

FINANCIAL SECTION

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MANAGEMENT'S DISCUSSION AND ANALYSIS

OVERVIEW

During the period under review, the world economy, which underwent only a relatively moderate slowdown in the first six months despite surges in oil and other resource prices and large fluctuations in currency exchange rates, slumped to a worldwide recession in the second half. Reflecting the worsening financial crisis that originated in the U.S., overall demand shrank rapidly and drastically. While the U.S. and European economies worsened with each passing month and China and other emerging economies slowed down significantly, Japanese economy also registered a steep decline, with both domestic and foreign demand weakening sharply.

Under such business environment, Toray Group continued its efforts to reform business structure and enhance profitability of the Group under the mid-term business strategies "Project Innovation TORAY 2010" ("IT-2010") launched in October 2006. At the same time, to cope with the increases in raw materials and fuel prices in the first half, the Group took actions to reduce costs, transfer cost increases on to selling prices and shift to high value added products. It also strived to reduce capital investments, cut down expenses and adjust inventory levels in response to the economic slowdown.

Despite these efforts, unable to offset the huge tumble in demand in the second half of the year, Toray Group recorded decreases in both revenues and earnings.

OPERATING RESULTS

Net Sales

Consolidated net sales in FY Mar/09 amounted to ¥1,471.6 billion, down ¥178.1 billion, or 10.8%, from the previous fiscal year. Sales declined in all business segments.

Sales by Business Segment

Fibers and Textiles

Total sales in this segment declined ¥68.3 billion, or 10.7%, to ¥569.0 billion.

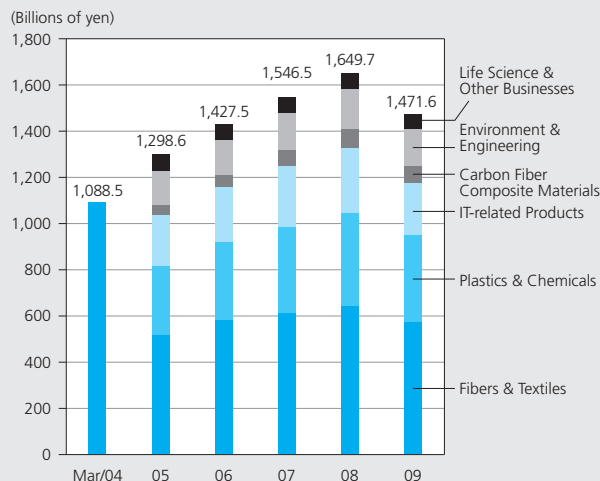
In Japan, reflecting weak demand for clothing, the movement of goods for apparel applications remained sluggish on the whole except for some sewn products. Demand for products for industrial applications, which remained relatively strong in the first half of the fiscal year, declined significantly in the second half and the sales volume decreased especially in the automotive sector.

Overseas, though some businesses such as man-made suede business in Europe and nylon fiber and textile operations for air bag applications in Thailand kept steady sales through summer, almost all businesses were affected by the economic slowdown in the second half.

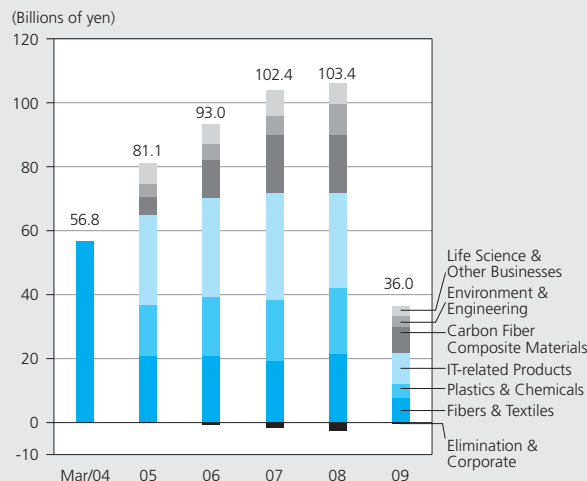
Plastics and Chemicals

Total segment sales decreased ¥26.4 billion, or 6.5%, to ¥377.6 billion.

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.

In the plastic resins business, after posting robust sales in the automotive and electrical and electronics applications in the first half, sales volume of products declined across the board in the second half. In the films business, though sales volume for solar cell applications rose, shipment of products for other applications slowed down in the second half.

IT-related Products

Total segment sales declined ¥54.3 billion, or 19.1%, to ¥229.4 billion.

Sales of coating materials for semiconductors, materials used in liquid crystal displays and PDP materials were relatively strong through the first half. In the second half, however, sales volume dipped for most products, except liquid crystal-related manufacturing equipment, due to the impact of production adjustments in such industries as flat panel displays, semiconductors and electronic components.

Carbon Fiber Composite Materials

Total sales in this segment amounted to ¥70.4 billion, a decrease of ¥13.2 billion, or 15.8%.

In the Carbon Fiber Composite Materials segment, the Group is actively pursuing development of new applications with focus on automobile, environment and energy applications. Demand for the carbon fiber composite materials is expected to continue growing over the medium- to long-term, including in aircraft and industrial applications. In the short term, however, the market eased off mainly in general purpose products as manufacturers in the industry expanded production capacity, and the global economic downturn resulted in low shipping volume for sports and industrial applications. Sales in aircraft applications also decreased. Furthermore, partially due to the impact of exchange fluctuations, overall sales in the segment declined.

Environment and Engineering

Total segment sales declined ¥13.0 billion, or 7.5% from the previous fiscal year, to ¥160.2 billion.

Sales volume of water treatment membranes such as reverse osmosis membrane expanded in overseas markets including China and the Middle East. On the contrary, performance at a domestic water treatment engineering subsidiary remained sluggish. In addition, revenues of the engineering business and the condominium business in domestic subsidiaries decreased.

Life Science and Other Businesses

Total segment sales declined ¥2.9 billion, or 4.3%, to ¥64.9 billion.

In the pharmaceuticals and medical products business, sales volume of artificial kidneys registered an increase despite the severe business conditions. However, overall sales in the business declined compared with the previous year, reflecting the significant impact of falling pharmaceutical prices due to revision of National Health Insurance (NHI) drug prices and medical service reimbursement prices as well as intensified competition. In January 2009, an oral antipruritus drug for hemodialysis patients REMITCH® developed jointly by the Company, Japan Tobacco Inc. and Torii Pharmaceutical Co., Ltd. received approval. Torii Pharmaceutical launched the product in March.

On the whole, total sales of Life Science and Other Businesses fell, partially due to declining sales of a domestic trading subsidiary and falling orders at an analysis service subsidiary.

