 billion by FY Mar/16.

\* JCMS estimate (assuming 30% reduction in vehicle bodyweight through use of CFRP)

### CO<sub>2</sub> Reduction per Ton of Carbon Fiber "JCMS model"



\*\* CFRP (Carbon Fiber Reinforced Plastic)

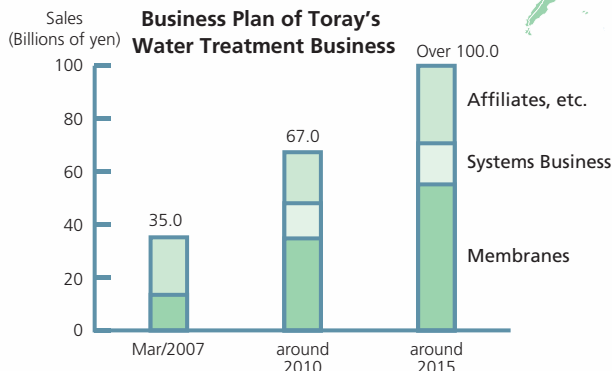
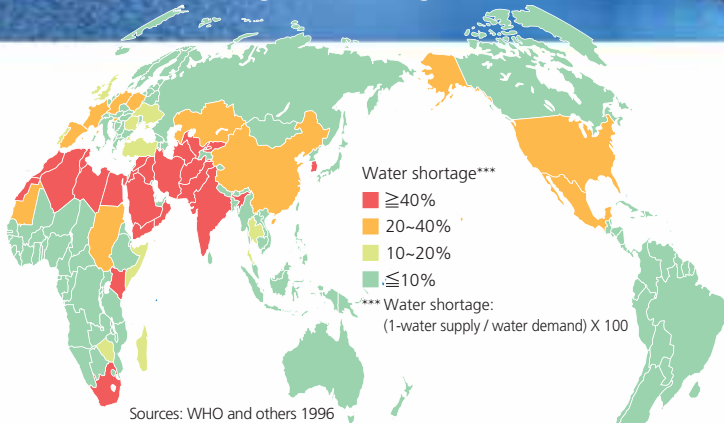


WATER TREATMENT

AUTOMOBILES

## DEVELOPMENT IN THE FUTURE

Water Shortage Presumed Regions in 2025



The 21st century has been dubbed the "water century" due to serious shortages of water supply envisaged in the years ahead. In this context, the necessity and importance of water treatment is expected to increase in the future.

The global water supply and sewage business, currently valued at around ¥60 trillion, is expected to reach ¥100 trillion by 2025. Meanwhile, regions now affected by water shortages, such as the Middle East and North Africa, will expand to include China, India, Europe and North America in the future. Against this background, more large-scale seawater desalination plants will be built in various regions. In the field of water and wastewater treatment, meanwhile, the need for membrane-based treatment, which can be used to tackle the twin issues of wastewater treatment and water shortages, will grow in the future.

Toray Group is a comprehensive membrane manufacturer, with a full spectrum of high-performance water treatment membrane products based on its core membrane technology. In this role, we will use our technological strength to provide even higher performance, cost competitive membranes and systems and otherwise address the various issues required to promote the widespread adoption of the membrane treatment method. In addition to water treatment membrane products, we will offer comprehensive solutions, including membrane process technologies and systems. Our plan is to expand our water treatment business to ¥67 billion around 2010 and ¥100 billion around 2015.

Toray's Business  
at a Glance

20

Fibers & Textiles

22

Plastics &  
Chemicals

24

IT-Related  
Products

26

Carbon Fiber  
Composite  
Materials

28

Environment &  
Engineering

30

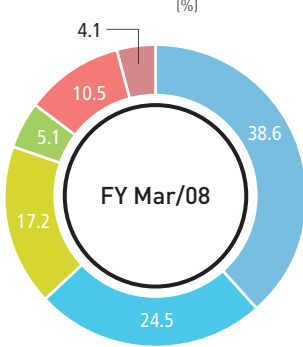
Life Science &  
Other Businesses

32

# TORAY'S BUSINESS AT A GLANCE

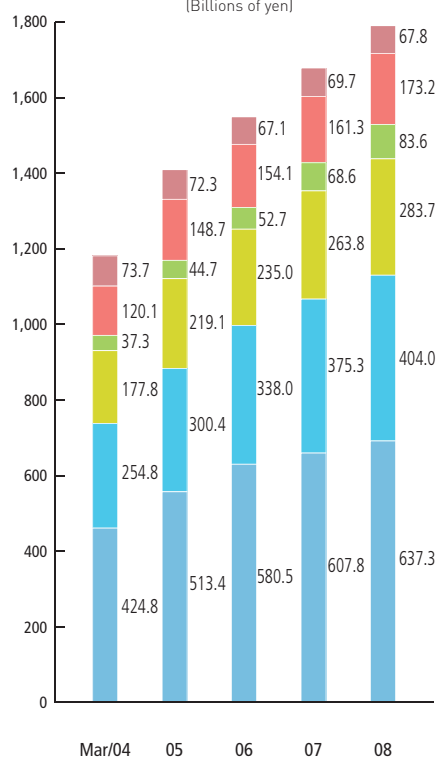
## PERFORMANCE BY BUSINESS SEGMENT

Sales Ratio by Business Segment (%)

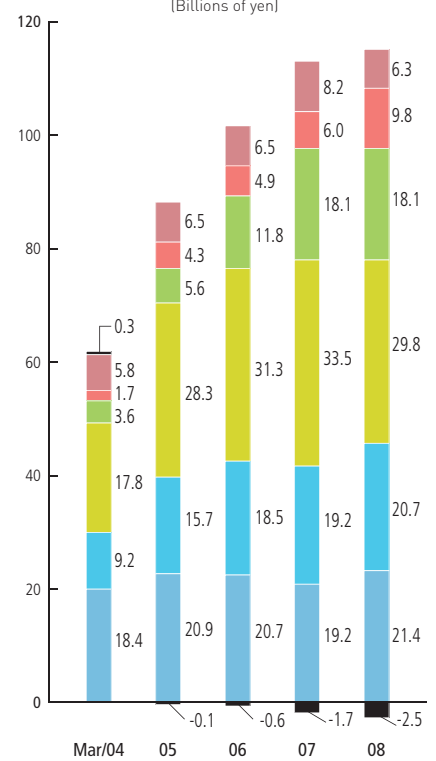


- Fibers & Textiles
- Plastics & Chemicals
- IT-Related Products
- Carbon Fiber Composite Materials
- Environment & Engineering
- Life Science & Other Businesses

Net Sales by Business Segment (Billions of yen)



Operating Income by Business Segment (Billions of yen)

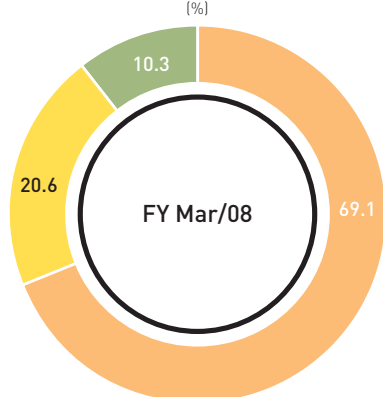


- Fibers & Textiles
- Plastics & Chemicals
- IT-Related Products
- Carbon Fiber Composite Materials
- Environment & Engineering
- Life Science & Other Businesses
- Elimination & Corporate

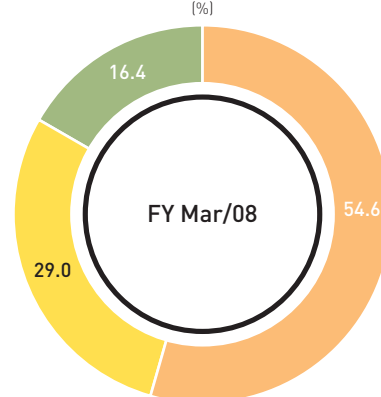
## PERFORMANCE BY REGIONAL SEGMENT

Toray Group has 126 overseas subsidiaries and affiliates. It engages in global operations that match the unique characteristics of 21 countries and regions.

Net Sales by Geographic Segment\* (%)



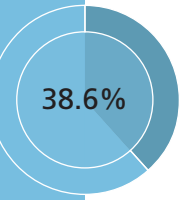
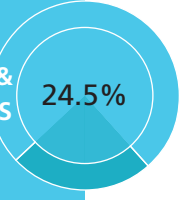
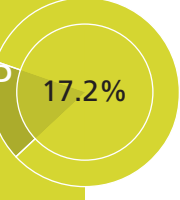
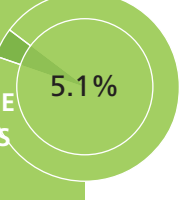
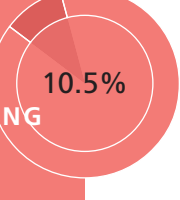
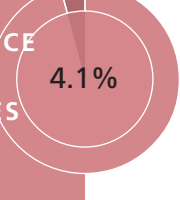
Net Sales by Market Area\*\* (%)



\* Net sales of the company and consolidated subsidiaries by geographic segment

\*\* includes export sales from Japan

## TORAY'S BUSINESS SEGMENTS

	MAIN PRODUCTS	APPLICATION EXAMPLES
<b>FIBERS &amp; TEXTILES</b>  <b>38.6%</b>	<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>
<b>PLASTICS &amp; CHEMICALS</b>  <b>24.5%</b>	<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>
<b>IT-RELATED PRODUCTS</b>  <b>17.2%</b>	<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>
<b>CARBON FIBER COMPOSITE MATERIALS</b>  <b>5.1%</b>	<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>
<b>ENVIRONMENT &amp; ENGINEERING</b>  <b>10.5%</b>	<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>
<b>LIFE SCIENCE &amp; OTHER BUSINESSES</b>  <b>4.1%</b>	<p>Pharmaceuticals and medical products; analysis, physical evaluation and research services</p>	<ul style="list-style-type: none"> <li>• Pharmaceuticals (natural interferon-β drugs, prostacyclin)</li> <li>• Medical treatment devices (hemodialyzers, artificial dialysis equipment)</li> <li>• Analytical services</li> </ul>

# FIBERS & TEXTILES

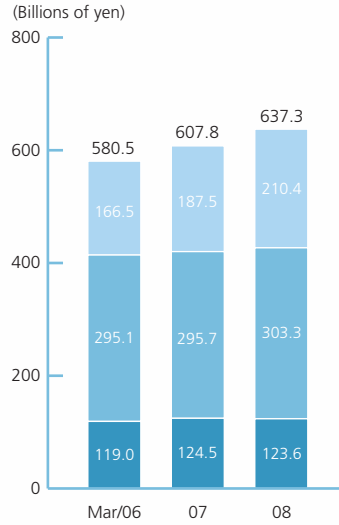


*Stylish White*\*, the first new product co-developed with UNIQLO, became a huge hit, thanks to a comfortable and transparency-prevented property realized by polyester fiber with highly concentrated ceramics kneaded.

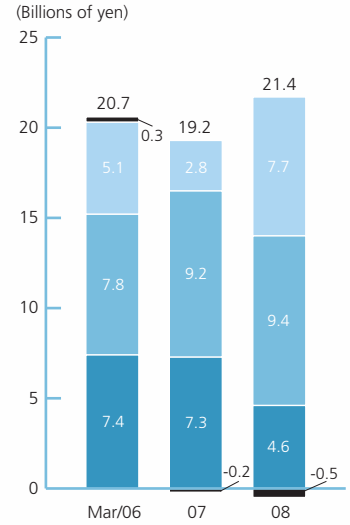


The second offering is *Heat-tech Plus*. Cationic dye atypical cross-section polyester rapidly absorbs, disperses, and evaporates perspiration, while hollow spun fiber has high heat retention that prevents the body from becoming cold.

**Net Sales**



**Operating Income**



- Toray
- Japanese Subsidiaries
- Overseas Subsidiaries
- Adjustment

Operating income to net sales:

**3.4%**

Sales growth:

**+4.9%**

Capital expenditures:  
(property, plant and equipment)

**21.2**  
billion yen

ROA:

**4.4%**

A sofa made with *Ecsaine*\*, Toray's suede-texture artificial leather that holds world No.1 market share for man-made suede.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), net sales in this segment rose 4.9%, to ¥637.3 billion, and operating income climbed 11.0%, to ¥21.4 billion.

Toray (the parent company) recorded strong domestic sales of fabrics for airbags and increased the sales of garments for uniforms. However, Toray's sales and operating income declined because of transfer of some sales rights for industrial applications from Toray to a subsidiary, fuel and raw material cost hike, and increased depreciation costs related to the revision of Japanese taxation system.

Total sales and operating income of subsidiaries in Japan increased due to higher fiber sales and strong textile exports by a trading subsidiary.

Total sales and operating income of overseas subsidiaries also rose owing to efforts by subsidiaries in Indonesia, China, Italy, and Korea. Actuarial gains in retirement benefits at a European subsidiary also contributed to the rise in operating income.

### OUTLOOK

Fibers & textiles segment remains in challenging business environment under continued high raw materials and fuel prices and increased production in China and India, an oversupply of production capacity and intense competition stemming from advances in Economic Partnership Agreements and Free Trade Agreements. In Japan, demand of the fibers and textiles is expected to continue to decline due to gradual increase of garments imports and automotive-related users continuing in their business transferring overseas.

Under these circumstances, we will work to increase sales of advanced materials and environmentally friendly or recycled products, promote New Value Creator\* business model and expand our garment business. We will raise selling prices and shift to high value-added products to offset high raw material and fuel costs. Nonetheless, we forecast a decrease in operating income due to some factors. These include the impact of weak and shrinking-trend Japanese market and the non-recurrence of actuarial gains in retirement benefits at a European subsidiary in the previous year.

\* Initiatives to boost new products, facilitate new supply chains, and bring new customers.

## TOPICS

### UNIQLO and Toray Launch Heat-tech Series

#### *The New Co-developed Products a Huge Success*

Toray and UNIQLO Inc., launched the *Heat-tech Plus* series of garments for men and *Heat-tech Moist* series for women and children as the second fruits under the two companies' strategic partnership.

An enhanced drying function of *Heat-tech Plus* realizes to absorb, disperse, and evaporate perspiration quickly to prevent the body from feeling cold, while retaining moisture. The *Heat-tech Moist* series features moisture retention and an even better body-fit stretch. These two series have proven so popular that they have sold out, selling a total of 20 million garments thanks to the following factors: (1)Functionality and superior features based on Toray's materials technologies, (2)integrated production management system ranging from fiber production to fibers processing such as weaving, knitting, dyeing, through to some sewing processes, and (3)global production and supply structure that affords stable supply.

#### *Strategic Partnership Strengthened*

Toray entered into a strategic partnership with UNIQLO in June 2006. Since then, we have shared sales information and built a seamless product development system that integrates all stages, from development of materials to final product sales. At the same time, we have sped up the R&D process and reduced inventory-related risk. Both Toray and UNIQLO are committed to the development of new revolutionary materials directly linked to consumer needs.

In April 2007, we launched *Stylish White\** women's pants, the first product from our joint development initiative. Combining transparency-prevented white fabric and excellent comfort, the new product was an enormous hit.

Toray and UNIQLO are targeting to create a business worth ¥200 billion by 2010. To this end, Toray is working to greatly strengthen its flexible production system and global supply chain for UNIQLO, while Toray and UNIQLO are promoting unified operations through personnel exchanges, in addition to sharing medium-term visions and information.

# PLASTICS & CHEMICALS

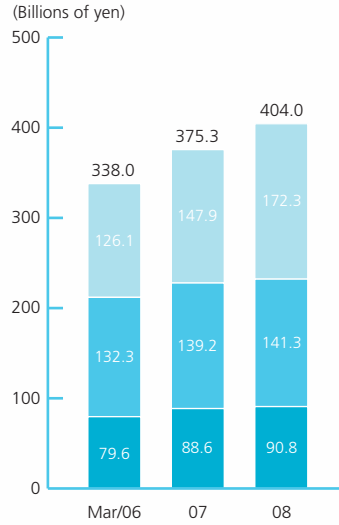


*Torayfan\** is a high-barrier film with superior barrier functions and high quality. The high-barrier film of Toray Plastics (America), Inc. boasts the top market share of about 60% in the North American market.

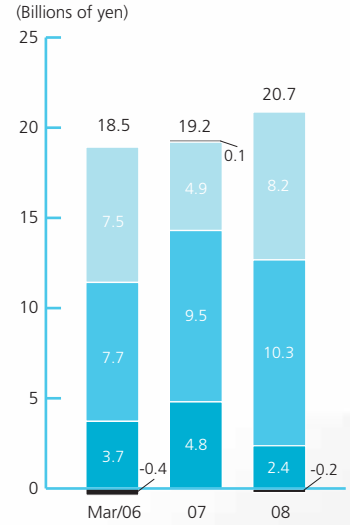


*Torelina\** is a PPS resin with outstanding heat resistance, chemical resistance, mechanical strength, and flame retardancy. It is used in an increasing variety of fields, including electric and electronic components and automotive electronics.

