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## Ten-Year Summary of Selected Financial Data

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

	2008	2009	2010
<b>Net sales*1</b>	¥1,649,670	¥1,471,561	¥1,359,631
Fibers & Textiles	637,343	568,996	525,204
Plastics & Chemicals	404,015	377,644	332,735
IT-related Products	283,734	229,421	230,433
Carbon Fiber Composite Materials	83,580	70,390	50,676
Environment & Engineering	173,213	160,207	159,787
Life Science	—	—	46,656
Others	—	—	14,140
Life Science & Other Businesses	67,785	64,903	—
<b>Operating income</b>	103,429	36,006	40,107
<b>Income (loss) before income taxes and non-controlling interests</b>	78,565	(19,751)	(2,415)
<b>Net income (loss) attributable to owners of parent</b>	48,069	(16,326)	(14,158)
<b>Net cash provided by operating activities</b>	110,367	38,447	166,215
<b>Depreciation and amortization</b>	86,423	83,764	74,904
<b>Capital expenditures</b>	146,787	92,349	57,073
<b>Total assets</b>	1,698,226	1,523,603	1,556,796
<b>Property, plant and equipment, net</b>	680,993	596,261	580,344
<b>Interest-bearing liabilities</b>	591,182	663,945	632,160
<b>Net assets</b>	642,159	512,610	518,216

### Per share of common stock:

Net income (loss) attributable to owners of parent:			
Basic	¥ 34.34	¥ (11.66)	¥ (10.12)
Diluted	—	—	—
Cash dividends	10.00	7.50	5.00
Net assets	423.78	335.04	336.65

### Ratios:

Operating income to net sales	6.27	2.45	2.95
Net income (loss) attributable to owners of parent to net sales	2.91	(1.11)	(1.04)
Equity ratio	34.9	30.8	30.3
Return on equity	8.1	(3.1)	(3.0)
Debt/equity ratio (times)	1.00	1.42	1.34

### Common stock price range:

High	¥ 998	¥ 694	¥ 591
Low	529	350	390

<b>Number of employees</b>	38,565	37,924	37,936
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\*1 Effective from the year ended March 31, 2011, "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan (ASBJ) Statement No.17, March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, March 21, 2008) are applied. Accordingly, segment information for the year ended March 31, 2010 is restated.

\*2 Effective from the year ended March 31, 2014, certain overseas subsidiaries applied IAS 19 "Employee Benefits" (revised on June 16, 2011). As this change in accounting policy is applied retrospectively, the related financial data for 2013 reflect the retrospective application.

Millions of yen

2011	2012	2013*2	2014	2015	2016	2017
¥1,539,693	¥1,588,604	¥1,592,279	¥1,837,778	¥2,010,734	¥2,104,430	¥2,026,470
584,115	638,375	632,150	755,474	856,676	892,039	856,124
382,299	397,815	395,835	470,542	496,370	521,238	499,099
262,027	243,404	237,593	245,741	247,975	251,072	254,439
67,018	69,914	77,620	113,342	158,365	186,196	161,608
178,183	170,247	178,355	180,197	179,988	183,324	186,113
52,430	55,554	56,599	58,205	57,039	55,841	54,150
13,621	13,295	14,127	14,277	14,321	14,720	14,937
—	—	—	—	—	—	—
100,087	107,721	83,436	105,253	123,481	154,480	146,893
82,893	101,091	77,828	97,760	114,469	137,808	139,012
57,925	64,218	48,477	59,608	71,021	90,132	99,418
129,214	104,410	100,815	161,455	141,282	196,142	173,958
70,479	67,443	67,588	78,743	81,480	91,168	89,073
55,942	98,384	99,135	118,207	124,929	136,556	152,039
1,567,470	1,581,501	1,731,933	2,119,683	2,357,925	2,278,386	2,396,785
531,595	561,923	627,240	781,235	855,593	830,612	881,434
493,509	481,906	532,002	654,163	700,258	704,253	716,399
640,970	674,149	778,626	944,625	1,080,757	1,024,909	1,100,176

Yen

¥ 36.41	¥ 39.41	¥ 29.75	¥ 36.59	¥ 44.33	¥ 56.38	¥ 62.17
34.43	37.46	28.90	35.70	44.28	56.31	62.10
7.50	10.00	10.00	10.00	11.00	13.00	14.00
363.90	384.90	444.45	527.32	616.70	591.50	638.64

%

6.50	6.78	5.24	5.73	6.14	7.34	7.25
3.76	4.04	3.04	3.24	3.53	4.28	4.91
37.8	39.7	41.8	40.5	41.8	41.5	42.6
10.9	10.5	7.2	7.5	7.7	9.3	10.1
0.83	0.77	0.73	0.76	0.71	0.74	0.70