Sales by Geographic Segment

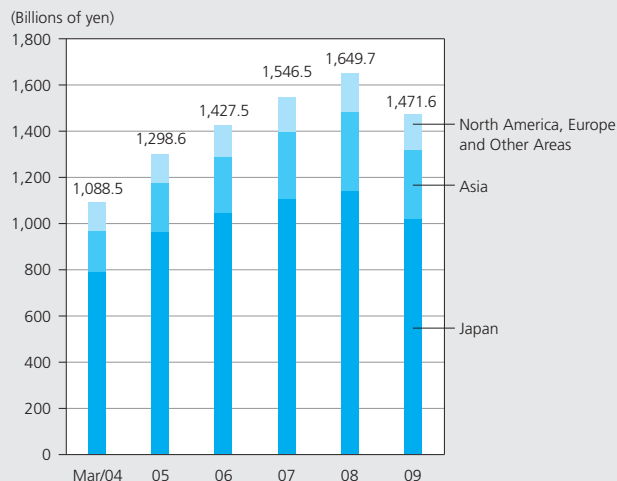
Japan

Sales of the Company and its domestic consolidated subsidiaries declined ¥123.6 billion, or 10.8%, to ¥1,016.0 billion, due mainly to a decrease in sales volumes in the fibers and textiles business and the IT-related products business as a result of weakening demand amidst the global recession. The share of this segment in consolidated net sales edged down from 69.1% to 69.0%.

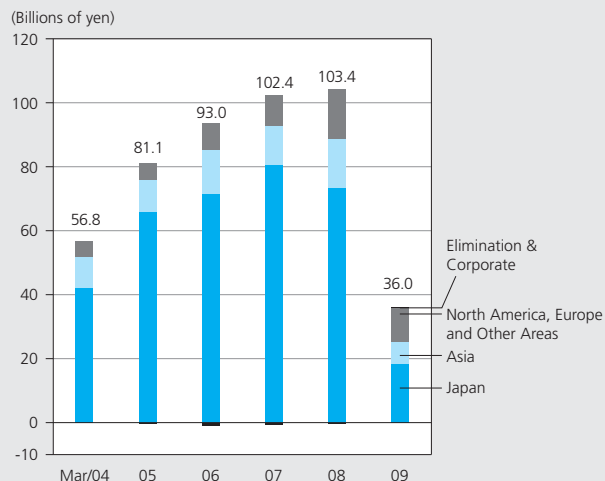
Asia

Sales of consolidated subsidiaries in China, Indonesia, Thailand, Malaysia, South Korea and other Asian countries, excluding Japan, declined ¥37.2 billion, or 11.0%, to ¥302.5 billion. This decrease

Net Sales by Geographic Segment



Operating Income by Geographic Segment



was the result of lower sales in the fibers and textiles business and the IT-related products business accompanying the economic downturn. Sales in this segment accounted for 20.6% of consolidated net sales, the same ratio as the previous fiscal year.

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 fell ¥17.3 billion, or 10.1%, to ¥153.0 billion. This was largely due to decreased sales in the plastics and chemicals business and the carbon fiber composite materials business. The share of this segment in consolidated net sales edged up from 10.3% to 10.4%.

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of overseas consolidated subsidiaries, declined ¥71.6 billion, or 9.6%, to ¥677.8 billion. As a result of the serious economic downturn on a global scale, sales in Asia declined due to the fall in sales in the fibers and textiles business and the IT-related products business, and sales in North America, Europe and other areas declined due to lower sales in the plastics and chemicals business and carbon fiber composite materials business. Overseas sales accounted for 46.1% of consolidated net sales, up 0.7 percentage points from the previous fiscal year. Of this, sales in Asia amounted to ¥430.4 billion, or 29.3% of consolidated net sales, while sales in North America, Europe and other areas totaled ¥247.4 billion, or 16.8%.

Costs and Expenses

The ratio of total costs and expenses to net sales for the year was 97.6%, up 3.8 percentage points from the previous fiscal year. Consolidated net sales declined 10.8%, and the cost of sales decreased 8.1%. As a result, the cost of sales ratio rose 2.4 percentage points, to 82.1%.

Selling, general and administrative expenses decreased ¥4.8 billion, or 2.1%, to ¥227.5 billion. The ratio of selling, general and administrative expenses to net sales up 1.4 percentage points, to 15.5%.

Operating Income and Net Loss

Operating income fell ¥67.4 billion, or 65.2%, from the previous fiscal year, to ¥36.0 billion. Operating income to net sales slipped 3.8 percentage points, to 2.4%.

Operating income in all business segments declined. Operating income in the Fibers and Textiles segment fell ¥13.7 billion, or 64.1%, to ¥7.7 billion. The factors contributing to the decline included a slowdown in the apparel sector, except for some sewn products, as well as a decline in sales volume as a result of falling demand for industrial applications in the second half of the year despite healthy demand in the first half. Earnings were also affected by a decrease in production stemming from inventory optimization efforts.

In the Plastics and Chemicals segment, operating income declined ¥16.6 billion, or 80.3%, to ¥4.1 billion, due to a decline in sales volume of products across the board in the second half of the year despite solid demand in the first half for automotive and electrical and electronics applications. Segment earnings were impacted by production reduction for inventory level adjustment.

Operating income in the IT-related Products segment fell ¥19.9

billion, or 67.0%, to ¥9.8 billion. Sales for flat panel related materials and semiconductor materials remained relatively solid until the first half of the year. Sales volume declined in the second half of the year, however, as makers of flat panel displays, semiconductor devices and electronic components adjusted production volume. Another factor was decreased production with the aim of adjusting inventory levels.

In the Carbon Fiber Composite Materials segment, operating income decreased ¥9.7 billion, or 53.6%, to ¥8.4 billion. Sales volume declined in aircraft applications. In addition, sales volume for sports and industrial applications decreased amidst global recession. Segment earnings were also affected by reduction of production to optimize inventory level.

Operating income in the Environment and Engineering segment was down ¥6.5 billion, or 66.1%, to ¥3.3 billion. The factors contributing to the decline included an increase in expenses stemming from a business expansion in the water treatment membrane business despite a rise in sales volume in overseas market in such business and sluggish performances of our domestic water treatment engineering subsidiary.

In the Life Science and Other Businesses segment, operating income fell ¥3.1 billion, or 49.4%, to ¥3.2 billion, due to falling pharmaceutical prices by NHI drug price revision and reimbursement price reduction as well as intensified market competition in the pharmaceuticals and medical products business.

By geographic segment, operating income declined in all regions. Operating income in Japan dropped ¥55.3 billion, or 75.3%, to ¥18.2 billion, due to falling sales volumes, as well as a production decline to adjust inventory level.

Operating income in Asia fell ¥8.0 billion, or 52.6%, to ¥7.2 billion, due to declining sales volumes, as well as the impact of soaring fuel and raw materials prices on the Malaysian plastics resins subsidiary until the first half of the year.

Operating income in North America, Europe and other areas was down ¥5.4 billion, or 34.1%, to ¥10.4 billion, due to a fall in sales volume, as well as higher depreciation costs incurred by carbon fiber subsidiaries.