**Net Sales**



**Operating Income**



■ Toray      ■ Japanese Subsidiaries  
 ■ Overseas Subsidiaries      ■ Adjustment

Operating income to net sales:

**5.1%**

Capital expenditures:  
 (property, plant and equipment)

**32.4 billion yen**

Sales growth:

**+7.7%**

ROA:

**4.5%**

A motorbike cowl made from ABS resin *Toyolac\**, which combines exceptional physical properties with moldability.



## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), net sales in this segment grew 7.7% year-on-year, to ¥404.0 billion. Operating income also rose 7.7%, to ¥20.7 billion.

In the plastic resins business, Toray (the parent company) boosted sales of its offerings for automotives and electric appliances. In the films business, we achieved higher sales of products used in solar cells, and other products. Despite recording increased sales, higher costs stemming from high fuel and material prices and increased depreciation costs related to the revision of Japanese taxation system resulted in a decline in operating income.

Japanese subsidiaries posted increases in both total sales and operating income thanks to higher sales by trading and chemical-related subsidiaries.

Overseas subsidiaries recorded substantial increases in both total sales and operating income. Contributing factors include increased sales of high value-added products by our films subsidiary in the United States, an improvement in operating income by our European films subsidiary owing to business structure reform, and efforts to boost sales by our plastic resins subsidiaries in China and Southeast Asia.

## OUTLOOK

We anticipate continued increases in demand for plastic resins on the back of the following factors: globally expansion in plastic resins demand for automotive applications, increasing demand in Asia for electric and electronics devices consumed within the area or exported to developed countries. We also look for a continuation of firm demand for films used in solar cells as a result of heightened worldwide concern for environmental issues. On the negative side, however, we expect that fuel and raw material cost hike will put pressure on earnings.

In light of these circumstances, we plan to increase sales of acrylonitrile butadiene styrene (ABS) resins produced by our Malaysian subsidiary, whose expanded facilities came on stream in April 2008. We also anticipate sales growth for our two super engineering plastic resins: liquid crystal polymer (LCP) and polyphenylene sulfide (PPS) resins, for which production capacity was expanded in January and February 2008 respectively. We will also boost sales of films for fast-growing solar cell applications. We intend to address higher costs stemming from rapidly soaring fuel and raw material prices by raising selling prices and shifting to high value-added products. However, we expect the risk of a decline in income, as these efforts may not be sufficient to completely offset increased costs.

## TOPICS

### New High-Barrier Film Business Planned for Europe

Toray has decided to embark on local production in Europe of *Torayfan\**, a bi-axially oriented polypropylene (OPP) high performance, high-barrier metallized film. Currently, *Torayfan\**, manufactured by U.S. subsidiary Toray Plastics (America), Inc. (TPA), boasts the top market share of about 60% in North America. Although TPA has been exporting *Torayfan\** to Europe, Toray made its decision owing to the expanding European market for high-barrier film, which has an annual growth rate exceeding 10%. Another factor was requests from its valued customers for a local production system.

Toray established Toray Films Europe S.A.S. (TFE) in France in February 2008. Construction of a film processing facility is currently under way with an annual capacity of 20,000 tons, and a metallizing facility with an annual capacity of 22,000 tons. Toray is investing a total of approximately ¥10.0 billion in the two facilities, which are scheduled to come on stream in April 2010.

Toray will position TFE as its core production base in Europe for high-barrier films. At the same time, TPA will develop next-generation products with the aim of further raising the value the business provides.

### Decision to Increase Production of PPS Resin

#### *Torelina\**

Toray continues to expand its production capacity for *Torelina\** PPS resin in response to growing demand.

The adoption of PPS resin; whose excellent properties include heat resistance, chemical resistance, mechanical strength, and flame retardancy, is increasing in fields such as electrical, electronic and office automation devices and equipment, and electronic automotive components. With worldwide demand estimated at approximately 75,000 tons in 2007, demand is forecasted to grow at an annual rate of more than 7% in the future.

In February 2008, Toray has started full production at its new facilities at the Tokai Plant in Tokai City, Aichi Prefecture. Further upgrading of facilities is being undertaken at the plant in FY Mar/09 to expand capacity. When increased production come on stream in April 2009, we will have increased annual capacity by 2,500 tons, to 14,000. Toray has already begun making next plans to further expand production year, with a view to commencing increased production by 2010.

# IT-RELATED PRODUCTS

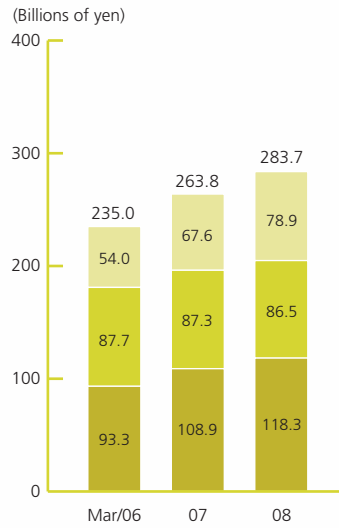


Positive-tone photosensitive polyimide coating material *Photoneece*\* has outstanding heat resistance, fine-pattern processing capability and process stability. Demand as a buffer coating for semiconductors is expected to increase significantly.

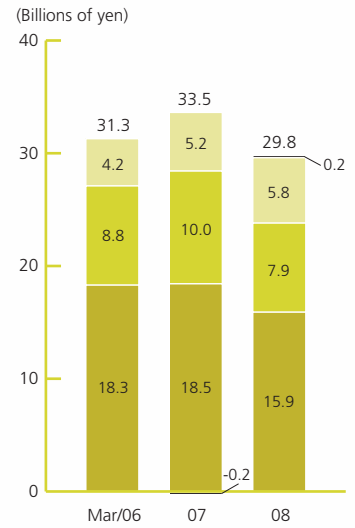


Toray developed a film for LCD applications with the highest reflectivity in the world. This high-performance reflective film also realizes improved picture quality and reduced power consumption.

**Net Sales**



**Operating Income**



- Toray
- Japanese Subsidiaries
- Overseas Subsidiaries
- Adjustment

Operating income to net sales:

**10.5%**

Sales growth:

**+7.6%**

Capital expenditures:  
(property, plant and equipment)

**35.3  
billion yen**

ROA:

**9.1%**

*Photoneece*\*, Toray's positive-tone photosensitive polyimide coating material protects the surface of cutting-edge semiconductor devices. *Photoneece*\* holds world No.1 market share for buffer coatings used in 300mm wafer production.

## SUMMARY OF BUSINESS RESULT FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), the IT-related Products segment posted a 7.6% increase in sales, to ¥283.7 billion. Operating income fell 11.1%, to ¥29.8 billion.

We reported strong sales of IT-related films and semiconductor coating materials. However, the segment was affected by increased depreciation costs related the revision of Japanese taxation system, a fall in the price of color filters for liquid crystal display (LCD) due to harsher competition in the market for small and medium-sized LCDs, and a slump in sales of circuit materials. As a result, Toray (the parent company) posted an increase in segment sales, but a decline in operating income.

Japanese subsidiaries recorded lower sales and operating income. Our IT-related machinery subsidiary recorded low sales of LCD manufacturing equipment due to the slowing of capital investment in the LCD panel industry, and our film processing subsidiary suffered from a sharp drop in product prices.

Overseas subsidiaries recorded higher sales and operating income. This was attributable to healthy sales by our Korean films subsidiary and a recovery in the second half of the year in the performance of our circuit materials subsidiary, which was impacted in the first half by production adjustments at its customers and a drop in prices.

Broken down into sub-segments, sales of Display Materials grew thanks to higher sales of optical films used in flat-panel displays (FPDs). In the Electronic Component, Semiconductor, Circuit Materials, we posted higher sales of films for electronic component applications and semiconductor coating materials.

As for the Equipments and others, however, sales declined due to a fall in sales of LCD-related manufacturing equipment, including our slit coater used in the manufacture of color filters.

(Billions of yen)

Sub-Segment	Full Fiscal Year		
	FY Mar/07	FY Mar/08	Changes
Display Materials	74.1	84.5	+14%
Electronic Component, Semiconductor, Circuit Materials	86.7	97.1	+12%
Data Storage Materials	48.7	48.8	+0%
Equipments, Others	54.3	53.4	-2%
Total of IT-related Products Segment	263.8	283.7	+8%

Sub-Segment	Products
Display Materials	Optical films, processed optical films, PDP paste materials, color filters, others
Electronic Component, Semiconductor, & Circuit Materials	Films for electronic components / circuit materials, electronic circuit materials, semiconductor coating materials, plastics, others
Data Storage Materials	Magnetic materials, TTR (Thermal Transfer Ribbon), films for graphic art base, printing plate, others
Equipments, Others	IT-related equipment, trading companies, IT support services, services, others

## OUTLOOK

Although demand for IT-related materials, including materials for FPD used in LCD panels and plasma display panels (PDPs), is expected to continue growing, ongoing price falls are also expected. Demand for LCD-related equipment is forecasted to increase owing to active capital investment in the LCD panel industry.

Under these circumstances, Toray Group will endeavor to increase sales of IT-related materials and LCD-related equipment while declines in prices of IT-related materials continue.

## TOPICS

### Expanded Production Facilities for *Photoneece*\*

In FY Mar/08, Toray expanded production facilities for *Photoneece*\*, a positive-tone photosensitive polyimide coating material. Investing around ¥1.0 billion, annual production capacity has been increased three-fold to 150 tons.

The market for polyimide coating materials used as stress buffer coatings for semiconductors, centering on 300mm wafer production, is forecasted to increase to ¥30.0 billion by 2010.\* It is expected that positive-tone photosensitive polyimide with fine processability and relatively low environmental impact, will account for over 50% of the market for polyimide coating materials.

Today, *Photoneece*\* occupies No.1 market share with more than 50% of the world market for 300mm wafer production. As a result of increased production capacity, Toray aims to obtain a 70% share of the positive-tone photosensitive polyimide for 300mm wafers and a more than 50% share of the market for all positive-tone photosensitive polyimide by 2010. In addition, we aim for faster development of new applications, and in the next five years intend to increase total sales of polyimide coating materials to ¥10.0 billion.

\* Toray estimate; current market size is approximately ¥20.0 billion.

### Development of High-Performance Reflective Film for LCD

In December 2007, we announced the successful development of a reflective film for LCD applications that boasts the best reflective performance in the world.

The spread of LCD TVs has led to calls for larger and brighter models and for measures to reduce the power consumption of these TVs. Further improving the performance of reflective film is essential for achieving these goals. Toray has combined its proprietary *Nano-alloy*\* technology\*\* and laminated technology to develop a revolutionary technology that controls fine void structure. Featuring enhanced heat resistance and planarity, this new product boasts the highest reflective performance for a film in the world.

Toray intends to add the new film to its lineup of products that contribute to higher resolution and lower power consumption in LCDs. At the same time, we intend to meet growing worldwide demand for LCDs by enhancing our supply structure.

\*\* Proprietary technology that optimally blends two or more plastics at a nanometer level; *Nano-alloy*\* is a registered trademark of Toray.

# CARBON FIBER COMPOSITE MATERIALS

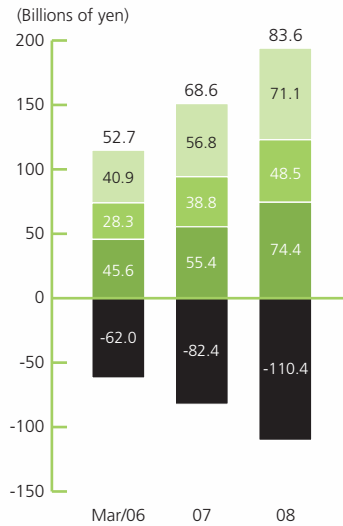


Demand for carbon fiber *Torayca*\* is rising in a variety of fields, from primary structures for aircraft, to industrial applications such as blades for wind power turbines, to sports products. Demand for *Torayca*\* for automobile applications is also expected to increase.

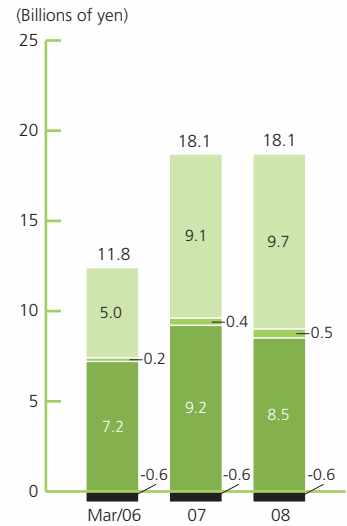


"Automotive Center (AMC)", opened in Nagoya in June 2008. AMC serves as an advanced materials technological development center for automotive applications where Toray collaborates with customers.

**Net Sales**



**Operating Income**



- 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.

Operating income to net sales:

**21.7%**

Sales growth:

**+21.8%**

Capital expenditures:  
(property, plant and equipment)

**49.8**  
billion yen

ROA:

**9.2%**

*Torayca*\* prepeg; Sheet-form *Torayca*\* carbon fiber impregnated with resin.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), Toray Group recorded 21.8% growth in segment sales, to ¥83.6 billion, while operating income remained largely unchanged, at ¥18.1 billion.

Toray (the parent company) reported a rise in sales, primarily of products for aircraft applications. However, increase in cost including higher depreciation associated with additional facilities at the Ehime Plant, which came on stream in January 2007, resulted in a decline in operating income.

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

Regarding overseas subsidiaries, we reported growth in both sales and operating income thanks to steady growth in sales for aircraft and industrial applications in both Europe and the United States.

We reported year-on-year increases in sales for all applications—Aircraft, Sports, and Industrial. We saw a large 54% increase in sales for aircraft applications in particular, owing to growth in demand for commercial aircraft applications.

(Billions of yen)

Sub-Segment	Full Fiscal Year		
	FY Mar/07	FY Mar/08	Changes
Aircraft	22.2	34.3	+54%
Sports	14.3	16.6	+16%
Industrial	32.1	32.7	+2%
Total of Carbon Fiber Composite Materials Segment	68.6	83.6	+22%

## OUTLOOK

Looking ahead, we forecast annual average growth in demand of around 15% for carbon fiber used in aircraft, sports, and various industrial applications.

In light of this outlook, we will work to increase sales for (1) aircraft applications for which we anticipate higher demand on the back of the launch of new passenger aircraft programs by Boeing Co., and Airbus S.A.S., and (2) the rapidly growing industrial applications for CNG\* tanks and other environmental, safety, and energy applications.

However, we forecast that factors such as higher depreciation expenses stemming from our active capital investment program, an increase in R&D expenses associated with the development of future applications, and exchange rate fluctuations will have a negative effect on operating income.

\* Compressed natural gas

## TOPICS

### Boost in *Torayca*\* Production Facilities in Japan, United States, and Europe

Toray has decided to expand carbonization facility for special thin carbon fibers for industrial use at the Ehime Plant having an annual capacity of 1,000 tons. The aim is to create a stable supply structure to ease pressure from the sharp increase in demand for carbon fiber for industrial and aircraft applications. Toray will spend a total of ¥16.0 billion on this expansion, and the facility is scheduled to come on stream in July 2009.

This project, combined with facilities in the United States and France currently under expansion, will raise the Group's annual capacity from 14,300 tons (as March 2008) to an estimated 18,900 tons by July 2009.

The Group intends to increase its annual production capacity to 25,000 tons by the end of 2010. At the same time, it will continue to enhance the vertically integrated business structure covering carbon fiber, prepreg\*\*, and composites.

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

### New Advanced Materials Technological Development Base in Nagoya to Supply Automobile and Aircraft Industries

Toray is converting its Nagoya Plant situated in Nagoya City, Aichi Prefecture, which is close to major automobile and aircraft industry customers, to a technological development base for advanced materials used in the two industries.

The plan is to establish the "Automotive & Aircraft Center (A&A Center)", which will serve as an integrated technological development center. The Center will combine the "Automotive Center (AMC)", technological development facility for automobile applications, which was opened in June 2008; the "Advanced Composites Center (ACC)", a composite materials development facility currently under construction and scheduled to open in April 2009; and the existing "Resin Applications Development Center".

Toray will take full advantage of the A&A Center to strengthen joint development with customers, speed up development schedules, and promote full-scale adoption of composite products, primarily in the automotive and aircraft industries.

# ENVIRONMENT & ENGINEERING

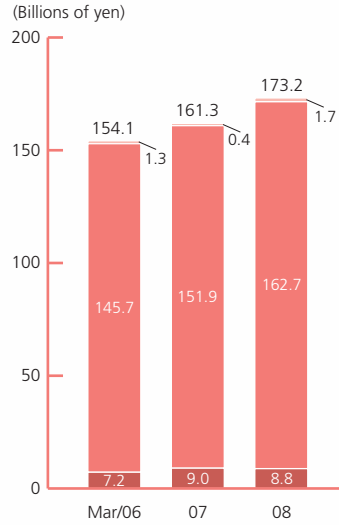


Toray's submerged membrane module for Membrane Bioreactors (MBRs) used for the treatment and reuse of wastewater, is highly rated for its low excess sludge and low-fouling properties. Toray continues to receive orders from large plants.