Yen

¥ 643	¥ 631	¥ 654	¥ 786	¥ 1,057.5	¥ 1,146.0	¥ 1,027.5
420	511	421	584	626	871.7	854.0
38,740	40,227	42,584	45,881	45,789	45,839	46,248

# Management's Discussion and Analysis

## OVERVIEW

During the period covered by the year ended March 31, 2017 (fiscal 2016), the global economy as a whole maintained its recovery trend despite some delay seen in the U.S. and Europe. The Chinese economy has been heading toward a rally, and there were also signs of economic improvement in many of the other emerging countries. The Japanese economy in general continued on a gradual recovery track on the back of an improving employment and income situation.

Under such circumstances, Toray Group implemented a growth strategy focused on taking advantage of growth business fields and business opportunities while pursuing business expansion in growth countries and regions, as well as further bolstering its competitiveness. These initiatives were guided by the medium-term management program "Project AP-G 2016," which spans the three years from fiscal year 2014 to 2016. Unfavorable foreign exchange rates meant that, the yen was stronger against the U.S. dollar and other major currencies compared with a year earlier, which resulted in declines in net sales and profits at overseas subsidiaries when converted into yen.

As a result, Toray Group posted a year-on-year decrease in both consolidated net sales and operating income, while posting an increase in net income attributable to owners of parent, a record-high.

## INCOME ANALYSIS

### Net Sales

Consolidated net sales for fiscal 2016 were in ¥2,026.5 billion, down by ¥78.0 billion (3.7%) from the previous fiscal year. Regarding the sales by business segment, net sales in the IT-related Products, Environment & Engineering and Others segments increased, while those in the Fibers & Textiles, Plastics & Chemicals, Carbon Fiber Composite Materials and Life Science segments decreased.

### Costs and Expenses

The ratio of total costs and expenses to net sales for the fiscal year under review was 92.8%, slightly up by 0.1 percentage points year on year.

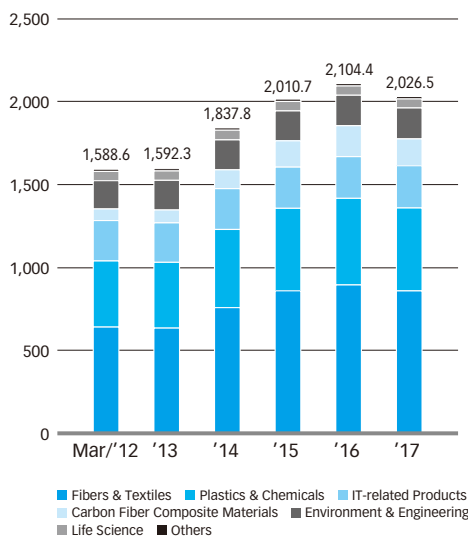
Consolidated net sales and cost of sales decreased from the previous fiscal year by 3.7% and 4.0%, respectively. As a result, the cost of sales ratio improved by 0.2 percentage points to 78.8%.

Selling, general and administrative expenses decreased by ¥4.3 billion (1.5%) to ¥283.1 billion. The ratio of selling, general and administrative expenses to net sales rose by 0.3 percentage points to 14.0%.

R&D expenses increased by ¥0.4 billion (0.8%) to ¥59.2 billion.

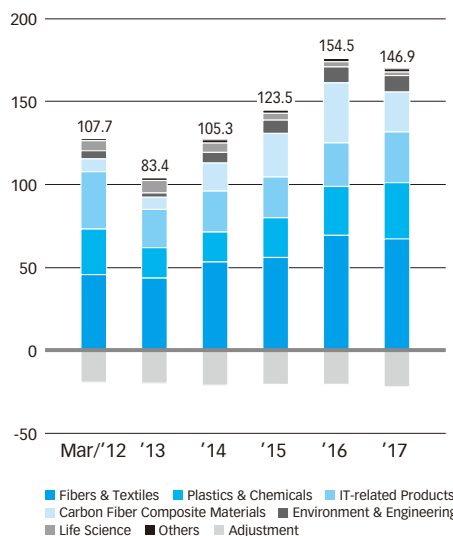
### Net Sales by Segment

(Billions of yen)



### Operating Income by Segment

(Billions of yen)



\*Operating income by segment that is not attributable to any segment is included in "Adjustment."

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

Consolidated operating income declined by ¥7.6 billion (4.9%) year on year to ¥146.9 billion, and the ratio of operating income to net sales declined slightly by 0.1 percentage points to 7.2%. Operating income by business segment declined in the Fibers & Textiles, Carbon Fiber Composite Materials and Life Science segments, while that in the Plastics & Chemicals, IT-related Products, Environment & Engineering and Others segments increased.