In net other income (expenses), the Group reported ¥55.8 billion in expenses, up ¥30.9 billion from the previous fiscal year. Interest and dividend income declined ¥0.4 billion to ¥3.9 billion, while interest expense grew ¥0.4 billion to ¥11.8 billion. As a result, net financial expenses increased ¥0.8 billion to ¥7.9 billion. Equity in earnings of unconsolidated subsidiaries and affiliated companies decreased ¥1.9 billion over the previous fiscal year, to ¥3.8 billion. Gain on sales and loss on write-down of investment securities, net was a loss of ¥12.1 billion, down ¥13.9 billion from the previous fiscal year and loss on impairment of fixed assets rose ¥4.8 billion to ¥12.3 billion. Loss on sales and disposal of property, plant and equipment, net increased ¥1.2 billion to ¥6.4 billion.

As a result, the Group reported a loss before income taxes and minority interests of ¥19.8 billion, down ¥98.3 billion from the previous fiscal year. After deducting income taxes and minority interests in earnings of consolidated subsidiaries, the Group posted a net loss of ¥16.3 billion, down ¥64.4 billion from the previous fiscal year.

Net loss per share was ¥11.66, down ¥46.00 from the previous fiscal year. The Company declared a year-end cash dividend of ¥2.50 per share, taking into account its earnings performance in FY Mar/09 and the outlook for FY Mar/10. Added to the interim cash dividend, this brought total annual dividends to ¥7.50 per share.

FINANCIAL POSITION

Assets

At March 31, 2009, total assets stood at ¥1,523.6 billion, down ¥174.6 billion, or 10.3%, from the end of the previous fiscal year. This was mainly the result of declines in trade receivables (sum of notes receivable and accounts receivable), property, plant and equipment and investment securities. Overseas assets accounted for 30.7% of total assets, down 2.1 percentage points.

Current Assets

Current assets declined ¥77.3 billion, or 10.5%, to ¥655.9 billion. Trade receivables decreased ¥70.5 billion, or 24.3%, to ¥220.1 billion. Inventories declined ¥8.5 billion, or 2.6%, to ¥320.0 billion.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation, declined ¥84.7 billion, or 12.4%, to ¥596.3 billion. Capital expenditures fell ¥54.4 billion, or 37.1%, to ¥92.3 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 ¥13.8 billion. In the Plastics and Chemicals segment, capital expenditures amounted to ¥23.6 billion, which included additional production facilities at the Company concerning functional fine particles, as well as a new polypropylene films facility for Toray Films Europe S.A.S. Capital expenditures in the IT-related Products segment totaled ¥15.9 billion and included expansion of polyester film production facilities at the Company. In the Carbon Fiber Composite Materials segment, capital expenditures totaled ¥37.8 billion, which included additional carbon fiber production facilities at Toray Carbon Fibers America, Inc. and elsewhere. In the Environment and Engineering segment, capital expenditures amounted to ¥1.4 billion, while capital expenditures in the Life Science and Other Businesses segment totaled ¥3.1 billion.

Liabilities

Total liabilities were down ¥45.1 billion, or 4.3%, to ¥1,011.0 billion, due mainly to a decrease in trade payables while

interest-bearing liabilities increased.

Total interest-bearing liabilities—consisting of short-term bank loans, current portion of long-term debt, commercial paper, long-term debt and lease obligations—increased ¥72.8 billion, or 12.3%, to ¥663.9 billion.

Net Assets

Net assets came to ¥512.6 billion, and net assets less minority interests in consolidated subsidiaries stood at ¥468.9 billion. As a result, net assets per share declined ¥88.74 to ¥335.04. The equity ratio fell 4.2 percentage points to 30.8%, and the debt/equity ratio rose 0.42 point to 1.42%.

CASH FLOWS

In FY Mar/09, net cash used in investing activities exceeded net cash provided by operating activities by ¥74.9 billion. This was mainly due to capital expenditures exceeding depreciation and amortization, as well as the loss before income taxes and minority interest and an increase in inventories. Net cash provided by financing activities, caused mainly by an increase in interest-bearing liabilities, was ¥89.1 billion. As a result, cash and cash equivalents at the fiscal year-end stood at ¥62.2 billion, up ¥5.7 billion, or 10.0%, from the end of the previous fiscal year.

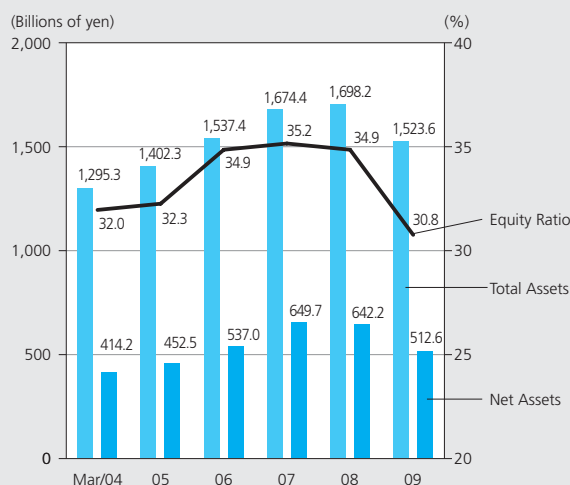
Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥38.4 billion, down ¥71.9 billion from the previous fiscal year. This was due to the loss before income taxes and minority interests of ¥19.8 billion, a decrease in trade payable of 56.8 billion and an increase in inventories of ¥16.2 billion, which contrasted with depreciation and amortization of ¥83.8 billion and a decrease in trade receivables of ¥47.1 billion.

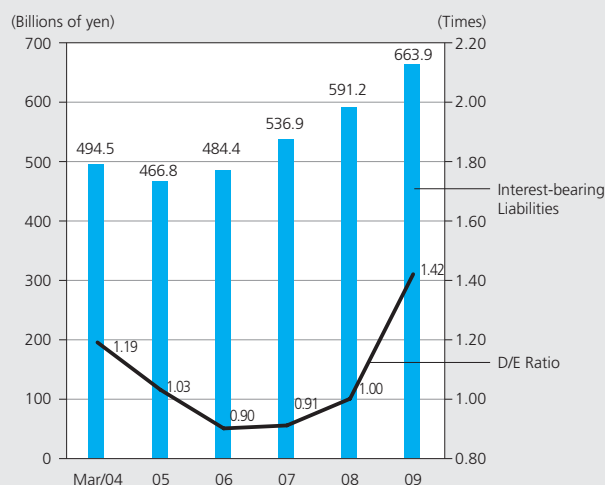
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥113.4 billion, down ¥50.8 billion. This stemmed mainly from capital expenditures of ¥101.4 billion and purchases of investment securities of ¥13.9 billion.