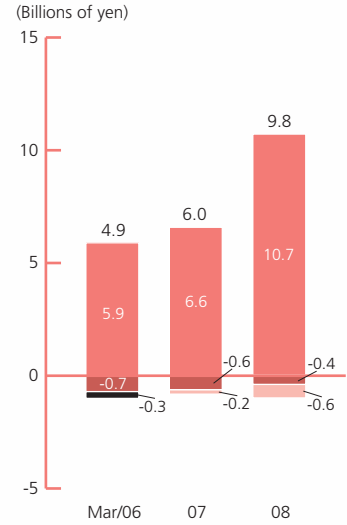


Toray Membrane USA, Inc. (TMUS), located in California, has expanded production facilities to meet growing demand.

**Net Sales**



**Operating Income**



- Toray
- Japanese Subsidiaries
- Overseas Subsidiaries
- Adjustment

Operating income to net sales:

**5.7%**

Sales growth:

**+7.4%**

ROA:

**5.5%**

Capital expenditures:  
(property, plant and equipment)

**6.6  
billion yen**



Toray's reverse osmosis (RO) membrane *Romembra*<sup>®</sup>, is used in seawater desalination plants.

## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), the Environment and Engineering segment recorded a 7.4% increase in sales, to ¥173.2 billion. Operating income rose substantially, to ¥9.8 billion.

In the water treatment business, sales of reverse osmosis (RO) membranes increased thanks to healthy growth in demand, as well as the commencement of operations of our newly established U.S. subsidiary Toray Membrane USA, Inc. Sales of home water purifiers were firm, while Toray's domestic water treatment engineering subsidiary also generated higher sales.

In the engineering business, our domestic engineering subsidiary reported increased sales and operating income owing to the expansion of its industrial machinery business.

### OUTLOOK

The water treatment membrane market continues to expand as a result of worldwide water shortages, as well as demand for securing environmentally friendly water resources. However, the business environment for our industrial machinery and plant engineering business and the condominium business remains severe. Although we are seeing signs of improvement with respect to (1) the decline in corporate capital investment due to a downturn in the economy, (2) delays in approvals and construction starts for condominiums following enactment of the revised Building Standards Law, and a full-scale recovery in construction starts is not expected soon.

Under these circumstances, we expect our water treatment business to expand with the aid of increased production at RO membrane manufacturing facilities, for which we expanded capacity in the previous fiscal year, as well as our strengthened global marketing and sales network. However, we forecast a fall in sales from condominium construction at our construction subsidiary, as well as industrial machinery and plant engineering sales at our engineering subsidiary.

### TOPICS

#### Increase in Production Capacity of RO Membranes and Elements for Water Treatment

The RO membrane market is expanding at an annual rate of 8% on the back of worsening water shortages globally and the need to secure environmentally friendly sources of water. To meet this sharp rise in demand, in FY Mar/08 Toray

expanded its production facilities for RO elements at the Ehime Plant in Japan (Masaki-cho, Iyo-gun, Ehime Prefecture) and at its wholly owned U.S. subsidiary, Toray Membrane USA, Inc. (TMUS) in California.

Toray invested a total of approximately ¥7.0 billion in the expansion of these two facilities, installing state-of-the-art, high-speed polyamide composite membrane production equipment and automated element rolling machines. In addition to enhancing quality, this expansion has increased Toray's total RO membrane production capacity by 1.8 times, to a total of 7.25 million cubic meters per day in terms of desalination plant capacity.

#### Orders for RO Membranes for Large-Scale Water Treatment Plants in Saudi Arabia, Australia and Singapore

Toray has received orders to supply RO membranes for three large water treatment plants. The first plant is the Shuaibah seawater desalination plant in Saudi Arabia, which is currently under construction and will have desalination capacity of 150,000 cubic meters of seawater per day when operation begins in 2009. The second is a large wastewater recycling plant in Australia, scheduled to come on stream in 2008, that will produce 66,000 cubic meters of water per day. The third is the Changi wastewater recycling plant in Singapore, the second largest facility of its kind in the world, scheduled to start operation in 2009 with the capacity to produce 228,000 cubic meters of water per day.

The aggregated orders the company has received to date for membranes in the seawater desalination field exceed 2.5 million cubic meters per day in terms of the amount of water being desalinated, which is sufficient to meet the daily needs of 10 million people, and is one of the largest player in the field. Toray has gained a worldwide reputation for its record in supplying large-scale plants with RO membranes that meet rigorous technical specifications. We are the only RO membrane manufacturer that has received orders for large-scale desalination plants producing more than 100,000 cubic meters of water per day in the Caribbean, Mediterranean, Middle East and East Asia. Toray will continue to actively seek orders for its products, based on its world class membrane technologies, from the Middle East and other areas with worsening water shortages, including the Mediterranean, China and Oceania.

#### RO Plants with Toray Romembra\* Elements

No.	Country	Location	Capacity m <sup>3</sup> /d*1	Purpose	Operation year*2
1	Kuwait	Sulaibiya	320,000	Wastewater recycling	2005
2	Singapore	Changi	228,000	Wastewater recycling	(2009)
3	Algeria	Hamma	200,000	Seawater desalination	(2007)
4	Saudi Arabia	Shuaibah	150,000	Seawater desalination	(2009)
5	Trinidad & Tobago	Point Lisas	136,000	Seawater desalination	2002
5	Singapore	Tuas	136,000	Seawater desalination	2005
7	Saudi Arabia	Salboukh & Boweib	120,000	Brackish water desalination	2006
8	Iran	Fajr	100,000	Brackish water desalination	2001
9	Israel	Palmachim	92,250	Seawater desalination	2007
10	Saudi Arabia	Al Jubail-III	90,909	Seawater desalination	2000
12	Korea	Daesan/HPC	84,000	Brackish water desalination	1997
11	Spain	Mallorca	69,300	Seawater desalination	2001
13	Australia	Luggage Point	66,000	Wastewater recycling	(2008)

\*1 Total water production capacity of the plant.

\*2 The year the plant began operation. ( ) denotes that the plant is currently being constructed.

# LIFE SCIENCE & OTHER BUSINESSES

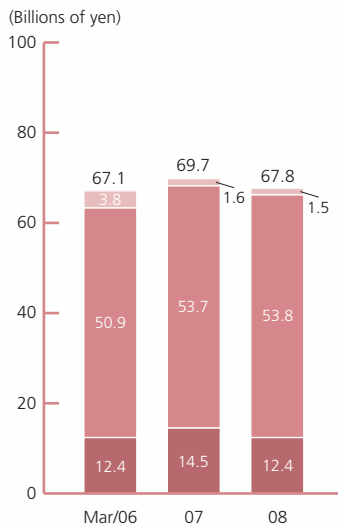


Careload\* LA Tablets 60µg (generic name: berapost sodium) is the world's first oral PGI<sub>2</sub> derivative prolonged release drug. It has high hopes as a treatment for pulmonary arterial hypertension.

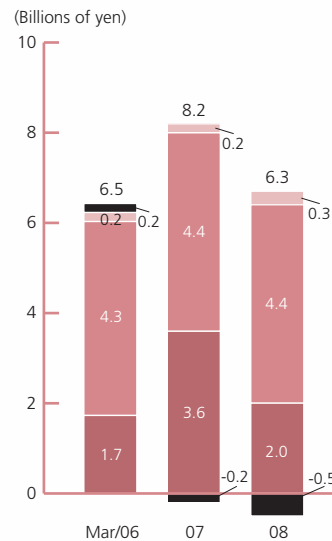


Toray's high sensitivity protein analysis chip for testing and diagnostics detects minute amounts of disease marker proteins contained in blood and urine. Potential applications include not only the medical field, but also a wide range of areas such as food and environmental analysis.

Net Sales



Operating Income



- Toray
- Japanese Subsidiaries
- Overseas Subsidiaries
- Adjustment

Operating income to net sales:

9.3%

Sales growth:

-2.8%



Capital expenditures:  
(property, plant and equipment)

3.0  
billion yen

ROA:

5.8%

Natural Interferon-β preparation *Feron\** is Japan's first antiviral drug used for the treatment of hepatitis C compensated cirrhosis.



## SUMMARY OF BUSINESS RESULTS FOR THE FISCAL YEAR ENDED MARCH 2008

In the fiscal year ended March 2008 (FY Mar/08), sales in the Life Science & Other Businesses segment declined 2.8%, to ¥67.8 billion, and operating income fell 22.7%, to ¥6.3 billion.

Sales in the pharmaceuticals and medical products business increased for a number of reasons. We boosted sales of our natural Interferon  $\beta$  preparation, for which we received approval in April 2006 for the treatment of hepatitis C compensated cirrhosis. In December 2007, we also launched a new drug, called *Careload\**, used for the treatment of pulmonary arterial hypertension (PAH). In the medical products business, we increased sales of *Toraylite\**, a new type of artificial kidney. However, a decline in licensing revenues and other factors resulted in a fall in operating income.

## OUTLOOK

The pharmaceuticals and medical products market in Japan is expected to be challenging amid further drug price revisions and revisions to reimbursement prices for artificial kidneys and other medical products in FY Mar/09.

Under these circumstances, we will strive to expand sales of the new drug *Careload\** and boost sales of *Toraylite\**. We will also launch a new drug to alleviate intractable pruritis for hemodialysis patients and we anticipate a rise in licensing revenues.

We also intend to proactively expand our businesses in DNA chip and protein analysis chip, which have huge market potential as key tools in genomic drug discovery and the so-called "tailor-made" medicine.

## TOPICS

### Launch of the Pulmonary Arterial Hypertension Agent *Careload\**

In December 2007, Toray and Astellas Pharma Inc. together launched the world's first oral Prostacyclin (PGI<sub>2</sub>) derivative prolonged release *Careload\** LA Tablets 60 $\mu$ g (generic name: berapost sodium) for the indication of PAH.

Prostacyclin's vascular dilation and platelet aggregation inhibition actions make it a very effective method for treating pulmonary hypertension. However, because existing prostacyclin drugs break down quickly inside the body, there are problems associated with making its effect last, such as the necessity for intravenous administration over a long period of time.

Toray synthesized berapost sodium to stabilize this unstable prostacyclin. We also applied slow-release technology\* to sustain the blood concentration of berapost sodium, as well as lower the maximum blood concentration. As an oral drug that can be used from the early stages of PAH, Toray expects *Careload\** to provide patients suffering from the disease with a new therapeutic choice.

\* Technology for regulating the release of active ingredients.

### Development of Highly Sensitive Protein Analysis Chip

In May 2008, Toray announced the development of a protein analysis chip system for testing and diagnostic applications that can detect minute disease marker proteins contained in blood and urine easily and with high sensitivity.

Toray applied its proprietary capabilities in the integration of bio- and nano-technologies, together with its expertise in the development of bio-tools, to incorporate a number of functions required to analyze disease marker proteins into a single chip. These functions include sample pre-treatment, separation, and detection. As a result, analysis, which currently takes more than several hours, can be completed with high sensitivity within 15 minutes. Potential application fields are not only emergency and preventive medical care, but also a wide range of other fields, including food and environmental safety testing.

Following on the ultrahigh-sensitive *3D-Gene\** series of DNA chip launched in June 2006, Toray plans to develop this protein analysis chip system into a Toray's core bio-tool and a key tool for use in tailor-made medical care through the developing of practical applications.

# RESEARCH & DEVELOPMENT AND INTELLECTUAL PROPERTY

## RESEARCH & DEVELOPMENT

### Basic Approach

Toray Group's mission is to offer revolutionary solutions to a range of issues confronted by 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.

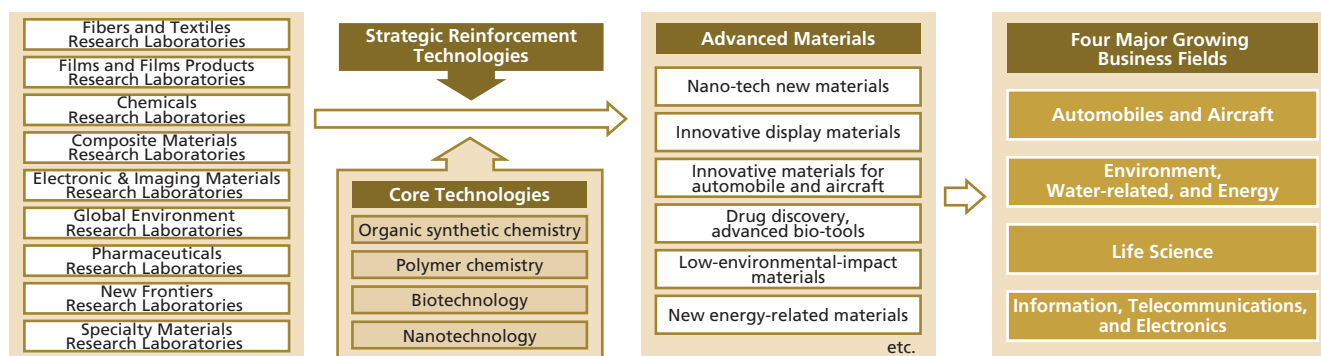
### Core Technologies and Priority Research & Development Themes

Under "Project Innovation TORAY 2010" (IT-2010), which

embodies the company's mid-term business strategies, Toray Group will concentrate on developing and marketing advanced materials 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 centering on organic synthetic chemistry, polymer chemistry, biotechnology and nanotechnology, which represent four core technologies of Toray Group.

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 and enhancing our development system to these top priority 40 themes to swiftly commercialize the results of our R&D activities.

### Advanced Materials R&D Strategies

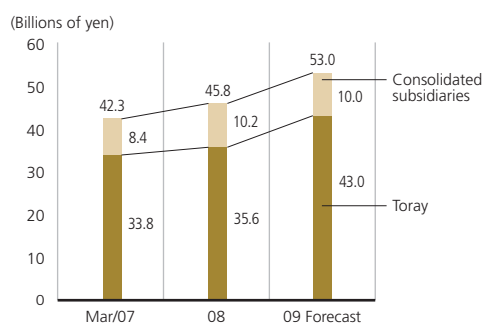


### R&D Expenses

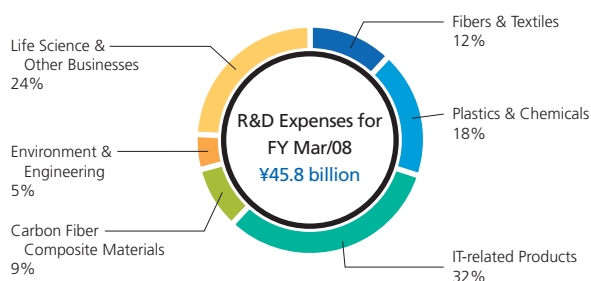
In FY Mar/08, we invested proactively in two Strategically Expanding Businesses (IT-related Products and Carbon Fiber Composite Materials) and two Strategically Developing Businesses (Life Science and water treatment). As a result, consolidated R&D expenses increased 8.3% from the previous year, to ¥45.8 billion. Non-consolidated R&D expenses totaled ¥35.6 billion.

In FY Mar/09, we plan to increase R&D expenditures by a further 15.7%, to ¥53.0 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/09, we will continue to promote development of advanced materials for our four major growing business fields.

### R&D Expenses



### R&D Expenses by Business Segment



## INTELLECTUAL PROPERTY STRATEGIES

Toray formulates and implements intellectual property strategies guided by the following four fundamental principles:

### (1) Intellectual property strategies, as a part of the strategic trinity, that conform to management principles

Toray recognizes that intellectual properties form an important management resource. In line with this belief, intellectual property strategies cannot exist in isolation from business strategies and R&D strategies, as they must be reciprocally and organically linked with one another. In other words, the three strategies form the strategic trinity of management. We believe that intellectual property strategies are management strategies themselves.

### (2) Promoting the procurement of rights

It is necessary to procure intellectual property rights actively in order to protect our products and technologies and ensure profits. Building up a patent portfolio by procuring as many useful rights as possible is of the utmost importance. At the same time, we are always mindful of the need

for efficiency in procuring rights by constantly enhancing the quality of patents, and by not filing pointless patent applications.

### (3) Respecting the rights of others

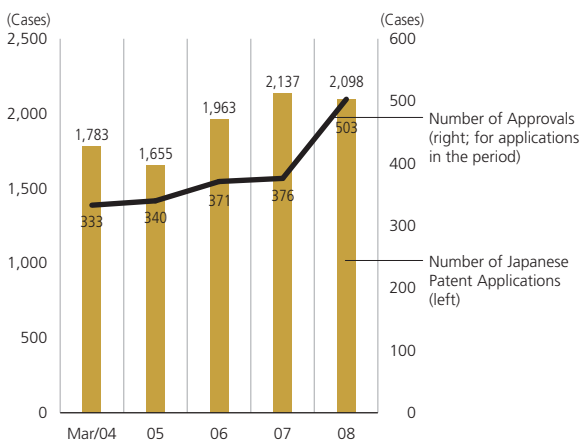
Toray does not tolerate the pursuit of business that infringes the rights of others. In line with this spirit of observing laws and regulations, we have long striven to ensure that we do not infringe rights of others by means of comprehensive investigations on relation of our products and technologies to patents held by others.