In net other income (expenses), Toray Group reported net expenses of ¥7.9 billion in fiscal 2016, down by ¥8.8 billion (52.7%) from the previous fiscal year. Interest and dividend income decreased slightly by ¥0.0 billion (0.6%) to ¥5.0 billion, and interest expense also decreased by ¥0.7 billion (13.0%) to ¥4.7 billion. As a result, net financial income of ¥0.4 billion was recorded in fiscal 2016, reversing ¥0.3 billion net financial expenses posted in the previous fiscal year. Equity in earnings of unconsolidated subsidiaries and affiliated companies rose year on year by ¥2.5 billion (49.6%) to ¥7.5 billion. Loss on impairment of fixed assets decreased by ¥6.1 billion (67.7%) to ¥2.9 billion. Net loss on sales and disposal of property, plant and equipment decreased by ¥0.1 billion (2.5%) to ¥5.0 billion. Gain on sales and loss on write-down of investment securities, net, increased by ¥0.7 billion (29.8%) to ¥3.0 billion.

As a result of the above, income before income taxes and non-controlling interests grew by ¥1.2 billion (0.9%) from the previous fiscal year to ¥139.0 billion. After deductions for income taxes and net income attributable to non-controlling interests, net income attributable to owners of parent amounted to ¥99.4 billion, up by ¥9.3 billion (10.3%) year on year.

Net income per share was ¥62.17, an increase of ¥5.79. The Company declared a year-end cash dividend of ¥7.00 per share in light of the profit conditions for the year under review and the profit outlook for the next fiscal year. When added to the interim cash dividend, the total annual dividend for fiscal 2016 was ¥14.00 per share.

### **Business Performance by Segment**

#### ***Fibers & Textiles***

In Japan, the demand for apparel and industrial applications remained weak. Against this background, Toray Group strived to expand sales on the whole and worked to improve profitability by upgrading the business, primarily through the promotion of a business format that integrates the process from fibers to final products through textiles, as well as by advancing cost reductions.

Overseas, mainly in apparel applications, the business performance of some subsidiaries, mainly in Southeast Asia, was affected by the slowdown in final demand in Europe and China. On the other hand, materials for automotive applications and hygiene products remained strong in general.

As a result, overall sales of the Fibers & Textiles segment for fiscal 2016 declined by ¥35.9 billion (4.0%) to ¥856.1 billion from the previous year, and operating income fell by ¥2.1 billion (3.1%) to ¥66.8 billion.

#### ***Plastics & Chemicals***

In the resin business, shipments of automotive applications were strong in general, both in Japan and overseas. Toray Group also promoted expanded sales of ABS and PPS resins for non-automotive applications.

In the film business, while the demand for some applications in the U.S. and Europe was sluggish, Toray Group moved to expand the sales of high value-added products in Asia and other regions. In Japan, products for packaging applications performed strongly.

Despite many of the segment's products being affected by price competition in Japan and abroad, Toray Group strived to improve the profitability of the business by focusing on the sales expansion of high value-added products, as well as on cost reduction.

As a result, overall sales of the Plastics & Chemicals segment declined by ¥22.1 billion (4.2%) to ¥499.1 billion from the previous year, while operating income increased by ¥4.4 billion (15.0%) to ¥33.8 billion.

### IT-related Products

Among materials for flat panel displays, smartphone- and tablet terminal-related materials performed strongly, with growing shipments of organic EL applications. Shipments of battery separator films for lithium-ion secondary batteries expanded, reflecting growth in demand.

While many of the segment's applications were affected by price competition, Toray Group endeavored to improve the profitability of this business by concentrating efforts on expanding sales of high value-added products, as well as on cost reduction.

As a result, overall sales of the IT-related Products segment increased by ¥3.4 billion (1.3%) to ¥254.4 billion from the previous year, and operating income, as well, rose by ¥4.4 billion (16.7%) to ¥30.5 billion.

### Carbon Fiber Composite Materials

In the Carbon Fiber Composite Materials segment, while final demand for aircraft was strong, the demand for carbon fiber intermediate products (prepreg) remained on a weak note, reflecting inventory adjustment in the supply chain. Demand for products for compressed natural gas tank applications was slow due to the impact of declining crude oil prices. Meanwhile, shipments of products for wind turbine blade applications expanded on the back of growing demand.

As a result, overall sales of the Carbon Fiber Composite Materials segment declined by ¥24.6 billion (13.2%) to ¥161.6 billion from the previous year,

and operating income fell by ¥12.2 billion (33.6%) to ¥24.0 billion.