Total Assets and Net Assets



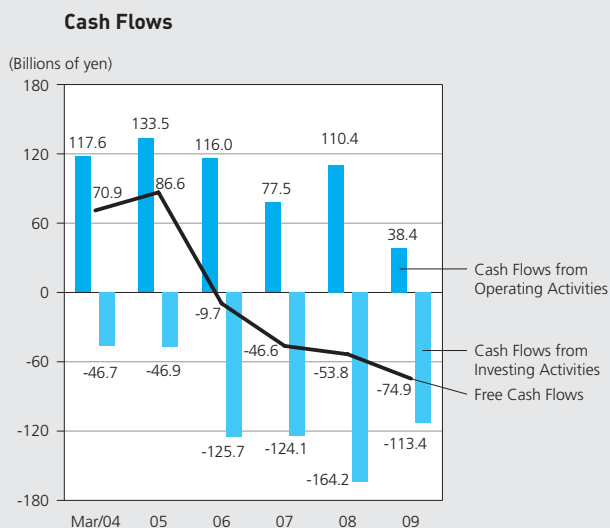
Interest-bearing Liabilities and D/E Ratio



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

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥89.1 billion, up ¥49.8 billion. This resulted mainly from net increase in short-term debt of ¥30.0 billion and proceeds from long-term debt of ¥112.8 billion, which contrasted with repayment of long-term debt of ¥37.8 billion and cash dividends paid of ¥14.7 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 a 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, unforeseen exchange rate fluctuations 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, have an impact on Toray Group's results of operations and financial conditions.

(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) Lawsuits

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. Although Toray Group endeavors to comply with all such laws and regulations, Toray Group's results of operations and financial conditions could be negatively affected in case that such laws and regulations change or its actions are judged as violation of such laws and regulations.

(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, 2009 and 2008

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Current assets:			
Cash	¥ 50,498	¥ 42,721	\$ 515,286
Time deposits (Note 4)	11,792	13,032	120,327
Trade receivables:			
Notes receivable	29,095	39,124	296,888
Accounts receivable	191,034	251,521	1,949,327
Inventories (Note 3)	319,962	328,447	3,264,918
Deferred tax assets (Note 8)	19,530	22,067	199,286
Prepaid expenses and other current assets (Note 5)	36,341	39,111	370,825
Allowance for doubtful accounts	(2,368)	(2,834)	(24,163)
Total current assets	655,884	733,189	6,692,694
Property, plant and equipment (Notes 4 and 11):			
Land	69,863	81,400	712,888
Buildings	452,032	461,663	4,612,571
Machinery and equipment	1,449,286	1,501,165	14,788,633
Construction in progress	62,312	92,302	635,837
	2,033,493	2,136,530	20,749,929
Accumulated depreciation	(1,437,232)	(1,455,537)	(14,665,633)
Property, plant and equipment, net	596,261	680,993	6,084,296
Intangible assets	10,519	14,893	107,337
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies	76,269	81,790	778,255
Investment securities (Notes 4 and 5)	89,305	127,799	911,276
Long-term loans receivable	1,186	1,261	12,102
Deferred tax assets (Note 8)	48,329	21,423	493,153
Other (Note 7)	48,745	40,028	497,397
Allowance for doubtful accounts	(2,895)	(3,150)	(29,541)
Total investments and other assets	260,939	269,151	2,662,642
Total assets	¥ 1,523,603	¥ 1,698,226	\$ 15,546,969

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Current liabilities:			
Short-term bank loans (Note 4)	¥ 128,194	¥ 128,008	\$ 1,308,102
Current portion of long-term debt (Note 4)	53,303	38,873	543,908
Commercial paper	20,000	10,000	204,082
Trade payables:			
Notes payable	40,951	51,732	417,867
Accounts payable	109,208	170,503	1,114,367
Income taxes payable (Note 8)	6,539	10,214	66,724
Accrued liabilities	41,480	54,513	423,265
Other current liabilities (Notes 4 and 8)	61,082	81,101	623,287
Total current liabilities	460,757	544,944	4,701,602
Long-term debt (Note 4)	456,120	414,301	4,654,286
Deferred tax liabilities (Note 8)	2,661	11,665	27,153
Accrued employees' retirement benefits (Note 7)	66,882	67,635	682,469
Customers' guarantee deposits and other liabilities (Note 4)	24,573	17,522	250,745
Total liabilities	1,010,993	1,056,067	10,316,255
Commitments and contingent liabilities (Note 10)			
Net assets (Note 9):			
Stockholders' equity:			
Common stock:			
Authorized — 4,000,000,000 shares			
Issued — 1,401,481,403 shares	96,937	96,937	989,153
Capital surplus	85,802	85,821	875,531
Retained earnings	353,222	387,070	3,604,306
Treasury stock, at cost	(1,123)	(1,073)	(11,459)
Total stockholders' equity	534,838	568,755	5,457,531
Valuation, translation adjustments and other:			
Net unrealized gains on securities	9,649	32,058	98,459
Net deferred gains (losses) on hedges	(423)	357	(4,316)
Foreign currency translation adjustments	(75,203)	(8,011)	(767,378)
Total valuation, translation adjustments and other	(65,977)	24,404	(673,235)
Minority interests in consolidated subsidiaries	43,749	49,000	446,418
Total net assets	512,610	642,159	5,230,714
Total liabilities and net assets	¥ 1,523,603	¥ 1,698,226	\$ 15,546,969