### (4) Rightful enforcement of our own rights

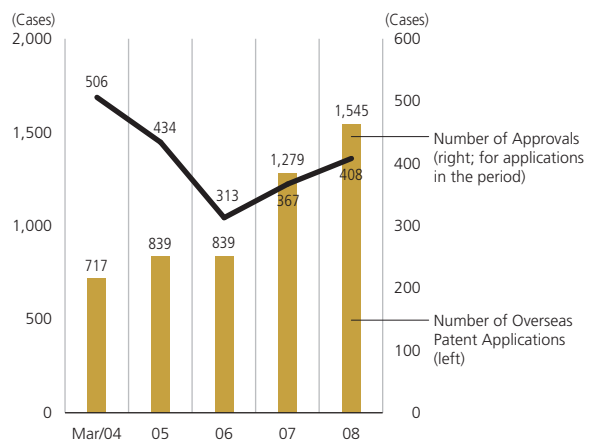
In the event that others infringe any of our intellectual property rights, we take appropriate measures by enforcing the rights. These measures are not only to demand ceasing and desisting of the infringing activities, but also to receive financial compensation by granting a license, or to enter into a cross-licensing agreement with them according to the circumstances.

## Patent Applications and Approvals

### Japan



### Overseas



1

**Successful Development of Hepatitis C Virus (HCV) Vaccine**

In August 2007, Toray announced that in experiments using mice it had confirmed for the first time in the world that inactivated HCV particles produced using a novel HCV culture system have the potential for practical use as an HCV vaccine. The culture system was developed jointly with the National Institute of Infectious Diseases (NIID), the Tokyo Metropolitan Organization for Medical Research and the Tokyo Metropolitan Institute for Neuroscience.

To prevent the spread of viruses, it is common to create a vaccine using the attenuated virus itself. For HCV, however, the inability to grow the virus under in vitro culture conditions has made it difficult to develop a vaccine.

Based on our research to date, we increased the efficien-

cy of HCV production by 10,000 times through the research using a human liver cell line we prepared specifically for producing more HCV particles than conventional cells. We also confirmed that serum obtained by injecting mice with inactivated HCV particles\* made using this HCV culture system suppressed HCV infection in human liver cells.

With the aim of commercializing a vaccine as soon as possible, Toray will continue to work with NIID on further research to optimize the HCV particles for a vaccine and establish a culture method appropriate for industrial production.

\* HCV virus particles that are no longer infectious

2

**Development of Low-fouling PVDF Membrane Module**

In July 2007, Toray announced the development of a polyvinylidene difluoride (PVDF) hollow fiber membrane that has a high water permeation rate, high strength, and is low-fouling. We developed the membrane by developing original nano-scale phase separation membrane technology, which combines our advanced membrane fabrication technology with nanotechnology.

The PVDF hollow fiber membrane is made by adding a low-fouling separation layer, made using Toray's nanofabrication technologies, to a support layer possessing high water permeation and high strength properties, which we made using the thermally induced phase separation method. The combination of these two layers was pivotal for achieving the high water permeability, high strength and low fouling required in a water treatment filter membrane.

Adoption of this new membrane module significantly reduces the amounts of coagulant and cleaning chemicals required. The module also makes possible the reduction of both energy consumption and running costs.

The Society of Chemical Engineers, Japan (SCEJ)\*\*, awarded Toray the 2007 SCEJ Technology Award for its development of the PVDF hollow fiber membrane module for water purification process. The award recognized the economic benefits of Toray's outstanding research and technology, as well as its contribution to the environment as a water reclamation system.

\*\*The role of the SCEJ is to promote the advancement of academic standards in chemical engineering and foster the development of chemical engineers, and to return the benefits of its activities to society. Each year, the Society presents awards for outstanding achievements in research and technology it recognizes as making a significant contribution to the development of chemical engineering and a wide range of other industrial fields.



All executives and employees in Toray Group constantly strive to fulfill their social responsibilities in all domains of Toray’s business activities with the aim of realizing sustainable growth together with society. Toray pursues a wide range of corporate social responsibility (CSR) activities in ensuring safety, accident prevention, environmental preservation, corporate ethics, and compliance with laws and regulations while maintaining management transparency. The Group also utilizes its unique research and technological development capabilities to expand businesses of products that provide solutions to global environmental problems. At the same time, we provide support for science and technology, social welfare, the arts, culture, and sports, and we work in collaboration with non-profit organizations and local communities.

For full details on Toray Group’s CSR activities, please refer to our website or the Toray Group CSR Report. The latest CSR report can be downloaded from the website.  
 (<http://www.toray.com/csr/download/index.html>)

# CORPORATE GOVERNANCE AND INTERNAL CONTROL

## Basic Policy

Toray Group positions the following basic policy on corporate governance as a top priority managerial principle:

- “We will provide our shareholders with dependable and trustworthy management.” (Our Corporate Mission)
- “We will obtain the trust of society and meet the expectations by acting fairly while maintaining high ethical standards and a strong sense of responsibility, and maintaining transparency in management.” (Our Corporate Guiding Principles)

Toray Group carries out activities covering diverse domains on a global scale. We supply a wide range of industries with basic materials based on our core technologies in the areas of organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology. Therefore, we believe that management judgment and decision-making must be based on the expertise closely related to each business, and we believe it is important that directors well-versed in Toray’s businesses, elected at general stockholders meetings, have responsibilities for managerial decision-making, business execution, and oversight of management so that they can fulfill their management responsibilities to shareholders.

For this reason, we have not introduced an operating officer system. Rather, we will continue to work within the framework of the Board of Directors and Board of Corporate Auditors.

At present, our governance structure does not include external directors. However, all members of the Group’s top management recognize the importance of incorporating useful outside perspectives, and the matter of how best to

introduce external directors in a way that truly benefits the Group is an ongoing management issue.

## Corporate Governance System

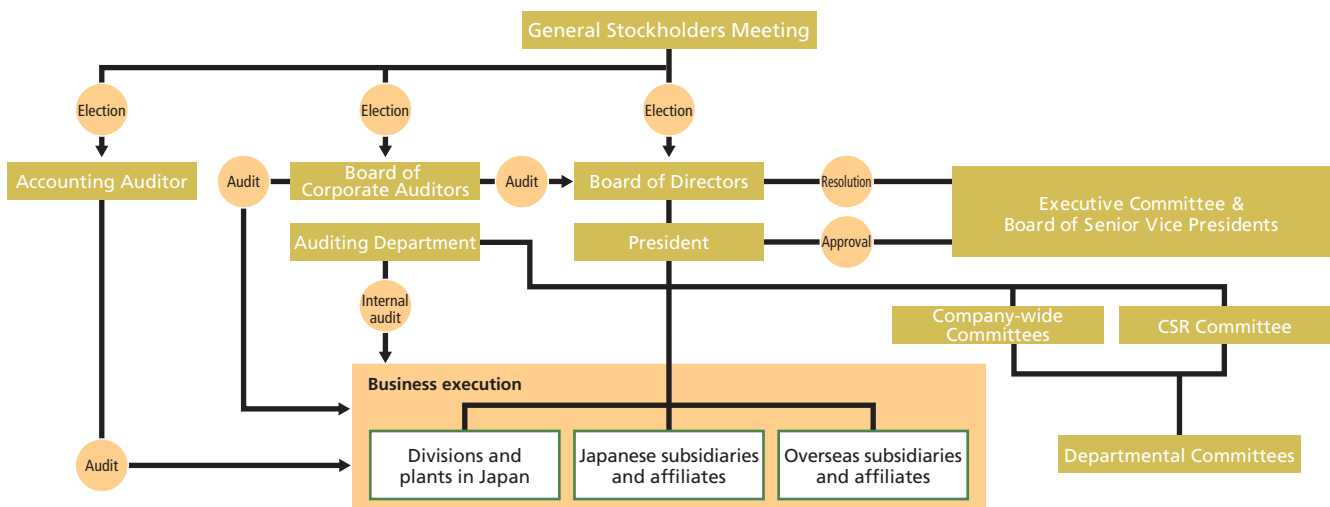
Toray Group established the Authority of Top Management as regulations that stipulate authority reserved respectively for the Board of Directors, President, and General Manager of each division and strictly keep to the regulations.

The Board of Directors which meets monthly, is not only responsible for decision making concerning important matters, including those as stipulated by the Corporation Law, but also is the function where directors present reports and exchange opinions in order to mutually monitor the execution of their respective duties. As of June 26, 2008, the Board of Directors consisted of 30 members.

As two deliberative organs for decisions made by the Board of Directors and President, we operate the Executive Committee to mainly deliberate policy matters, and the Board of Senior Vice Presidents to mainly deliberate implementation.

Company-wide committees established for each important management theme play a supplementary role in business execution. The role of the Corporate Ethics Committee, one of these company-wide committees, is to ensure legal compliance and the observance of corporate ethics. The Committee comprises all Members of the Board, with the corporate auditors and the chair of the labor union as observers. The Company-wide Legal Compliance Committee and the CSR/Legal Compliance Committees at all offices and plants and main Japanese and overseas subsidiaries and affiliates work under the Corporate Ethics

## Governance Diagram



Committee to strengthen activities throughout the organization.

The role of the Group's corporate auditors is to monitor the business execution of the Members of the Board by attending Board of Directors meetings and other important company meetings. Based on yearly policies and plans adopted by the Board of Corporate Auditors, which meets at least once every three months, auditors perform regular audits of Toray offices and plants worldwide, including subsidiaries and affiliates. They also meet with the President, all the Members of the Board, and General Managers of divisions and department general managers. As of June 26, 2008, there were four corporate auditors, of whom two were external auditors. The external auditors have no business dealings whatsoever with Toray Group. The Auditing Department conducts internal audits, including audits of subsidiaries and affiliates.

Toray has appointed Ernst & Young ShinNihon LLC as its independent auditor. The auditor performs Corporation Law and Financial Instruments and Exchange Law audits. Corporate auditors and the Auditing Department confirm outlining audit plans with the independent auditor and receive the outcome of audits from the independent auditor, and regularly engage in discussions with the independent auditor.

### **Corporate Ethics and Legal Compliance Activities**

Corporate ethics and legal compliance are priority management issues on a par with maintaining safety, accident prevention, and environmental preservation. Toray Group works together towards these goals.

The Group's activities are spearheaded by three committees: (1) the Corporate Ethics Committee (chaired by the President & CEO and includes all Members of the Board, with corporate auditors and the chair of the labor union as observers), which deliberates 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/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 has 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.

Toray subsidiaries and affiliates in Japan respectively promote their own CSR/Legal Compliance Committees activities with support from the Affiliated Companies Division.

Overseas subsidiaries and affiliates also respectively promote their CSR/Legal Compliance Committee activities in collaboration with the International Division, CSR Operations Department, and other relevant departments.

### **Establishment of Internal Control System for Financial Reporting**

From FY Mar/08, Toray Group will be required, under Japan's Financial Instruments and Exchange Law, to submit internal control reports and undertake independent audits regarding internal control by external auditors. To appropriately respond to the requirement, a new internal control system for financial reporting was established in FY Mar/07, principally by Toray's Internal Control Department - which reports directly to the President. The operation of the new system began in April 2008.

### **Information Disclosure and Management for Achieving Accountability**

As a basic principle, Toray Group will continue functioning in an open manner and achieve accountability to all stakeholders. We are committed to independent and fair disclosure of information based on our Information Disclosure Principles. Business results are announced in annual, half yearly and 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 kept available for reference as necessary. Confidential information is controlled by Confidential Information Management Regulations, which specify systems and methods for the appropriate management of such information. We have also adopted measures to prevent improper access to such information by those outside the Group. In addition, Toray has put in place a system for protecting personal information through our Personal Information Management Regulations.

# RISK MANAGEMENT

## Basic Policy

For Toray Group, risk management is the root of business management. Toray has formulated Crisis Management Regulations and identified potential risks in its activities to reduce risk in everyday situations, and to prevent future crises. At the same time, we are putting in place emergency response measures for implementation in the event of a major crisis.

## Strengthening Risk Management and Promoting the Business Continuity Plan

In addition to mitigating risks in everyday situations, Toray's risk management encompasses internal control, product safety, export control, and responding to other individual risks. We are also building a company-wide risk management system that sets countermeasures for dealing with a wide range of risks we have identified as having the potential to affect our business activities.

In FY Mar/08, we identified a list of risks affecting the Group, including those that are not clearly apparent, and made a comprehensive assessment of the potential for these risks to occur and the degree of impact they might

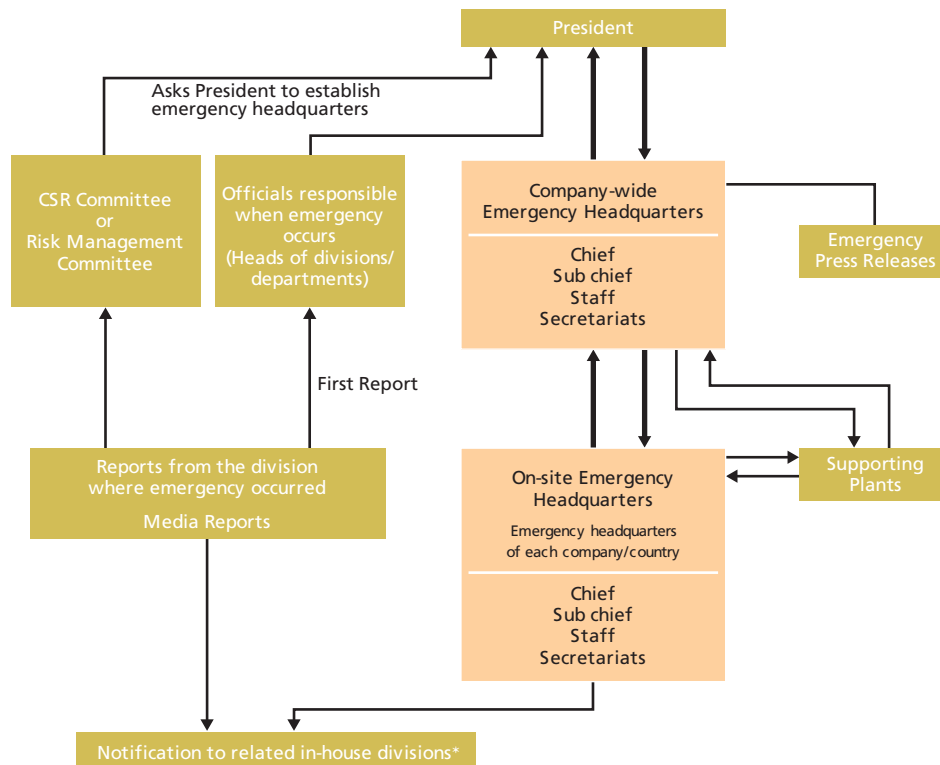
have. We plan to further strengthen our risk management and consider specific countermeasures for those risks identified as major.

At the same time, we have developed a Business Continuity Plan for the occurrence of a major earthquake. In FY Mar/08, we established a framework for emergency measures, centering on initial response, under an Emergency Response Plan for Major Earthquakes formulated for Toray Head Office. We also worked to strengthen the earthquake resistance of the Group's system and production facilities.

## Crisis Management System

The Group's Crisis Management Regulations set out basic principles for a company-wide response in the event of a major crisis. Should a crisis occur, the emergency response system is activated, whereupon a Company-wide Emergency Headquarters is established under the leadership of the President or a person nominated by the President. The Company-wide Emergency Headquarters takes steps to prevent the crisis from escalating and return the situation to normal as early as possible, while coordinating its efforts with the On-site Emergency Headquarters.

### Emergency Quick Response System



\* Notification will be conducted according to the Emergency Reporting Route for Significant Disasters, Environmental Accidents, and Other Crisis Outbreaks.



## IMPROVING THE GLOBAL ENVIRONMENT

### Basic Policy

Toray Group's Corporate Guiding Principles, which are part of its corporate philosophy, focus on "placing top priority on safety, accident prevention, and environmental preservation." Our vision is to make a global contribution toward conserving resources and protecting the environment to develop a sustainable recycling-oriented society. To this end, we are working to reduce the environmental impact through Toray Group products and technologies. We are developing products that reduce environmental impact and

make a positive contribution to the environment, as well as recycled products and technologies, based on the concepts of "Clean" and "Less Energy."

Also in FY Mar/08, Toray Group formulated and launched the Third Three-Year Environmental Plan as medium-term basic environmental policies. Under the Plan we promoted the prevention of global warming, management of chemical substances, air and water quality management, reduction of waste, and so on.