CONSOLIDATED STATEMENTS OF OPERATIONS

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Net sales	¥ 1,471,561	¥ 1,649,670	\$ 15,015,929
Costs and expenses:			
Cost of sales (Notes 3, 7, 11 and 12)	1,208,056	1,313,932	12,327,102
Selling, general and administrative expenses (Notes 7, 11 and 12)	227,499	232,309	2,321,419
	1,435,555	1,546,241	14,648,521
Operating income	36,006	103,429	367,408
Other income (expenses):			
Interest expense	(11,829)	(11,479)	(120,704)
Interest and dividend income	3,893	4,335	39,724
Equity in earnings of unconsolidated subsidiaries and affiliated companies	3,827	5,771	39,051
Loss on sales and disposal of property, plant and equipment, net	(6,422)	(5,197)	(65,531)
Loss on impairment of fixed assets (Note 13)	(12,262)	(7,509)	(125,122)
Gain on sales and loss on write-down of investment securities, net	(12,091)	1,850	(123,378)
Loss on liquidation and devaluation of subsidiaries and affiliated companies	(5,715)	(28)	(58,316)
Restructuring costs	(977)	(1,026)	(9,969)
Gain on adjustment of employees' retirement benefits of the U.K. subsidiary (Note 7)	—	786	—
Litigation settlement	—	(2,631)	—
Other, net	(14,181)	(9,736)	(144,704)
	(55,757)	(24,864)	(568,949)
(Loss) income before income taxes and minority interests	(19,751)	78,565	(201,541)
Income taxes (Note 8):			
Current	13,433	17,426	137,071
Deferred	(18,947)	8,892	(193,336)
	(5,514)	26,318	(56,265)
(Loss) income before minority interests	(14,237)	52,247	(145,276)
Minority interests in earnings of consolidated subsidiaries	(2,089)	(4,178)	(21,316)
Net (loss) income	¥ (16,326)	¥ 48,069	\$ (166,592)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	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 (losses) on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2007	¥ 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)
Total changes	—	7	34,076	(75)	34,008	(24,879)	(442)	(5,548)	(30,869)	(10,650)	(7,511)
Balance as of March 31, 2008	96,937	85,821	387,070	(1,073)	568,755	32,058	357	(8,011)	24,404	49,000	642,159
Changes in:											
Effect of changes in accounting policies applied to foreign subsidiaries			(3,512)		(3,512)						(3,512)
Dividends			(14,005)		(14,005)						(14,005)
Net loss			(16,326)		(16,326)						(16,326)
Acquisition of treasury stock				(475)	(475)						(475)
Disposition of treasury stock		(19)		425	406						406
Other			(5)		(5)						(5)
Items other than stockholders' equity, net						(22,409)	(780)	(67,192)	(90,381)	(5,251)	(95,632)
Total changes	—	(19)	(33,848)	(50)	(33,917)	(22,409)	(780)	(67,192)	(90,381)	(5,251)	(129,549)
Balance as of March 31, 2009	¥ 96,937	¥ 85,802	¥ 353,222	¥ (1,123)	¥ 534,838	¥ 9,649	¥ (423)	¥ (75,203)	¥ (65,977)	¥ 43,749	¥ 512,610

	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 (losses) on hedges	Foreign currency translation adjustments	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance as of March 31, 2008	\$ 989,153	\$ 875,724	\$ 3,949,694	\$ (10,949)	\$ 5,803,622	\$ 327,122	\$ 3,643	\$ (81,745)	\$ 249,020	\$ 500,000	\$ 6,552,642
Changes in:											
Effect of changes in accounting policies applied to foreign subsidiaries			(35,837)		(35,837)						(35,837)
Dividends			(142,908)		(142,908)						(142,908)
Net loss			(166,592)		(166,592)						(166,592)
Acquisition of treasury stock				(4,847)	(4,847)						(4,847)
Disposition of treasury stock		(193)		4,337	4,144						4,144
Other			(51)		(51)						(51)
Items other than stockholders' equity, net						(228,663)	(7,959)	(685,633)	(922,255)	(53,582)	(975,837)
Total changes	—	(193)	(345,388)	(510)	(346,091)	(228,663)	(7,959)	(685,633)	(922,255)	(53,582)	(1,321,928)
Balance as of March 31, 2009	\$ 989,153	\$ 875,531	\$ 3,604,306	\$ (11,459)	\$ 5,457,531	\$ 98,459	\$ (4,316)	\$ (767,378)	\$ (673,235)	\$ 446,418	\$ 5,230,714

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2009	2008	2009
Cash flows from operating activities:			
(Loss) income before income taxes and minority interests	¥ (19,751)	¥ 78,565	\$ (201,541)
Adjustments to reconcile (loss) income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	83,764	86,423	854,735
Loss on impairment of fixed assets	12,262	7,509	125,122
Interest and dividend income	(3,893)	(4,335)	(39,724)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(3,827)	(5,771)	(39,051)
Interest expense	11,829	11,479	120,704
Loss on sales and disposal of property, plant and equipment, net	6,422	5,197	65,531
Gain and loss on sales and loss on write-down of investment securities, net	12,336	(2,550)	125,878
Increase (decrease) in accrued employees' retirement benefits	183	(4,313)	1,867
Decrease (increase) in trade receivables	47,102	(4,752)	480,633
Increase in inventories	(16,212)	(28,898)	(165,429)
(Decrease) increase in trade payables	(56,843)	14,200	(580,031)
Other, net	(11,372)	(9,902)	(116,041)
Subtotal	62,000	142,852	632,653
Interest and dividends received	7,872	10,881	80,327
Interest paid	(11,963)	(10,651)	(122,071)
Litigation settlement paid	(2,631)	—	(26,847)
Income taxes paid	(16,831)	(32,715)	(171,746)
Net cash provided by operating activities	38,447	110,367	392,316
Cash flows from investing activities:			
Capital expenditures	(101,353)	(144,932)	(1,034,214)
Purchases of investment securities	(13,938)	(20,433)	(142,224)
Proceeds from sales of property, plant and equipment	1,555	2,475	15,867
Proceeds from sales of investment securities	3,108	6,087	31,714
Additional acquisition of shares of consolidated subsidiaries	(139)	(5,242)	(1,418)
Other, net	(2,606)	(2,106)	(26,592)
Net cash used in investing activities	(113,373)	(164,151)	(1,156,867)
Cash flows from financing activities:			
Net increase in short-term debt	29,990	15,891	306,020
Proceeds from long-term debt	112,794	100,435	1,150,959
Repayment of long-term debt	(37,848)	(54,196)	(386,204)
Cash dividends paid	(14,711)	(15,186)	(150,112)
Acquisition and cancellation of treasury stock by the consolidated subsidiary	—	(8,362)	—
Other, net	(1,109)	713	(11,316)
Net cash provided by financing activities	89,116	39,295	909,347
Effect of exchange rate changes on cash and cash equivalents	(8,613)	(1,106)	(87,888)
Net increase (decrease) in cash and cash equivalents	5,577	(15,595)	56,908
Cash and cash equivalents at beginning of year	56,507	72,102	576,602
Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation	74	—	755
Cash and cash equivalents at end of year	¥ 62,158	¥ 56,507	\$ 634,265

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2009 and 2008

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.

Previously, overseas subsidiaries had prepared their financial statements in accordance with accounting principles and practices prevailing in their respective countries of domicile.

Effective from the year ended March 31, 2009, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force No. 18, May 17, 2006). For the preparation of consolidated financial statements, the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified, in principle. Under the new accounting standard, financial statements prepared by overseas subsidiaries in accordance with International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used for the consolidation process. In addition, some items should be adjusted in the consolidation process so that net income is accurately accounted for, unless they are not material. The impact of this change is immaterial.

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 difference between the acquisition cost and the underlying net assets of the subsidiaries is recognized as goodwill or negative goodwill, and amortized principally over five years on a straight-line method.

c) Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009 and 2008 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
	2009	2008	2009
Cash	¥ 50,498	¥ 42,721	\$ 515,286
Time deposits	11,792	13,032	120,327
Less — Time deposits with maturities of over 3 months	(350)	(79)	(3,572)
Short-term investment securities and others with maturities of 3 months or less	218	833	2,224
Cash and cash equivalents	¥ 62,158	¥ 56,507	\$ 634,265

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

Previously, finished goods and work in process were principally stated at average cost; and raw materials and supplies were principally stated at the lower of average cost or current replacement cost. Effective from the year ended March 31, 2009, in accordance with the adoption of the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), inventories are stated at the lower of acquisition cost, principally determined by the moving average method, or net selling value to reflect any decreased profitability of inventories. As a result, operating income decreased by ¥6,849 million (\$69,888 thousand), and loss before income taxes and minority interests increased by ¥4,929 million (\$50,296 thousand).

g) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment (except leased assets) 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

Principally, a depreciation method of leased assets is identical to the method applicable to its own fixed assets. In the Company and its domestic consolidated subsidiaries, finance lease transactions which do not transfer ownership of the leased assets whose lease inceptions are on or before March 31, 2008 are accounted for by a method similar to the method applicable to ordinary operating lease transactions.

Previously, in the Company and its domestic consolidated subsidiaries, finance lease transactions which do not transfer ownership of the leased assets were accounted for by a method similar to the method applicable to ordinary operating lease transactions. Effective from the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted the "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 the First Committee of the Business Accounting Council on June 17, 1993; amended on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (ASBJ

Guidance No. 16 of the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994, amended on March 30, 2007). Such transactions are now accounted for as ordinary sales and purchase transactions. Finance lease transactions which do not transfer ownership of the leased assets whose lease inceptions are on or before March 31, 2008 are continuously accounted for by a method similar to the method applicable to ordinary operating lease transactions. The impact of this change is immaterial.

h) 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. For the year ended March 31, 2009, in accordance with the change of Japanese tax regulation for dividend income from overseas subsidiaries in 2009, the Company reversed part of deferred tax liabilities, which was accounted in the previous period. As a result, net loss decreased by ¥5,372 million (\$54,816 thousand).

i) 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 members of the Board and corporate auditors ("executives") 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 executives were to retire at the balance sheet date. Any amounts payable to executives 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.

j) 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.

k) 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.

I) 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 ¥98 to \$1.00, the approximate exchange rate

prevailing on March 31, 2009. 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, 2009 and 2008, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Merchandise and finished goods	¥ 175,572	¥ 174,801	\$ 1,791,551
Work in process	86,524	86,455	882,898
Raw materials and supplies	57,866	67,191	590,469
	¥ 319,962	¥ 328,447	\$ 3,264,918

Loss recognized and charged to cost of sales as a result of valuation at March 31, 2009 was ¥9,401 million (\$95,929 thousand).

4. SHORT-TERM BANK LOANS, LONG-TERM DEBT AND LEASE OBLIGATIONS

Short-term bank loans at March 31, 2009 and 2008 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 and lease obligations at March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Loans principally from banks and insurance companies with interest rates primarily from 0.5400% to 6.9660%, maturing serially through 2020:			
Secured	¥ —	¥ 3,221	\$ —
Unsecured	319,423	249,953	3,259,417
Lease obligations maturing serially through 2025:			
Secured	2,247	—	22,928
Unsecured	4,081	—	41,643
Yen notes with an interest rate of 2.03% due 2008	—	10,000	—
Yen notes with an interest rate of 2.40% due 2009	20,000	20,000	204,082
Yen notes with an interest rate of 2.00% due 2013	10,000	10,000	102,041
Yen notes with an interest rate of 1.95% due 2009	10,000	10,000	102,041
Yen notes with an interest rate of 1.94% due 2010	10,000	10,000	102,041
Yen notes with an interest rate of 1.93% due 2009	10,000	10,000	102,041
Yen notes with an interest rate of 1.61% due 2013	10,000	10,000	102,041
Yen notes with an interest rate of 1.48% due 2011	20,000	20,000	204,082
Zero coupon convertible bonds due 2012	50,000	50,000	510,204
Zero coupon convertible bonds due 2014	50,000	50,000	510,204
	515,751	453,174	5,262,765
Less amounts due within one year	54,483	38,873	555,949
	¥ 461,268	¥ 414,301	\$ 4,706,816

At March 31, 2009, assets pledged as collateral for short-term bank loans and lease obligations were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 8	\$ 82
Property, plant and equipment, net	8,035	81,990
Investment securities at carrying value	40	408
	¥ 8,083	\$ 82,480

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2010	¥ 54,483	\$ 555,949
2011	43,076	439,551
2012	93,015	949,133
2013	69,917	713,439
2014	91,620	934,898
2015 and thereafter	163,640	1,669,795
	¥ 515,751	\$ 5,262,765

5. SECURITIES

At March 31, 2009 and 2008, 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							
	2009				2008			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	¥ 74	¥ —	¥ —	¥ 74	¥ 96	¥ —	¥ —	¥ 96
Other securities	66,217	27,870	11,377	82,710	67,416	59,641	6,215	120,842

	Thousands of U.S. dollars			
	2009			
	Acquisition cost	Unrealized gains	Unrealized losses	Fair value
Held-to-maturity debt securities	\$ 755	\$ —	\$ —	\$ 755
Other securities	675,684	284,388	116,092	843,980

At March 31, 2009 and 2008, 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
	2009	2008	2009
Held-to-maturity debt securities	¥ 134	¥ 151	\$ 1,367
Other securities	6,647	7,567	67,827

The redemption schedule for the securities classified as held-to-maturity debt securities and other securities with maturity dates at March 31, 2009 and 2008 were as follows:

	Millions of yen				Thousands of U.S. dollars	
	2009		2008		2009	
	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	¥ 44	¥ 218	¥ 26	¥ 843	\$ 449	\$ 2,224
Due after one year through five years	161	—	210	—	1,643	—
Due after five years through ten years	3	—	11	—	30	—
Due after ten years	—	710	—	689	—	7,245

6. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivatives contracts outstanding at March 31, 2009 and 2008:

	Millions of yen					
	2009			2008		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Buying U.S. dollar	¥ 2,816	¥ 2,697	¥ (119)	¥ 11,070	¥ 10,124	¥ (946)
Buying euro	38	40	2	38	38	0
Selling U.S. dollar	5,462	5,663	(201)	5,894	5,722	172
Selling euro	—	—	—	221	231	(10)
Selling Japanese yen	1,929	2,047	(118)	11	10	1
Foreign currency swaps:						
Receiving Japanese yen, paying U.S. dollar	7,423	834	834	3,140	(311)	(311)
Interest rate swaps:						
Fixed-rate receipt, floating rate payment	1,280	16	16	—	—	—

	Thousands of U.S. dollars		
	2009		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Buying U.S. dollar	\$ 28,734	\$ 27,520	\$ (1,214)
Buying euro	388	408	20
Selling U.S. dollar	55,735	57,786	(2,051)
Selling euro	—	—	—
Selling Japanese yen	19,684	20,888	(1,204)
Foreign currency swaps:			
Receiving Japanese yen, paying U.S. dollar	75,745	8,510	8,510
Interest rate swaps:			
Fixed-rate receipt, floating rate payment	13,061	163	163