### Environmentally Friendly Products

#### Expanded Applications for Polylactic Acid Products

Heightened interest in preventing global warming and the depletion of resources has turned attention to the development of materials that are not made from petrochemicals. Toray has been working to develop and commercialize these products, including plant-based polylactic acid (PLA). We have developed and introduced fibers & textiles and plastic resin products under the *Ecodear\** brand using this carbon neutral material, which does not increase greenhouse gases.

Toray employed its proprietary polymer alloy technologies and nanotechnologies in the development of PLA, and is expanding new applications of this next generation key polymer. For example, PIONEER CORPORATION has adopted a halogen-free flame retardant PLA alloy resin for the front panel of the package of a DVD recorder. NTT

Advanced Technology Corporation, Memory-Tech Corporation, and Arkhe Will Co., Ltd. have decided to adopt a PLA *nano-alloy\** resin in heat resistant biomass CDs that Toray and they are developing in a joint initiative.

Toray has also developed a plant fiber-reinforced plastic with enhanced heat resistance, rigidity, and moldability made by compounding PLA and cellulose as its main components. We plan to develop a wide range of applications, including automotive components, for this plastic, which has the highest level of heat resistance in the world for a biomass-derived plastic.



Biomass CD made from PLA *nano-alloy\** resin

#### Ultrahigh-sensitive DNA Chip Contributes to Soil and Groundwater Remediation

Toray and Matsushita Environmental & Air-conditioning Engineering Co., Ltd. (MEA) have developed an ultrahigh-sensitive DNA chip for detecting microorganisms that degrade contaminants. This chip can be used as a low-cost and low-environmental-impact tool for soil and groundwater remediation.

For bioremediation that uses microorganisms to purify chlorine-based volatile organic compound (VOC) contaminants in soil and groundwater, it is first necessary to check whether the microorganisms that break down contaminants are to be found in the soil or groundwater.

Realizing a 100-fold increase in sensitivity has made it possible to detect microscopic VOC degraders present in ultra-small quantities, which were previously undetectable. We achieved this huge improvement in sensitivity by combining our ultrahigh-sensitive DNA chip

*3D-Gene\** with MEA's microarray technology and microorganism information useful for soil and water remediation. As a result, bioremediation can now be used at sites previously considered unsuitable because VOC degraders had been undetectable using existing methods.

To date, we have mainly applied our *3D-Gene\** series of DNA chips to the field of life sciences. However, now that we have discovered their usefulness in environmental analysis and making a positive contribution to the environment, we intend to expand their application to include other fields, such as environmental and food analysis.



Ultrahigh-sensitive DNA chip *3D-Gene\**

### Reducing the Environmental Impact of Production Activities

Reducing emissions of CO<sub>2</sub> and other greenhouse gases generated in the course of production activities is imperative in order to prevent global warming. Toray Group is engaged in a number of initiatives, including fuel conversion and improving energy efficiency at Japanese and overseas plants, to meet this challenge head-on.

#### Third Three-Year Environmental Plan (Targets for FY Mar/11) Prevention of global warming

**Toray (parent company):** 6% or greater reduction in greenhouse gases over FY Mar/1991 levels

**Toray Group (Japan):** 15% or greater reduction in greenhouse gases per unit sales over FY Mar/1991 levels

**Individual target for subsidiaries and plants (including overseas):** 2% or greater annual reduction in unit energy consumption

In FY Mar/08, Toray Group took the following measures to reduce CO<sub>2</sub> emissions.

**July 2007:** Converted power generation boilers from heavy oil to city gas at Toray Mishima Plant; annual reduction: 60,000 tons.

**October 2007:** Installed gas co-generation system after converting power generation boilers to city gas from heavy oil at Toray Shiga Plant; annual reduction: 40,000 tons.

**October 2007:** Improved efficiency by upgrading the turbines at Toray Tokai Plant; annual reduction: 35,000 tons.

**November 2007:** Converted power generation boilers from heavy oil to city gas at Toray Seta Plant; annual reduction: 1,000 tons.



Power generation boilers at Toray Mishima Plant

## BOARD OF DIRECTORS AND CORPORATE AUDITORS (As of June 26, 2008)

### 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



Yukihiro Sugimoto



Akihiro Nikkaku



Shinichi Koizumi

### 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

Norihiko Saitou

Junichi Fujikawa

Kazuhiro Maruyama

Eizo Tanaka

### Vice Presidents (Members of the Board)

Kenichiro Oka

Shinichi Okuda

Kiyoshi Fukuchi

Hidekatsu Nakagawa

Akira Uchida

Shogo Masuda

Koichi Abe

Ryo Murayama

Moriyuki Onishi

Akira Umeda

Takao Sano

Yasunobu Nishimoto

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

Hideyasu Okawara

Takeo Togano

Kazushi Hashimoto

Toshiyuki Asakura

Toshiyuki Takeda

Nobuo Suzui

### Corporate Auditors

Motonori Nishida

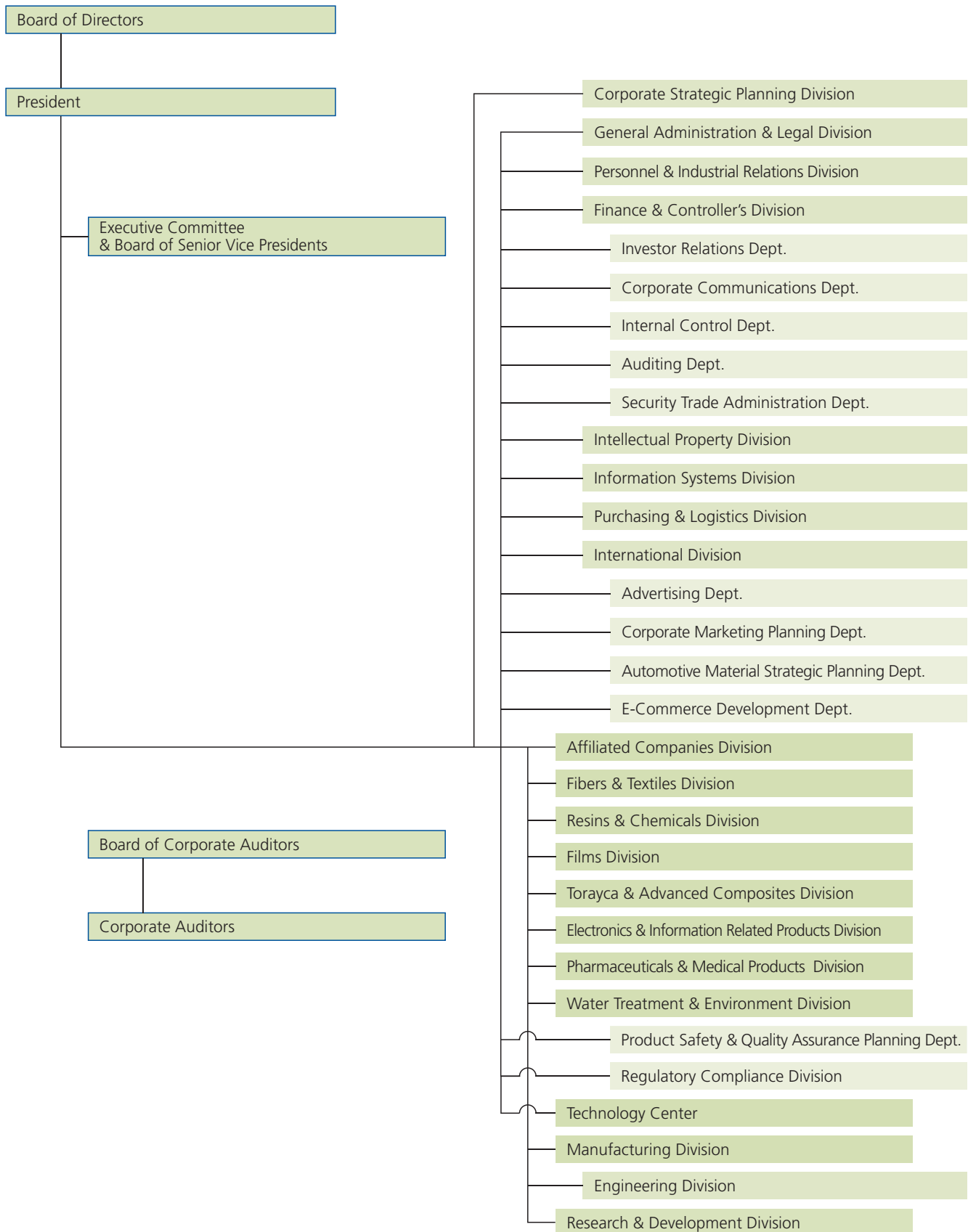
Hiroshi Otani

Ichiro Sakai\*

Mitsuaki Yahagi\*

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

# ORGANIZATION CHART (As of July 1, 2008)



# TORAY GROUP WORLDWIDE NETWORK (As of March 31, 2008)

## EUROPE

### United Kingdom

#### Consolidated Subsidiaries

- Toray Textiles Europe Ltd. (TTEL)
- Toray International U.K. Ltd. (TIUK)

### France

#### Consolidated Subsidiaries

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

### 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 International Italy S.r.l. (TIIT)

### Czech

#### Consolidated Subsidiaries

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

### Germany

#### Consolidated Subsidiaries

- Toray International Europe GmbH (TIEU)

## 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. (TSCH)

#### 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

- Toray International Taipei Inc. (TIIP)

### 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 International Singapore Pte. Ltd. (TISP)

- 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.
- Toray 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 Membrane USA, Inc. (TMUS)
- Toray International America Inc. (TIAM)

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	66
	Overseas	78
	Total	144
Subsidiaries Accounted for by Equity Method	Japan	34
	Overseas	21
	Total	55
Total Subsidiaries	Japan	100
	Overseas	99
	Total	199
Affiliates Accounted for by Equity Method	Japan	12
	Overseas	27
	Total	39
Companies Subject to Consolidation	Japan	112
	Overseas	126
	Total	238

## INVESTOR INFORMATION (As of March 31, 2008)

### Common Stock:

Authorized:	4,000,000,000 shares
Issued:	1,401,481,403 shares
Number of Stockholders:	185,582

### 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 LLC

### Transfer Agent:

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

Common stock range	2008		2007	
	High	Low	High	Low
First quarter	¥ 933	¥ 804	¥ 1,128	¥ 827
Second quarter	998	823	1,023	837
Third quarter	925	810	903	806
Fourth quarter	868	529	950	816

Cash dividends per share	2008	2007
Total for the year	¥ 10.00	¥ 10.00
Interim	5.00	5.00

Composition of stockholders	Percent of total	Thousands of shares
The Master Trust Bank of Japan, Ltd. (Trust account)	4.90	68,684
Nippon Life Insurance Co.	4.64	65,019
Mitsui Life Insurance Co., Ltd.	3.42	47,948
Japan Trustee Services Bank, Ltd. (Trust account)	2.57	35,999
Sumitomo Mitsui Banking Corporation	2.14	30,022
The Chase Manhattan Bank, N.A. London S. L. Omnibus Account	1.91	26,779
The Dai-ichi Mutual Life Insurance Co.	1.89	26,471
Japan Trustee Services Bank, Ltd. (Trust 4 account)	1.72	24,130
State Street Bank and Trust Company 505103	1.58	22,201
Mitsui Sumitomo Insurance Co., Ltd.	1.26	17,620

## 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:

38,565

Parent company: 7,234

Japanese subsidiaries: 9,788

Overseas subsidiaries: 21,543

#### 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.  
Telephone: 44 (20) 7663-7760  
Facsimile: 44 (20) 7663-7770

##### Beijing

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

##### Seoul

Toray Industries, Inc., Seoul Office  
10th Floor, LG Mapo Bldg., 275,  
Kongdug-dong, Mapo-gu, Seoul,  
121-721 Korea  
Telephone: 82 (2) 707-0381~2  
Facsimile: 82 (2) 707-0067

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)

---

48	Six-Year Summary of Selected Financial Data
49	Management's Discussion and Analysis
54	Consolidated Balance Sheets
56	Consolidated Statements of Income
57	Consolidated Statements of Changes in Net Assets
58	Consolidated Statements of Cash Flows
59	Notes to Consolidated Financial Statements
71	Report of Independent Auditors

## SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

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

	Millions of yen					
	2008	2007	2006	2005	2004	2003
<b>Net sales*</b> <sup>1</sup>	<b>¥ 1,649,670</b>	¥ 1,546,461	¥ 1,427,488	¥ 1,298,606	¥ 1,088,501	¥ 1,032,991
Fibers and Textiles	<b>637,343</b>	607,752	580,549	513,354	424,755	418,332
Plastics and Chemicals	<b>404,015</b>	375,292	337,978	300,404	258,093	241,882
IT-related Products	<b>283,734</b>	263,808	234,994	219,142	174,538	147,729
Carbon Fiber Composite Materials	<b>83,580</b>	68,593	52,714	—	—	—
Environment and Engineering	<b>173,213</b>	161,310	154,135	148,661	120,123	118,764
Pharmaceuticals and Medical Products	—	—	—	44,356	47,875	47,632
New Products and Other Businesses	—	—	—	72,689	63,117	58,652
Life Science and Other Businesses	<b>67,785</b>	69,706	67,118	—	—	—
<b>Operating income</b>	<b>103,429</b>	102,423	93,043	81,052	56,792	33,043
<b>Income before income taxes and minority interests</b>	<b>78,565</b>	81,705	80,342	53,112	44,876	22,480
<b>Net income</b>	<b>48,069</b>	58,577	47,409	34,397	20,908	5,790
<b>Net cash provided by operating activities</b>	<b>110,367</b>	77,539	116,022	133,481	117,610	88,582
<b>Depreciation and amortization</b>	<b>86,423</b>	72,689	64,444	64,288	68,232	75,159
<b>Capital expenditures</b>	<b>146,787</b>	126,444	104,127	73,094	48,807	57,249
<b>Total assets</b>	<b>1,698,226</b>	1,674,447	1,537,422	1,402,264	1,295,314	1,300,954
<b>Property, plant and equipment, net</b>	<b>680,993</b>	643,370	586,215	531,965	543,315	583,280
<b>Interest-bearing liabilities</b>	<b>591,182</b>	536,936	484,411	466,825	494,527	546,099
<b>Net assets</b> * <sup>2</sup>	<b>642,159</b>	649,670	537,026	452,519	414,247	390,398
Yen						
<b>Per share of common stock:</b>						
Net income:						
Basic	<b>¥ 34.34</b>	¥ 41.84	¥ 33.72	¥ 24.46	¥ 14.87	¥ 4.13
Diluted	—	—	—	—	—	—
Cash dividends	<b>10.00</b>	10.00	8.00	7.00	5.50	5.00
Net assets	<b>423.78</b>	421.51	383.42	323.04	295.64	278.65
<b>Ratios:</b>						
Operating income to net sales	<b>6.27%</b>	6.62%	6.52%	6.24%	5.22%	3.20%
Net income to net sales	<b>2.91</b>	3.79	3.32	2.65	1.92	0.56
Equity ratio	<b>34.9</b>	35.2	34.9	32.3	32.0	30.0
Return on equity	<b>8.1</b>	10.4	9.6	7.9	5.2	1.4
Debt/equity ratio (times)	<b>1.00</b>	0.91	0.90	1.03	1.19	1.40
Yen						
<b>Common stock price range:</b>						
High	<b>¥ 998</b>	¥ 1,128	¥ 1,011	¥ 557	¥ 492	¥ 395
Low	<b>529</b>	806	454	441	258	230
<b>Number of employees</b>	<b>38,565</b>	36,553	34,670	33,707	32,901	33,791

\*1 The Company changed its business segments from the year ended March 31, 2006.

"Carbon Fiber Composite Materials" was separated from "New Products and Other Businesses" to a new segment. "Pharmaceuticals and Medical Products" segment was merged into "New Products and Other Businesses" and the entire segment was renamed as "Life Science and Other Businesses." Furthermore, "Housing and Engineering" segment was renamed as "Environment and Engineering."

\*2 By adoption of the accounting standard for presentation of net assets, "minority interests in consolidated subsidiaries" and "net deferred gains on hedges" are included in net assets from the year ended March 31, 2007. For calculation of "net assets per share," "minority interests in consolidated subsidiaries" are deducted from net assets.



# MANAGEMENT'S DISCUSSION AND ANALYSIS

## OVERVIEW

During the fiscal year ended March 31, 2008 (FY Mar/08), the world economy on the whole slid into uncertainty in the second half, despite a strong showing in the first six months. This slide occurred as the turmoil in the financial markets stemming from the subprime loan crisis spread, slowing down the U.S economy with each passing month. After enjoying a gradual but continued growth on the back of corporate capital investments and exports in the first half, the Japanese economy was also clouded with increased concerns of a slowdown in the latter half of the fiscal year. This came against a background of falling stock prices, rapid fluctuations in foreign exchange markets, and a further rise in crude oil prices.