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, 2009 and 2008 were analyzed as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Projected benefit obligations	¥ (225,892)	¥ (237,053)	\$ (2,305,020)
Plan assets	128,657	181,439	1,312,826
	(97,235)	(55,614)	(992,194)
Unrecognized actuarial differences	84,994	40,852	867,286
Unrecognized prior service cost	(30,501)	(33,359)	(311,235)
	(42,742)	(48,121)	(436,143)
Prepaid pension cost (included in other assets)	24,140	19,514	246,326
Accrued employees' retirement benefits	¥ (66,882)	¥ (67,635)	\$ (682,469)

The components of net periodic benefit cost related to the employees' retirement benefits for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 6,055	¥ 6,974	\$ 61,786
Interest cost	4,905	5,104	50,051
Expected return on plan assets	(5,275)	(6,748)	(53,827)
Amortization of actuarial differences	4,198	(85)	42,837
Amortization of prior service cost	(2,853)	(2,864)	(29,112)
Net periodic benefit cost	7,030	2,381	71,735
Gain on adjustment of employees' retirement benefits of the U.K. subsidiary	—	(786)	—
Contribution to defined contribution pension plan and other	4,025	4,056	41,071
	¥11,055	¥ 5,651	\$112,806

In addition to the above, special severance payments of ¥2,178 million (\$22,224 thousand) and ¥2,714 million were charged to net loss or income for the years ended March 31, 2009 and 2008, respectively.

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

	2009	2008
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, 2009 and 2008 was 40.7%.

At March 31, 2009 and 2008, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Accrued bonuses	¥ 5,813	¥ 7,214	\$ 59,316
Accrued employees' retirement benefits	29,768	28,946	303,755
Tax loss carryforwards	38,112	13,871	388,898
Unrealized intercompany profits	13,140	14,112	134,082
Investments in subsidiaries and affiliated companies	23,547	20,854	240,276
Other	46,308	34,082	472,530
	156,688	119,079	1,598,857
Valuation allowance	(44,744)	(25,936)	(456,571)
Total deferred tax assets	111,944	93,143	1,142,286
Deferred tax liabilities:			
Reserve for advanced depreciation	13,325	12,583	135,969
Depreciation	6,553	4,450	66,867
Undistributed earnings of overseas subsidiaries and affiliated companies	4,048	11,424	41,306
Unrealized gains on securities	11,268	24,104	114,980
Other	11,561	8,757	117,970
Total deferred tax liabilities	46,755	61,318	477,092
Net deferred tax assets	¥ 65,189	¥ 31,825	\$ 665,194

At March 31, 2009 and 2008, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets - current	¥ 19,530	¥ 22,067	\$ 199,286
Deferred tax assets - non-current	48,329	21,423	493,153
Deferred tax liabilities - current (included in other current liabilities)	9	—	92
Deferred tax liabilities - non-current	2,661	11,665	27,153

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

	2008
Statutory tax rate	40.7%
Increase (decrease) in taxes resulting from:	
Permanent differences	1.4
Recognition of certain deferred tax assets by reversal of valuation allowance	(4.4)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(3.0)
Other	(1.2)
Effective income tax rate	33.5%

The corresponding reconciliation for the year ended March 31, 2009 is not presented due to the recording of a loss before income taxes and minority interests.

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 2009 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥2.50 per share, aggregating ¥3,501 million (\$35,724 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2009.

10. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2009, commitment line of credit to unconsolidated subsidiaries and affiliated companies was as follows:

	Millions of yen	Thousands of U.S. dollars
Total commitment line of credit	¥ 1,830	\$ 18,673
Loans receivable outstanding	1,398	14,265
Balance	¥ 432	\$ 4,408

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

At March 31, 2009 and 2008, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥ 3,745	¥ 4,933	\$ 38,214
Other	6,133	8,641	62,582
	¥ 9,878	¥ 13,574	\$ 100,796
Notes discounted	¥ —	¥ 50	\$ —
Export bills discounted	¥ 634	¥ 2,124	\$ 6,469
Contingent liabilities associated with securitization of receivables	¥ 11,740	¥ 12,800	\$ 119,796

11. LEASES

Finance Leases

The Group holds certain buildings, machinery and equipment and intangible assets by leases. Total lease payments under these leases were ¥2,782 million (\$28,388 thousand) and ¥3,495 million for the years ended March 31, 2009 and 2008, respectively.

Finance lease transactions which do not transfer ownership of the leased assets whose lease inceptions are on or before March 31, 2008 are accounted for by a method similar to the method

applicable to ordinary operating lease transactions. Pro forma information relating to acquisition costs, accumulated depreciation/amortization and accumulated loss on impairment and net book value for property held under finance lease transactions which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2009 and 2008 was as follows:

	Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
March 31, 2009:				
Buildings	¥ 76	¥ 31	¥ —	¥ 45
Machinery and equipment	10,783	6,461	123	4,199
Intangible assets	1,224	597	—	627
	¥ 12,083	¥ 7,089	¥ 123	¥ 4,871

	Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
March 31, 2008:				
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

	Thousands of U.S. dollars			
	Acquisition costs	Accumulated depreciation/amortization	Accumulated loss on impairment	Net book value
March 31, 2009:				
Buildings	\$ 775	\$ 316	\$ —	\$ 459
Machinery and equipment	110,031	65,929	1,255	42,847
Intangible assets	12,490	6,092	—	6,398
	\$ 123,296	\$ 72,337	\$ 1,255	\$ 49,704

Future minimum lease payments under finance leases subsequent to March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 1,892	¥ 3,368	\$ 19,306
Due after one year	3,018	8,105	30,796
Total	¥ 4,910	¥ 11,473	\$ 50,102
Allowance for loss on impairment of leased property	¥ 39	¥ 78	\$ 398

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, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥ 400	¥ 1,364	\$ 4,082
Due after one year	1,296	3,489	13,224
Total	¥ 1,696	¥ 4,853	\$ 17,306

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, 2009 and 2008 were ¥49,953 million (\$509,724 thousand) and ¥45,827 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, 2009, 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 ¥12,262 million (\$125,122 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	
Shizuoka, Japan	Idle assets	Construction in progress	¥ 2,125	\$ 21,684
Shiga, Japan	Idle assets	Machinery and equipment	¥ 1,179	\$ 12,031
Tokyo, Japan	Idle assets	Land	¥ 1,170	\$ 11,939
Fukushima, Japan	Film processing facilities	Machinery and equipment	¥ 3,313	\$ 33,806
Jiangsu, China	Polyester polymerization facilities, polyester filament production facilities and nylon filament production facilities	Machinery and equipment	¥ 2,129	\$ 21,724

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 rates of 5% to 6%, and the net selling value was calculated mainly 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- β , 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, 2009:	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	¥ 568,996	¥ 377,644	¥ 229,421	¥ 70,390	¥ 160,207	¥ 64,903	¥ 1,471,561	¥ —	¥ 1,471,561
Intersegment sales	649	25,816	8,249	703	54,786	18,180	108,383	(108,383)	—
Total sales	¥ 569,645	¥ 403,460	¥ 237,670	¥ 71,093	¥ 214,993	¥ 83,083	¥ 1,579,944	¥ (108,383)	¥ 1,471,561
Operating income	¥ 7,664	¥ 4,072	¥ 9,822	¥ 8,398	¥ 3,303	¥ 3,185	¥ 36,444	¥ (438)	¥ 36,006
Total assets	¥ 418,622	¥ 373,904	¥ 295,691	¥ 227,328	¥ 184,456	¥ 101,508	¥ 1,601,509	¥ (77,906)	¥ 1,523,603
Depreciation and amortization	23,547	22,541	18,813	13,588	3,122	4,170	85,781	(2,017)	83,764
Loss on impairment of fixed assets	2,968	968	7,954	247	46	79	12,262	—	12,262
Capital expenditures	13,811	23,571	15,908	37,843	1,350	3,085	95,568	(3,219)	92,349

Year ended
March 31, 2008:

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

Thousands of U.S. dollars

Year ended March 31, 2009:	Fibers and Textiles	Plastics and Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment and Engineering	Life Science and Other Businesses	Total	Elimination and corporate	Consolidated total
Sales to outside customers	\$ 5,806,082	\$ 3,853,510	\$ 2,341,031	\$ 718,265	\$ 1,634,765	\$ 662,276	\$ 15,015,929	\$ —	\$ 15,015,929
Intersegment sales	6,622	263,429	84,173	7,174	559,041	185,510	1,105,949	(1,105,949)	—
Total sales	\$ 5,812,704	\$ 4,116,939	\$ 2,425,204	\$ 725,439	\$ 2,193,806	\$ 847,786	\$ 16,121,878	\$ (1,105,949)	\$ 15,015,929
Operating income	\$ 78,204	\$ 41,551	\$ 100,225	\$ 85,694	\$ 33,704	\$ 32,500	\$ 371,878	\$ (4,470)	\$ 367,408
Total assets	\$ 4,271,653	\$ 3,815,347	\$ 3,017,255	\$ 2,319,674	\$ 1,882,204	\$ 1,035,796	\$ 16,341,929	\$ (794,960)	\$ 15,546,969
Depreciation and amortization	240,276	230,010	191,969	138,653	31,857	42,551	875,316	(20,581)	854,735
Loss on impairment of fixed assets	30,286	9,878	81,163	2,520	469	806	125,122	—	125,122
Capital expenditures	140,929	240,520	162,327	386,153	13,775	31,480	975,184	(32,847)	942,337

Effective from the year ended March 31, 2009, in accordance with the adoption of the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), inventories are stated at the lower of acquisition cost, principally determined by the moving average method, or net selling value to reflect any decreased profitability of inventories. As a result, operating income decreased by ¥948 million (\$9,673 thousand) in the Fibers and Tex-

tiles segment, ¥814 million (\$8,306 thousand) in the Plastics and Chemicals segment, ¥1,618 million (\$16,510 thousand) in the IT-related Products segment, ¥914 million (\$9,327 thousand) in the Carbon Fiber Composite Materials segment, ¥1,431 million (\$14,602 thousand) in the Environment and Engineering segment, and ¥1,124 million (\$11,470 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
Year ended March 31, 2009:						
Sales to outside customers	¥ 1,016,046	¥ 302,547	¥ 152,968	¥ 1,471,561	¥ —	¥ 1,471,561
Intersegment sales	103,000	66,501	12,079	181,580	(181,580)	—
Total sales	¥ 1,119,046	¥ 369,048	¥ 165,047	¥ 1,653,141	¥ (181,580)	¥ 1,471,561
Operating income	¥ 18,179	¥ 7,211	¥ 10,381	¥ 35,771	¥ 235	¥ 36,006
Total assets	¥ 1,077,924	¥ 269,185	¥ 207,682	¥ 1,554,791	¥ (31,188)	¥ 1,523,603

Year ended March 31, 2008:

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

Thousands of U.S. dollars

	Japan	Asia	North America, Europe and other areas	Total	Elimination and corporate	Consolidated total
Year ended March 31, 2009:						
Sales to outside customers	\$10,367,817	\$ 3,087,214	\$ 1,560,898	\$ 15,015,929	\$ —	\$ 15,015,929
Intersegment sales	1,051,020	678,582	123,255	1,852,857	(1,852,857)	—
Total sales	\$11,418,837	\$ 3,765,796	\$ 1,684,153	\$ 16,868,786	\$ (1,852,857)	\$ 15,015,929
Operating income	\$ 185,500	\$ 73,582	\$ 105,928	\$ 365,010	\$ 2,398	\$ 367,408
Total assets	\$10,999,224	\$ 2,746,786	\$ 2,119,204	\$ 15,865,214	\$ (318,245)	\$ 15,546,969

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, 2009, in accordance with the adoption of the "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 5, 2006), inventories are stated at the lower of acquisition cost, principally determined by the moving average method, or net selling value to reflect any decreased profitability of inventories. As a result, operating income decreased by ¥6,849 million (\$69,888 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, 2009 and 2008 were as follows:

Millions of yen

	Asia	North America, Europe and other areas	Total
Year ended March 31, 2009:			
Overseas sales	¥ 430,438	¥ 247,394	¥ 677,832
Percentage of overseas sales against consolidated net sales	29.3%	16.8%	46.1%

Year ended March 31, 2008:

Overseas sales	¥ 478,454	¥ 271,006	¥ 749,460
Percentage of overseas sales against consolidated net sales	29.0%	16.4%	45.4%

Thousands of U.S. dollars

	Asia	North America, Europe and other areas	Total
Year ended March 31, 2009:			
Overseas sales	\$ 4,392,224	\$ 2,524,429	\$ 6,916,653

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 (loss) income per share is computed based on the net (loss) income attributable 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 warrants 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
	2009	2008	2009
Net (loss) income:			
Basic	¥ (11.66)	¥ 34.34	\$ (0.12)
Diluted	—	—	—
Cash dividends applicable to the year	7.50	10.00	0.08
Net assets	335.04	423.78	3.42

Diluted net income per share is not presented, since net loss was recorded for the year ended March 31, 2009 and there were no potential common shares with dilutive effects for the year ended March 31, 2008.

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, 2009 and 2008, and the related consolidated statements of operations, 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, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

As discussed in Note 1 to the consolidated financial statements, in 2009 the Company adopted the Accounting Standard for Measurement of Inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 24, 2009