Under such circumstances, Toray Group advanced efforts to implement measures under the new mid-term business strategies "Project Innovation TORAY 2010" (IT-2010) launched in October 2006. Guided by the new strategies, Toray Group promoted business and profit expansion through business structural reform and structural reinforcement. As a result, Toray Group reached record-high figures for net sales for the fifth consecutive year, and operating income for the fourth consecutive year.

## INCOME ANALYSIS

### Net Sales

Consolidated net sales in FY Mar/08 amounted to ¥1,649.7 billion, up ¥103.2 billion, or 6.7%, from the previous fiscal year. Sales increased in all business segments, except Life Science and Other Businesses.

### Sales by Business Segment

#### Fibers and Textiles

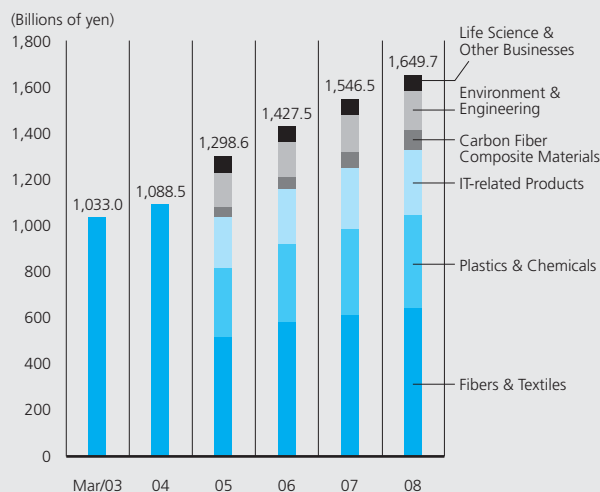
Total sales in this segment grew ¥29.6 billion, or 4.9%, to ¥637.3 billion.

Sales in Japan increased year-on-year, benefiting from strong sales of nylon fiber for airbag fabrics, as well as increased sales of garments for uniforms. A trading subsidiary also reported growth in handling amount.

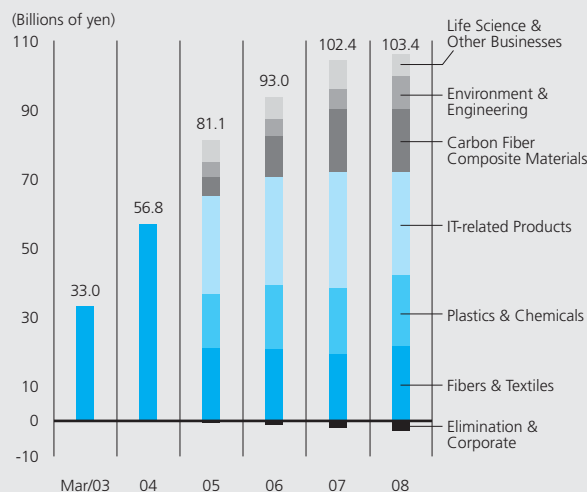
Overall sales of overseas consolidated subsidiaries in this segment were also up, led by growth in our fiber and fabric operations for airbag applications in Thailand, our polypropylene spunbond operations in Korea, our filament yarn textile and cotton-blended polyester textile operations in China, and our man-made suede business in Europe.

In response to steep rises 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 ¥28.7 billion, or 7.7%, to ¥404.0 billion.

In the plastic resins business, Toray Group reported growth in sales, especially for automotive applications of engineering plastic resins, such as *Amilan*\* nylon resin, *Toraycon*\* PBT resin, and *Torelina*\* PPS resin. Our *Toyolac*\* ABS resin business also expanded, both in Japan and Malaysia. In addition, we posted growth in the resin compound business, as well as the molding and processing business, in South China, contributing to overall sales growth in the plastic resins business.

In the films business, sales of the mainstay *Lumirror*\* polyester film continued to advance in industrial applications. Sales of *Torayfan*\* polypropylene film also expanded steadily for use in capacitors, as well as packaging applications in overseas markets, resulting in an overall sales increase in the films business.

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

### IT-related Products

Total segment sales grew ¥19.9 billion, or 7.6%, to ¥283.7 billion.

Sales in the IT-related plastics and films business increased, boosted by efforts to expand films and processed film product sales for such applications as flat panel displays and electronic components. Sales in the plastics and molding businesses of overseas consolidated subsidiaries also increased.

The electronics and information related products business increased sales owing to significant efforts to grow sales of *Photoneece*\* polyimide coatings for semiconductors as well as increased sales of display-related materials, and growth in the circuit materials business of our Korean subsidiary.

### Carbon Fiber Composite Materials

Total sales in this segment climbed ¥15.0 billion, or 21.8%, to ¥83.6 billion.

Sales of carbon fiber *Torayca*\* and *Torayca*\* prepreg (carbon fiber sheets impregnated with epoxy resin) expanded strongly, spurred by considerable growth in demand in aircraft applications. 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 industrial applications centering on civil engineering, the environment, and energy. Sales of carbon fiber molded products (composites) also grew strongly in the IT devices field, such as for PC chassis, and in the industrial machinery field.

### Environment and Engineering

Total segment sales rose ¥11.9 billion, or 7.4%, to ¥173.2 billion.

The water treatment business benefited from growth in demand for reverse osmosis membranes and healthy sales of home-use water purifiers and sales growth of its domestic water treatment engineering subsidiary. We also reported growth in the industrial machinery business of its domestic engineering subsidiary.

### Life Science and Other Businesses

Total segment sales declined ¥1.9 billion, or 2.8%, to ¥67.8 billion.

The pharmaceuticals and medical products business registered an overall increase in sales. This business benefited from higher sales of its natural interferon drug *Feron*\* thanks to the additional approval it received in 2007 for treating hepatitis C compensated cirrhosis, while the new artificial kidney product *Toraylight*\* also performed strongly. During the year, Toray started sales of its pulmonary arterial hypertension agent *Careload*\*.

However, a decrease in the transaction volume generated by a trading subsidiary caused overall segment sales to decline year-on-year.

### Sales by Geographic Segment

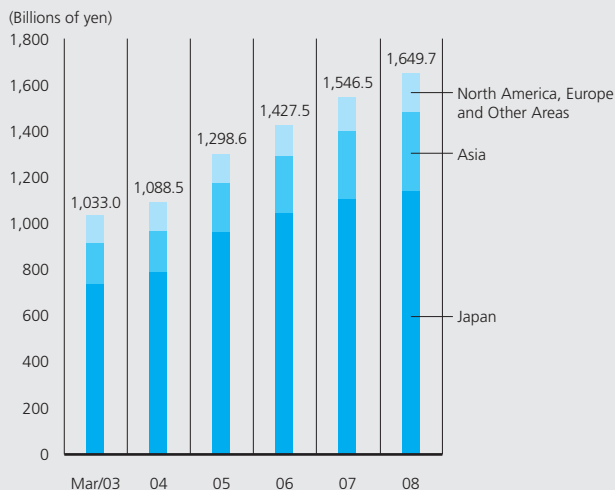
#### Japan

Sales of the Company and its domestic consolidated subsidiaries grew ¥34.7 billion, or 3.1%, to ¥1,139.7 billion, thanks mainly to increased revenues generated in the environment and engineering business and the IT-related products business. The share of this segment in consolidated net sales declined from 71.4% to 69.1%.

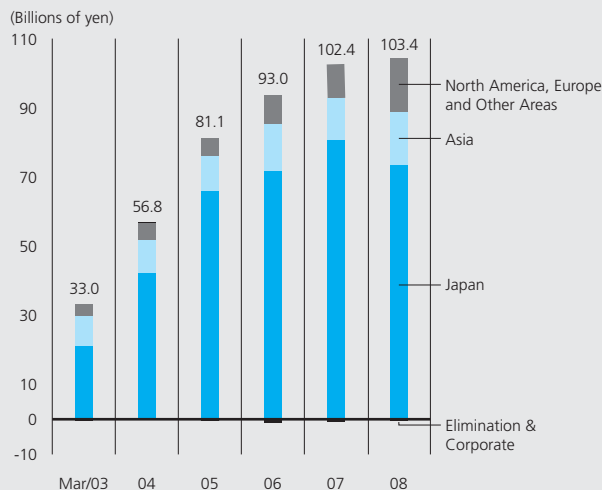
#### Asia

Sales of consolidated subsidiaries in China, Indonesia, Thailand,

Net Sales by Geographic Segment



Operating Income by Geographic Segment



Malaysia, Korea and other Asian countries, excluding Japan, climbed ¥49.2 billion, or 16.9%, to ¥339.8 billion. This was attributable mainly to growth in sales of the fibers and textiles business, as well as the plastics and chemicals business. Sales of this segment accounted for 20.6% of consolidated net sales, up from 18.8%.

#### **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 rose ¥19.3 billion, or 12.8%, to ¥170.2 billion. This was largely due to steady sales growth in our carbon fiber composite materials business, centering on aircraft and general industrial applications, as well as growth in the plastics and chemicals business. The share of this segment in consolidated net sales increased from 9.8% to 10.3%.

#### **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, grew ¥89.1 billion, or 13.5%, to ¥749.5 billion. Sales in Asia increased owing mainly to solid demand for the fibers and textiles business, as well as the plastics and chemicals business. Sales in North America, Europe and other areas also increased, thanks to expansion of our carbon fiber composite materials business in Europe and the United States. Overseas sales accounted for 45.4% of consolidated net sales, up 2.7 percentage points year-on-year. Of this, sales in Asia amounted to ¥478.5 billion, or 29.0% of consolidated net sales, while sales in North America, Europe and other areas totaled ¥271.0 billion, or 16.4%.

#### **Costs and Expenses**

The ratio of total costs and expenses to net sales for the year was 93.7%, up 0.4 percentage points from the previous fiscal year. Consolidated net sales grew 6.7%, and the cost of sales increased 7.6%. As a result, the cost of sales ratio edged up 0.7 percentage points, to 79.6%.

Selling, general and administrative expenses increased ¥9.7 billion, or 4.3%, to ¥232.3 billion. The ratio of selling, general and administrative expenses to net sales was down 0.3 percentage points, to 14.1%.

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

Operating income grew ¥1.0 billion, or 1.0%, from the previous fiscal year, to ¥103.4 billion. Operating income to net sales slipped 0.4 percentage points, to 6.3%.

Operating income increased in the Fibers and Textiles segment, the Plastics and Chemicals segment, and the Environment and Engineering segment. Operating income in the Carbon Fiber Composite Materials segment remained mostly unchanged, while operating income in the IT-related Products segment and the Life Science and Other Businesses segment declined.

Operating income in the Fibers and Textiles segment rose ¥2.1 billion, or 11.0%, to ¥21.4 billion, owing mainly to sales expansion and income improvement at overseas manufacturing subsidiaries in Indonesia, China, Italy, and Korea. In the Plastics and Chemicals segment, operating income grew ¥1.5 billion, or 7.7%, to ¥20.7 billion, thanks to efforts by our films subsidiary in the United States to expand sales of high value-added products, as well as income improvement of our European films subsidiary due to business

structure reform. Operating income in the IT-related Products segment fell ¥3.7 billion, or 11.1%, to ¥29.8 billion, due to falling selling prices as a result of intensifying competition as well as a decline in shipments of LCD-related manufacturing equipment in addition to increased depreciation costs related to the revision of Japanese taxation system. Despite an increase in sales for aircraft, sporting, and industrial application as a result of our sales efforts, operating income in the Carbon Fiber Composite Materials segment remained mostly unchanged at ¥18.1 billion because of increased depreciation costs due to expansion of facilities and increased facility start-up costs. Operating income in the Environment and Engineering segment jumped ¥3.8 billion, or 63.9%, to ¥9.8 billion, owing mainly to growth of the industrial machinery business of our engineering subsidiary and efforts to reinforce the corporate-structure of our construction materials and water treatment engineering subsidiaries. In the Life Science and Other Businesses segment, operating income fell ¥1.9 billion, or 22.7%, to ¥6.3 billion, due to a decline in licensing revenue from the pharmaceuticals and medical products business.

By geographic segment, operating income increased in Asia and North America, Europe and other areas, but declined in Japan. Despite an increase in domestic sales, especially in the environment and engineering business and the IT-related products business, operating income in Japan was down ¥7.2 billion, or 9.0%, to ¥73.5 billion, due to soaring fuel and raw material prices and increased depreciation costs related to the revision of Japanese taxation system. Operating income in Asia grew ¥3.1 billion, or 26.1%, to ¥15.2 billion, owing largely to improved earnings of fiber and textile subsidiaries in Indonesia, China and Korea. Operating income in North America, Europe and other areas jumped ¥5.9 billion, or 60.4%, to ¥15.7 billion, thanks to increased sales of high-value-added products at our films subsidiary in the United States and improved earnings of films and fiber and textile subsidiaries in Europe.

In net other income (expenses), the Group reported ¥24.9 billion in expenses, up ¥4.1 billion year-on-year. Interest and dividend income rose ¥1.1 billion to ¥4.3 billion, while interest expense grew ¥1.6 billion to ¥11.5 billion. As a result, net financial expenses increased ¥0.5 billion to ¥7.1 billion. Equity in earnings of unconsolidated subsidiaries and affiliated companies decreased ¥2.6 billion over the previous fiscal year, to ¥5.8 billion. Loss on sales and disposal of property, plant and equipment, net increased ¥1.5 billion to ¥5.2 billion, and loss on impairment of fixed assets fell ¥7.4 billion to ¥7.5 billion.

As a result, income before income taxes and minority interests declined ¥3.1 billion to ¥78.6 billion. Net income fell ¥10.5 billion to ¥48.1 billion, after deducting income taxes and minority interests in earnings of consolidated subsidiaries.

Net income per share declined ¥7.50 to ¥34.34. The Company declared a year-end cash dividend of ¥5.00 per share, taking into account its earnings performance in FY Mar/08 and the outlook for FY Mar/09. Added to the interim cash dividend, this brought total annual dividends to ¥10.00 per share.

## FINANCIAL POSITION

### Assets

At March 31, 2008, total assets stood at ¥1,698.2 billion, up ¥23.8 billion, or 1.4%, from the end of the previous fiscal year. This was mainly the result of increases in inventories and property, plant and equipment. Overseas assets accounted for 32.8% of total assets, up 2.0 percentage points.

### Current Assets

Current assets grew ¥5.7 billion, or 0.8%, to ¥733.2 billion. Liquid assets, including cash, time deposits and short-term investment securities, decreased ¥15.6 billion, or 21.6%, to ¥56.6 billion. Trade receivables (the total of notes and accounts receivable) edged up ¥1.8 billion, or 0.6%, to ¥290.6 billion. Inventories increased ¥25.5 billion, or 8.4%, to ¥328.4 billion.

### Property, Plant and Equipment

Property, plant and equipment, net of depreciation, increased ¥37.6 billion, or 5.8%, to ¥681.0 billion. Capital expenditures rose ¥20.3 billion, or 16.1%, to ¥146.8 billion, based on our 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 ¥21.9 billion and included construction of new polypropylene spunbond production facilities at Toray Polytech (Nantong) Co., Ltd. In the Plastics and Chemicals segment, capital expenditures amounted to ¥33.4 billion, which included additional ABS resin facilities at Toray Plastics (Malaysia) Sdn. Berhad. Capital expenditures in the IT-related Products segment totaled ¥35.3 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 Fiber Composite Materials segment, capital expenditures totaled ¥50.3 billion, which included additional carbon fiber production facilities at Toray Carbon Fibers America, Inc. In the Environment and Engineering segment, capital expenditures amounted to ¥6.9 billion, while capital expenditures in the Life Science and Other Businesses segment totaled ¥3.1 billion.

### Liabilities

Total liabilities rose ¥31.3 billion, or 3.1%, to ¥1,056.1 billion, due mainly to a rise in interest-bearing liabilities.

Total interest-bearing liabilities — consisting of short-term bank loans, current portion of long-term debt, commercial paper and long-term debt — grew ¥54.2 billion, or 10.1%, to ¥591.2 billion.

### Net Assets

Net assets came to ¥642.2 billion, and net assets less minority interests in consolidated subsidiaries stood at ¥593.2 billion. As a result, net assets per share rose ¥2.27 to ¥423.78. The equity ratio edged down 0.3 percentage points to 34.9%, and the debt/equity ratio rose 0.09 points to 1.00.

## CASH FLOWS

In FY Mar/08, net cash used in investing activities exceeded net cash provided by operating activities by ¥53.8 billion. This was mainly due to capital expenditures exceeding depreciation and amortization, as well as an increase in inventories. Net cash provided by financing activities, caused mainly by an increase in interest-bearing liabilities, was ¥39.3 billion. As a result, cash and cash equivalents at the fiscal year-end stood at ¥56.5 billion, down ¥15.6 billion from the end of the previous fiscal year.

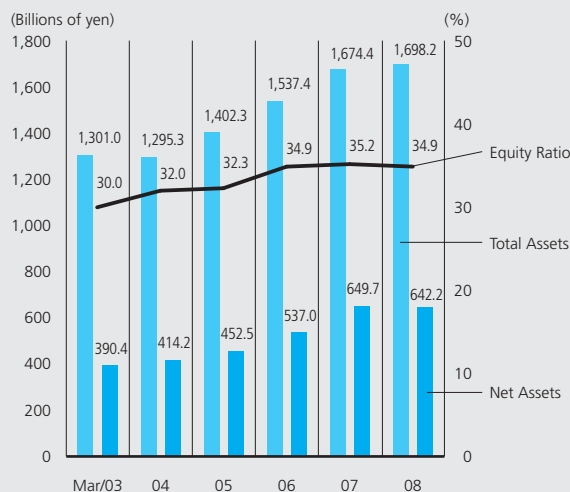
### Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥110.4 billion, up ¥32.8 billion from the previous fiscal year. This was due to income before income taxes and minority interests of ¥78.6 billion, depreciation and amortization of ¥86.4 billion, and an increase in trade payables of ¥14.2 billion, which contrasted with an increase in inventories of ¥28.9 billion and income taxes paid of ¥32.7 billion.

### Cash Flows from Investing Activities

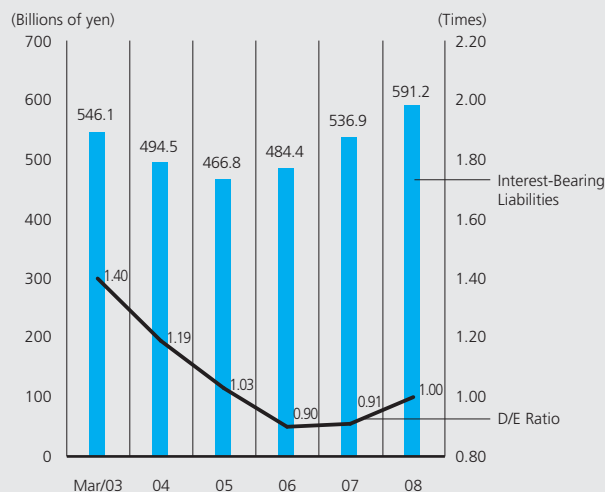
Net cash used in investing activities totaled ¥164.2 billion, up ¥40.0 billion. This stemmed mainly from capital expenditures of ¥144.9 billion and purchases of investment securities of ¥20.4 billion.

**Total Assets and Net Assets**



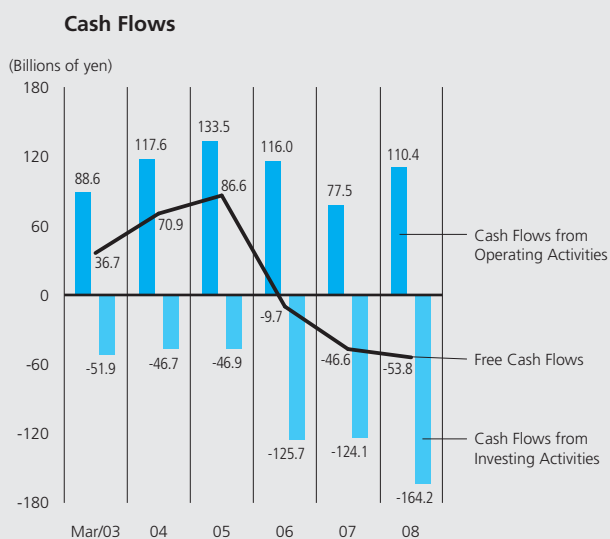
By adoption of the accounting standard for presentation of net assets, "minority interests in consolidated subsidiaries" and "net deferred gains on hedges" are included in net assets from the year ended March 31, 2007.

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



## Cash Flows from Financing Activities

Net cash provided by financing activities was ¥39.3 billion, up ¥9.0 billion. This resulted mainly from net increase in short-term debt of ¥15.9 billion and proceeds from long-term debt of ¥100.4 billion, which contrasted with repayment of long-term debt of ¥54.2 billion, cash dividends paid of ¥15.2 billion, acquisition and cancellation of treasury stock by the consolidated subsidiary of ¥8.4 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, or the appearance of credit risk affecting the Group's business partners, could have a negative impact on Toray Group's results of operations and financial conditions.

### (2) 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.

### (3) Foreign currency, interest rate, and securities market 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, exchange rate fluctuations greater than expected could have an impact on Toray Group's results of operations and financial conditions.

Moreover, changes in interest rates and other aspects of financial markets, as well as changes in the value of securities held by the Group, could have an impact on Toray Group's results of operations and financial condition.

### (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, or could cause inadequate supply of raw materials, 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, 2008 and 2007

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Current assets:</b>			
Cash	¥ 42,721	¥ 57,342	\$ 427,210
Time deposits (Note 4)	13,032	14,023	130,320
Short-term investment securities (Note 5)	859	800	8,590
Trade receivables:			
Notes receivable	39,124	40,184	391,240
Accounts receivable	251,521	248,675	2,515,210
Inventories (Note 3)	328,447	302,934	3,284,470
Deferred tax assets (Note 8)	22,067	21,903	220,670
Prepaid expenses and other current assets	38,252	45,276	382,520
Allowance for doubtful accounts	(2,834)	(3,608)	(28,340)
Total current assets	733,189	727,529	7,331,890
<b>Property, plant and equipment</b> (Notes 4 and 11):			
Land	81,400	81,661	814,000
Buildings	461,663	449,369	4,616,630
Machinery and equipment	1,501,165	1,456,313	15,011,650
Construction in progress	92,302	65,821	923,020
	2,136,530	2,053,164	21,365,300
Accumulated depreciation	(1,455,537)	(1,409,794)	(14,555,370)
Property, plant and equipment, net	680,993	643,370	6,809,930
<b>Intangible assets</b>	14,893	13,490	148,930
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliated companies	81,790	76,676	817,900
Investment securities (Notes 4 and 5)	127,799	157,657	1,277,990
Long-term loans receivable	1,261	1,373	12,610
Deferred tax assets (Note 8)	21,423	26,748	214,230
Other (Note 7)	40,028	31,411	400,280
Allowance for doubtful accounts	(3,150)	(3,807)	(31,500)
Total investments and other assets	269,151	290,058	2,691,510
<b>Total assets</b>	<b>¥ 1,698,226</b>	<b>¥ 1,674,447</b>	<b>\$ 16,982,260</b>

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Current liabilities:</b>			
Short-term bank loans (Note 4)	¥ 128,008	¥ 124,583	\$ 1,280,080
Current portion of long-term debt (Note 4)	38,873	45,667	388,730
Commercial paper	10,000	—	100,000
Trade payables:			
Notes payable	51,732	54,383	517,320
Accounts payable	170,503	156,088	1,705,030
Income taxes payable (Note 8)	10,214	24,241	102,140
Accrued liabilities	54,513	54,288	545,130
Other current liabilities (Note 8)	81,101	81,713	811,010
Total current liabilities	544,944	540,963	5,449,440
<b>Long-term debt</b> (Note 4)	414,301	366,686	4,143,010
<b>Deferred tax liabilities</b> (Note 8)	11,665	23,975	116,650
<b>Accrued employees' retirement benefits</b> (Note 7)	67,635	72,300	676,350
<b>Customers' guarantee deposits and other liabilities</b>	17,522	20,853	175,220
Total liabilities	1,056,067	1,024,777	10,560,670
<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	969,370
Capital surplus	85,821	85,814	858,210
Retained earnings	387,070	352,994	3,870,700
Treasury stock, at cost	(1,073)	(998)	(10,730)
Total stockholders' equity	568,755	534,747	5,687,550
Valuation, translation adjustments and other:			
Net unrealized gains on securities	32,058	56,937	320,580
Net deferred gains on hedges	357	799	3,570
Foreign currency translation adjustments	(8,011)	(2,463)	(80,110)
Total valuation, translation adjustments and other	24,404	55,273	244,040
Minority interests in consolidated subsidiaries	49,000	59,650	490,000
Total net assets	642,159	649,670	6,421,590
Total liabilities and net assets	¥ 1,698,226	¥ 1,674,447	\$ 16,982,260

## CONSOLIDATED STATEMENTS OF INCOME

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Net sales</b>	<b>¥ 1,649,670</b>	¥ 1,546,461	<b>\$ 16,496,700</b>
<b>Costs and expenses:</b>			
Cost of sales (Notes 7, 11 and 12)	<b>1,313,932</b>	1,221,411	<b>13,139,320</b>
Selling, general and administrative expenses (Notes 7, 11 and 12)	<b>232,309</b>	222,627	<b>2,323,090</b>
	<b>1,546,241</b>	1,444,038	<b>15,462,410</b>
Operating income	<b>103,429</b>	102,423	<b>1,034,290</b>
<b>Other income (expenses):</b>			
Interest expense	<b>(11,479)</b>	(9,831)	<b>(114,790)</b>
Interest and dividend income	<b>4,335</b>	3,206	<b>43,350</b>
Equity in earnings of unconsolidated subsidiaries and affiliated companies	<b>5,771</b>	8,331	<b>57,710</b>
Loss on sales and disposal of property, plant and equipment, net	<b>(5,197)</b>	(3,688)	<b>(51,970)</b>
Loss on impairment of fixed assets (Note 13)	<b>(7,509)</b>	(14,873)	<b>(75,090)</b>
Gain on sales and loss on write-down of investment securities, net	<b>1,850</b>	8,080	<b>18,500</b>
Loss on liquidation and devaluation of subsidiaries and affiliated companies	<b>(28)</b>	(1,772)	<b>(280)</b>
Restructuring costs	<b>(1,026)</b>	(1,544)	<b>(10,260)</b>
Gain (loss) on adjustment of employees' retirement benefits of the U.K. subsidiary (Note 7)	<b>786</b>	(1,731)	<b>7,860</b>
Litigation settlement	<b>(2,631)</b>	—	<b>(26,310)</b>
Other, net	<b>(9,736)</b>	(6,896)	<b>(97,360)</b>
	<b>(24,864)</b>	(20,718)	<b>(248,640)</b>
Income before income taxes and minority interests	<b>78,565</b>	81,705	<b>785,650</b>
<b>Income taxes (Note 8):</b>			
Current	<b>17,426</b>	32,071	<b>174,260</b>
Deferred	<b>8,892</b>	(12,412)	<b>88,920</b>
	<b>26,318</b>	19,659	<b>263,180</b>
Income before minority interests	<b>52,247</b>	62,046	<b>522,470</b>
<b>Minority interests in earnings of consolidated subsidiaries</b>	<b>(4,178)</b>	(3,469)	<b>(41,780)</b>
Net income	<b>¥ 48,069</b>	¥ 58,577	<b>\$ 480,690</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, 2008 and 2007

	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, 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
Changes in:											
Dividends			(14,006)		(14,006)						(14,006)
Net income			48,069		48,069						48,069
Acquisition of treasury stock				(88)	(88)						(88)
Disposition of treasury stock		7		13	20						20
Other			13		13						13
Items other than stockholders' equity, net						(24,879)	(442)	(5,548)	(30,869)	(10,650)	(41,519)
<b>Total changes</b>	—	7	34,076	(75)	34,008	(24,879)	(442)	(5,548)	(30,869)	(10,650)	(7,511)
<b>Balance as of March 31, 2008</b>	¥ 96,937	¥ 85,821	¥ 387,070	¥ (1,073)	¥ 568,755	¥ 32,058	¥ 357	¥ (8,011)	¥ 24,404	¥ 49,000	¥ 642,159

	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, 2007</b>	\$ 969,370	\$ 858,140	\$ 3,529,940	\$ (9,980)	\$ 5,347,470	\$ 569,370	\$ 7,990	\$ (24,630)	\$ 552,730	\$ 596,500	\$ 6,496,700
Changes in:											
Dividends			(140,060)		(140,060)						(140,060)
Net income			480,690		480,690						480,690
Acquisition of treasury stock				(880)	(880)						(880)
Disposition of treasury stock		70		130	200						200
Other			130		130						130
Items other than stockholders' equity, net						(248,790)	(4,420)	(55,480)	(308,690)	(106,500)	(415,190)
<b>Total changes</b>	—	70	340,760	(750)	340,080	(248,790)	(4,420)	(55,480)	(308,690)	(106,500)	(75,110)
<b>Balance as of March 31, 2008</b>	\$ 969,370	\$ 858,210	\$ 3,870,700	\$ (10,730)	\$ 5,687,550	\$ 320,580	\$ 3,570	\$ (80,110)	\$ 244,040	\$ 490,000	\$ 6,421,590

See accompanying notes to consolidated financial statements.

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2008	2007	2008
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥ 78,565	¥ 81,705	\$ 785,650
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	86,423	72,689	864,230
Loss on impairment of fixed assets	7,509	14,873	75,090
Interest and dividend income	(4,335)	(3,206)	(43,350)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(5,771)	(8,331)	(57,710)
Interest expense	11,479	9,831	114,790
Loss on sales and disposal of property, plant and equipment, net	5,197	3,688	51,970
Gain and loss on sales and loss on write-down of investment securities, net	(2,550)	(7,545)	(25,500)
(Decrease) increase in accrued employees' retirement benefits	(4,313)	240	(43,130)
Increase in trade receivables	(4,752)	(23,494)	(47,520)
Increase in inventories	(28,898)	(32,132)	(288,980)
Increase (decrease) in trade payables	14,200	(3,687)	142,000
Other, net	(9,902)	(5,020)	(99,020)
Subtotal	142,852	99,611	1,428,520
Interest and dividends received	10,881	8,102	108,810
Interest paid	(10,651)	(9,231)	(106,510)
Income taxes paid	(32,715)	(20,943)	(327,150)
Net cash provided by operating activities	110,367	77,539	1,103,670
<b>Cash flows from investing activities:</b>			
Capital expenditures	(144,932)	(123,404)	(1,449,320)
Purchases of investment securities	(20,433)	(11,551)	(204,330)
Proceeds from sales of investment securities	6,087	11,029	60,870
Proceeds from sales of property, plant and equipment	2,475	2,774	24,750
Additional acquisition of shares of consolidated subsidiaries	(5,242)	—	(52,420)
Other, net	(2,106)	(2,963)	(21,060)
Net cash used in investing activities	(164,151)	(124,115)	(1,641,510)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term debt	15,891	(39,194)	158,910
Proceeds from long-term debt	100,435	129,515	1,004,350
Repayment of long-term debt	(54,196)	(46,418)	(541,960)
Cash dividends paid	(15,186)	(13,967)	(151,860)
Acquisition and cancellation of treasury stock by the consolidated subsidiary	(8,362)	—	(83,620)
Other, net	713	334	7,130
Net cash provided by financing activities	39,295	30,270	392,950
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(1,106)</b>	<b>1,394</b>	<b>(11,060)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(15,595)</b>	<b>(14,912)</b>	<b>(155,950)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>72,102</b>	<b>86,961</b>	<b>721,020</b>
<b>Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation</b>	<b>—</b>	<b>53</b>	<b>—</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 56,507</b>	<b>¥ 72,102</b>	<b>\$ 565,070</b>

See accompanying notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2008 and 2007

## 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 Financial Instruments and Exchange Law of Japan 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 at March 31, 2008 and 2007 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
	2008	2007	2008
Cash	¥ 42,721	¥ 57,342	\$ 427,210
Time deposits	13,032	14,023	130,320
Less — Time deposits with maturities of over 3 months	(79)	(46)	(790)
Short-term investment securities and others with maturities of 3 months or less	833	783	8,330
Cash and cash equivalents	¥ 56,507	¥ 72,102	\$ 565,070

### 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

Effective from the year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, with regard to property, plant and equipment acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries depreciate the difference between 5% of the acquisition cost and the memorandum value using the straight-line method over five years from the next year, when the book value reaches 5% of the acquisition cost, based on the former Japanese Corporation Tax Law. As a result, operating income decreased by ¥5,698 million (\$56,980 thousand), and income before income taxes and minority interests decreased by ¥5,837 million (\$58,370 thousand), respectively.

#### **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.

## 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 ¥100 to \$1.00, the approximate exchange

rate prevailing on March 31, 2008. 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, 2008 and 2007, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods and work in process	¥ 261,256	¥ 237,817	\$ 2,612,560
Raw materials and supplies	67,191	65,117	671,910
	¥ 328,447	¥ 302,934	\$ 3,284,470

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

Short-term bank loans at March 31, 2008 and 2007 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, 2008 and 2007 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Loans principally from banks and insurance companies with interest rates primarily from 0.3150% to 7.0600%, maturing serially through 2017:			
Secured	¥ 3,221	¥ 3,752	\$ 32,210
Unsecured	249,953	208,601	2,499,530
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	200,000
Yen notes with an interest rate of 2.03% due 2008	10,000	10,000	100,000
Yen notes with an interest rate of 2.00% due 2013	10,000	10,000	100,000
Yen notes with an interest rate of 1.95% due 2009	10,000	10,000	100,000
Yen notes with an interest rate of 1.94% due 2010	10,000	10,000	100,000
Yen notes with an interest rate of 1.93% due 2009	10,000	10,000	100,000
Yen notes with an interest rate of 1.61% due 2013	10,000	10,000	100,000
Yen notes with an interest rate of 1.48% due 2011	20,000	20,000	200,000
Zero coupon convertible bonds due 2012	50,000	50,000	500,000
Zero coupon convertible bonds due 2014	50,000	50,000	500,000
	453,174	412,353	4,531,740
Less amounts due within one year	38,873	45,667	388,730
	¥ 414,301	¥ 366,686	\$ 4,143,010

At March 31, 2008, assets pledged as collateral for short-term bank loans and long-term debt were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 2	\$ 20
Property, plant and equipment, net	9,281	92,810
Investment securities at carrying value	40	400
	¥ 9,323	\$ 93,230

The annual maturities of long-term debt subsequent to March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2009	¥ 38,873	\$ 388,730
2010	55,104	551,040
2011	48,788	487,880
2012	87,551	875,510
2013	37,876	378,760
2014 and thereafter	184,982	1,849,820
	¥ 453,174	\$ 4,531,740

## 5. SECURITIES

At March 31, 2008 and 2007, 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							
	2008				2007			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥ 96	¥ —	¥ —	¥ 96	¥ 109	¥ —	¥ —	¥ 109
Other securities	67,416	59,641	6,215	120,842	54,643	96,113	842	149,914

	Thousands of U.S. dollars			
	2008			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$ 960	\$ —	\$ —	\$ 960
Other securities	674,160	596,410	62,150	1,208,420

At March 31, 2008 and 2007, 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
	2008	2007	2008
Held-to-maturity debt securities	¥ 151	¥ 60	\$ 1,510
Other securities	7,567	8,372	75,670

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 the securities classified as held-to-maturity debt securities and other securities with maturity dates at March 31, 2008 and 2007 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2008		2007		2008	
	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	¥ 26	¥ 843	¥ 17	¥ 10	\$ 260	\$ 8,430
Due after one year through five years	210	—	127	10	2,100	—
Due after five years through ten years	11	—	25	—	110	—
Due after ten years	—	689	—	649	—	6,890

## 6. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2008 and 2007:

	Millions of yen					
	2008			2007		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain
Forward foreign exchange contracts:						
Buying U.S. dollar	¥ 11,070	¥ 10,124	¥ (946)	¥ 9,152	¥ 9,377	¥ 225
Buying Japanese yen	—	—	—	2,393	2,436	43
Buying euro	38	38	0	100	100	0
Selling U.S. dollar	5,894	5,722	172	210	205	5
Selling euro	221	231	(10)	639	638	1
Selling British pound	—	—	—	92	92	0
Selling Japanese yen	11	10	1	1,004	966	38
Foreign currency swaps:						
Receiving Japanese yen, paying U.S. dollar	3,140	(311)	(311)	—	—	—

	Thousands of U.S. dollars		
	2008		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Buying U.S. dollar	\$ 110,700	\$ 101,240	\$ (9,460)
Buying Japanese yen	—	—	—
Buying euro	380	380	0
Selling U.S. dollar	58,940	57,220	1,720
Selling euro	2,210	2,310	(100)
Selling British pound	—	—	—
Selling Japanese yen	110	100	10
Foreign currency swaps:			
Receiving Japanese yen, paying U.S. dollar	31,400	(3,110)	(3,110)

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, 2008 and 2007 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Projected benefit obligations	¥ (237,053)	¥ (249,523)	\$ (2,370,530)
Plan assets	181,439	221,116	1,814,390
	(55,614)	(28,407)	(556,140)
Unrecognized actuarial differences	40,852	2,401	408,520
Unrecognized prior service cost	(33,359)	(36,222)	(333,590)
	(48,121)	(62,228)	(481,210)
Prepaid pension cost (included in other assets)	19,514	10,072	195,140
Accrued employees' retirement benefits	¥ (67,635)	¥ (72,300)	\$ (676,350)

The components of net periodic benefit cost related to the employees' retirement benefits for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 6,974	¥ 6,579	\$ 69,740
Interest cost	5,104	4,688	51,040
Expected return on plan assets	(6,748)	(6,069)	(67,480)
Amortization of actuarial differences	(85)	1,748	(850)
Amortization of prior service cost	(2,864)	(2,866)	(28,640)
Net periodic benefit cost	2,381	4,080	23,810
(Gain) loss on adjustment of employees' retirement benefits of the U.K. subsidiary	(786)	1,731	(7,860)
Contribution to defined contribution pension plan and other	4,056	3,395	40,560
	¥ 5,651	¥ 9,206	\$ 56,510

In addition to the above, special severance payments of ¥2,714 million (\$27,140 thousand) and ¥2,652 million were charged to net income for the years ended March 31, 2008 and 2007, respectively.

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

	2008	2007
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, 2008 and 2007 was 40.7%.

At March 31, 2008 and 2007, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Accrued bonuses	¥ 7,214	¥ 7,098	\$ 72,140
Accrued employees' retirement benefits	28,946	30,341	289,460
Tax loss carryforwards	13,871	20,621	138,710
Unrealized intercompany profits	14,112	14,417	141,120
Investments in subsidiaries and affiliated companies	20,854	27,528	208,540
Other	34,082	29,552	340,820
	119,079	129,557	1,190,790
Valuation allowance	(25,936)	(34,268)	(259,360)
Total deferred tax assets	93,143	95,289	931,430
Deferred tax liabilities:			
Reserve for advanced depreciation	12,583	12,760	125,830
Depreciation	4,450	4,354	44,500
Undistributed earnings of overseas subsidiaries and affiliated companies	11,424	9,693	114,240
Unrealized gains on securities	24,104	38,706	241,040
Other	8,757	5,102	87,570
Total deferred tax liabilities	61,318	70,615	613,180
Net deferred tax assets	¥ 31,825	¥ 24,674	\$ 318,250

At March 31, 2008 and 2007, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets - current	¥ 22,067	¥ 21,903	\$ 220,670
Deferred tax assets - non-current	21,423	26,748	214,230
Deferred tax liabilities - current (included in other current liabilities)	—	2	—
Deferred tax liabilities - non-current	11,665	23,975	116,650



The reconciliation of the statutory tax rate and the effective income tax rate for the years ended March 31, 2008 and 2007 was as follows:

	2008	2007
Statutory tax rate	40.7%	40.7%
Increase (decrease) in taxes resulting from:		
Permanent differences	1.4	0.8
Recognition of certain deferred tax assets by reversal of valuation allowance	(4.4)	—
Decrease in deductible temporary differences not providing deferred tax assets	—	(12.6)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(3.0)	(4.1)
Other	(1.2)	(0.7)
Effective income tax rate	33.5%	24.1%

## 9. NET ASSETS

The Corporation Law of Japan 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 sum of the capital reserve and the earned 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 2008 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥5.00 per share, aggregating ¥7,003 million (\$70,030 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2008.

## 10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2008, commitment line of credit was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥ 2,784	\$ 27,840
Loans receivable outstanding	2,149	21,490
Balance	¥ 635	\$ 6,350

This commitment does not necessarily imply that unused amount may be fully utilized.

At March 31, 2008 and 2007, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥ 4,933	¥ 8,030	\$ 49,330
Other	8,641	7,408	86,410
	¥ 13,574	¥ 15,438	\$ 135,740
Notes discounted	¥ 50	¥ 126	\$ 500
Export bills discounted	¥ 2,124	¥ 2,517	\$ 21,240
Contingent liabilities associated with securitization of receivables	¥ 12,800	¥ 12,299	\$ 128,000

## 11. LEASES

### Finance Leases

The Group holds certain buildings, machinery and equipment and intangible assets by leases. Total lease payments under these leases were ¥3,495 million (\$34,950 thousand) and ¥3,155 million for the years ended March 31, 2008 and 2007, respectively.

Pro forma information relating to acquisition costs, accumulated depreciation/amortization and accumulated loss on impairment and net book value for property held under finance leases which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2008 and 2007 was as follows:

	Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
<b>March 31, 2008:</b>				
Buildings	¥ 4,756	¥ 887	¥ —	¥ 3,869
Machinery and equipment	14,151	7,312	138	6,701
Intangible assets	1,541	716	—	825
	¥ 20,448	¥ 8,915	¥ 138	¥ 11,395

	Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
<b>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

	Thousands of U.S. dollars			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
<b>March 31, 2008:</b>				
Buildings	\$ 47,560	\$ 8,870	\$ —	\$ 38,690
Machinery and equipment	141,510	73,120	1,380	67,010
Intangible assets	15,410	7,160	—	8,250
	\$ 204,480	\$ 89,150	\$ 1,380	\$ 113,950

Future minimum lease payments under finance leases subsequent to March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 3,368	¥ 3,004	\$ 33,680
Due after one year	8,105	6,146	81,050
Total	¥ 11,473	¥ 9,150	\$ 114,730
Allowance for loss on impairment of leased property	¥ 78	¥ 113	\$ 780

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, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥ 1,364	¥ 1,389	\$ 13,640
Due after one year	3,489	5,859	34,890
Total	¥ 4,853	¥ 7,248	\$ 48,530

## 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, 2008 and 2007 were ¥45,827 million (\$458,270 thousand) and ¥42,263 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, 2008, 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 ¥7,509 million (\$75,090 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	
Shiga, Japan	Color filter production facilities	Machinery and equipment	¥ 4,710	\$ 47,100
Tangerang, Indonesia	Polyester polymerization facilities, polyester filament production facilities, nylon polymerization facilities and nylon filament production facilities, etc.	Buildings	¥ 42	\$ 420
		Machinery and equipment	1,214	12,140

The recoverable amount of the above assets was measured at their value in use or the net selling value. The value in use was calculated by discounting future cash flows at discount rate of 6%, and the net selling value was calculated based on the real estate appraisal value.

## 14. 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 the IT-related Products segment 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- $\beta$ , beraprost sodium drugs and artificial kidneys as well as the provision of services such as analysis and research.

Millions of yen

Year ended March 31, 2008:	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	¥ 637,343	¥ 404,015	¥ 283,734	¥ 83,580	¥ 173,213	¥ 67,785	¥ 1,649,670	¥ —	¥ 1,649,670
Intersegment sales	587	32,830	8,575	942	77,089	19,432	139,455	(139,455)	—
Total sales	¥ 637,930	¥ 436,845	¥ 292,309	¥ 84,522	¥ 250,302	¥ 87,217	¥ 1,789,125	¥ (139,455)	¥ 1,649,670
Operating income	¥ 21,352	¥ 20,716	¥ 29,753	¥ 18,096	¥ 9,754	¥ 6,299	¥ 105,970	¥ (2,541)	¥ 103,429
Total assets	¥ 459,337	¥ 462,489	¥ 334,966	¥ 221,716	¥ 181,976	¥ 107,412	¥ 1,767,896	¥ (69,670)	¥ 1,698,226
Depreciation and amortization	26,797	21,549	20,370	12,286	2,702	4,306	88,010	(1,587)	86,423
Loss on impairment of fixed assets	1,897	664	4,804	86	29	29	7,509	—	7,509
Capital expenditures	21,913	33,376	35,342	50,341	6,943	3,097	151,012	(4,225)	146,787

Year ended  
March 31, 2007:

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

Thousands of U.S. dollars

Year ended March 31, 2008:	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	\$6,373,430	\$4,040,150	\$2,837,340	\$ 835,800	\$1,732,130	\$ 677,850	\$ 16,496,700	\$ —	\$ 16,496,700
Intersegment sales	5,870	328,300	85,750	9,420	770,890	194,320	1,394,550	(1,394,550)	—
Total sales	\$6,379,300	\$4,368,450	\$2,923,090	\$ 845,220	\$2,503,020	\$ 872,170	\$ 17,891,250	\$ (1,394,550)	\$ 16,496,700
Operating income	\$ 213,520	\$ 207,160	\$ 297,530	\$ 180,960	\$ 97,540	\$ 62,990	\$ 1,059,700	\$ (25,410)	\$ 1,034,290
Total assets	\$4,593,370	\$4,624,890	\$3,349,660	\$2,217,160	\$1,819,760	\$1,074,120	\$ 17,678,960	\$ (696,700)	\$ 16,982,260
Depreciation and amortization	267,970	215,490	203,700	122,860	27,020	43,060	880,100	(15,870)	864,230
Loss on impairment of fixed assets	18,970	6,640	48,040	860	290	290	75,090	—	75,090
Capital expenditures	219,130	333,760	353,420	503,410	69,430	30,970	1,510,120	(42,250)	1,467,870

Effective from the year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, with regard to property, plant and equipment acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries depreciate the difference between 5% of the acquisition cost and the memorandum value using the straight-line method over five years from the next year, when the book value reaches 5% of the acquisition cost, based on the former Japanese Corporation Tax Law. As a result,

operating income decreased by ¥2,155 million (\$21,550 thousand) in the Fibers and Textiles segment, ¥1,544 million (\$15,440 thousand) in the Plastics and Chemicals segment, ¥1,187 million (\$11,870 thousand) in the IT-related Products segment, ¥427 million (\$4,270 thousand) in the Carbon Fiber Composite Materials segment, ¥74 million (\$740 thousand) in the Environment and Engineering segment, and ¥311 million (\$3,110 thousand) in the Life Science and Other Businesses segment, respectively.

## Results by Geographic Segment

Millions of yen

	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
<b>Year ended March 31, 2008:</b>						
Sales to outside customers	¥ 1,139,664	¥ 339,774	¥ 170,232	¥ 1,649,670	¥ —	¥ 1,649,670
Intersegment sales	151,033	66,550	14,339	231,922	(231,922)	—
Total sales	¥ 1,290,697	¥ 406,324	¥ 184,571	¥ 1,881,592	¥ (231,922)	¥ 1,649,670
Operating income	¥ 73,479	¥ 15,228	¥ 15,746	¥ 104,453	¥ (1,024)	¥ 103,429
Total assets	¥ 1,172,173	¥ 344,521	¥ 226,527	¥ 1,743,221	¥ (44,995)	¥ 1,698,226

Year ended March 31, 2007:

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

Thousands of U.S. dollars

	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
<b>Year ended March 31, 2008:</b>						
Sales to outside customers	\$11,396,640	\$ 3,397,740	\$ 1,702,320	\$ 16,496,700	\$ —	\$ 16,496,700
Intersegment sales	1,510,330	665,500	143,390	2,319,220	(2,319,220)	—
Total sales	\$12,906,970	\$ 4,063,240	\$ 1,845,710	\$ 18,815,920	\$ (2,319,220)	\$ 16,496,700
Operating income	\$ 734,790	\$ 152,280	\$ 157,460	\$ 1,044,530	\$ (10,240)	\$ 1,034,290
Total assets	\$11,721,730	\$ 3,445,210	\$ 2,265,270	\$ 17,432,210	\$ (449,950)	\$ 16,982,260

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

Effective from the year ended March 31, 2008, in accordance with the revised Japanese Corporation Tax Law, with regard to property, plant and equipment acquired on or before March 31, 2007, the Company and its domestic consolidated subsidiaries depreciate the difference between 5% of the acquisition cost and the memorandum value using the straight-line method over five years from the next year, when the book value reaches 5% of the acquisition cost, based on the former Japanese Corporation Tax Law. As a result, operating income decreased by ¥5,698 million (\$56,980 thousand) in Japan.

### 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, 2008 and 2007 were as follows:

Millions of yen

	Asia	North America, Europe and other areas	Total
<b>Year ended March 31, 2008:</b>			
Overseas sales	¥ 478,454	¥ 271,006	¥ 749,460
Percentage of overseas sales against consolidated net sales	29.0%	16.4%	45.4%

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, 2008:**

Thousands of U.S. dollars

Overseas sales	\$ 4,784,540	\$ 2,710,060	\$ 7,494,600
----------------	--------------	--------------	--------------

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

## 15. 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
	2008	2007	2008
Net income:			
Basic	¥ 34.34	¥ 41.84	\$ 0.34
Diluted	—	—	—
Cash dividends applicable to the year	10.00	10.00	0.10
Net assets	423.78	421.51	4.24

## Report of Independent Auditors


The Board of Directors  
Toray Industries, Inc.

We have audited the accompanying consolidated balance sheets of Toray Industries, Inc. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the years 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 audits.

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

In our opinion, the 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, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.



June 26, 2008

**Toray Industries, Inc.**

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

**Contact IR Dept.**

Telephone: 81(3)3245-5113  
Facsimile: 81(3)3245-5459  
e-mail: [ir@nts.toray.co.jp](mailto:ir@nts.toray.co.jp)

*Innovation by Chemistry*



**Make a splash with Toray water treatment products.**

High-performance water treatment membranes from Toray are achieving new efficiency at next-generation desalination plants in the driest regions on Earth. The world leader in separation membrane technology for water recycling and reclamation, Toray continues to develop mold-breaking solutions to turn back the deserts, challenge the global water shortage and bring new value to life. **The right chemistry, the right answers.**

**TORAY**

Innovation by Chemistry