### Environment & Engineering

In the water treatment business, although Toray Group continued to work on expanding sales of reverse osmosis membranes and other products, exports from Japan were affected by the further appreciation of the yen. Among domestic subsidiaries in the segment, pharmaceutical-related plant construction and lithium-ion secondary battery-related machinery at an engineering subsidiary performed strongly.

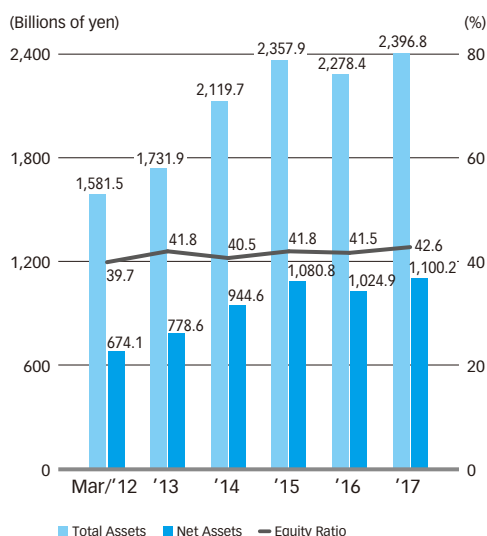
As a result, overall sales of the Environment & Engineering segment increased by ¥2.8 billion (1.5 %) to ¥186.1 billion from the previous year, and operating income also rose by ¥0.3 billion (3.3%) to ¥9.9 billion.

### Life Science

In the pharmaceutical business, while the sales volume of pruritus treatment REMITCH®\* grew solidly, as the product received approval for an additional indication in 2015, it was also affected by a National Health Insurance drug price revision in April 2016. The shipment of natural-type interferon beta preparation FERON® and orally active prostacyclin derivative DORNER® remained sluggish due to the impact of alternative medicines and generic drugs.

In the medical devices business, the shipment of dialyzers grew strongly both in Japan and overseas.

### Total Assets and Net Assets



\*Effective from the year ended March 31, 2014, certain overseas subsidiaries applied IAS 19 "Employee Benefits" (revised on June 16, 2011). As this change in accounting policy is applied retrospectively, the related financial data for 2013 reflect the retrospective application.

As a result, overall sales of the Life Science segment declined by ¥1.7 billion (3.0%) to ¥54.2 billion from the previous year, and operating income fell ¥0.9 billion (30.0%) to ¥2.1 billion.

\*REMITCH® is a registered trademark of Torii Pharmaceutical Co., Ltd.

### Others

Net sales increased by ¥0.2 billion (1.5%) from the previous fiscal year to ¥14.9 billion, and operating income as well increased by ¥0.0 billion (1.4%) to ¥2.0 billion.

## FINANCIAL POSITION

### Analysis of Assets, Liabilities and Net Assets

Total assets of Toray Group as of March 31, 2017 stood at ¥2,396.8 billion, up by ¥118.4 billion compared to the previous fiscal year-end. Current assets increased by ¥57.2 billion mainly due to the increases in cash and time deposits as well as trade receivables. Total non-current assets also increased by ¥61.2 billion mainly due to the increases in property, plant and equipment and investment securities.

Total liabilities rose by ¥43.1 billion year on year to ¥1,296.6 billion, primarily due to the increases in trade payables and interest-bearing liabilities.

Total net assets increased by ¥75.3 billion from the previous fiscal year-end to ¥1,100.2 billion, reflecting the increase in retained earnings due to net income posted for fiscal 2016. Net assets less non-

controlling interests and stock acquisition rights stood at ¥1,021.3 billion. The equity ratio at the end of the year under review came to 42.6%, a 1.1 percentage-point increase compared with the level at the end of the previous fiscal year.

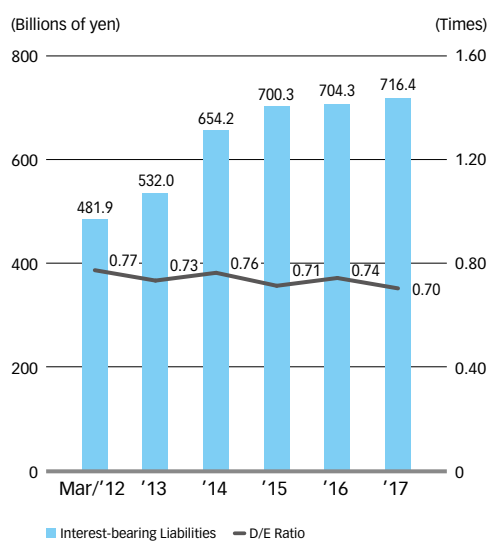
## CASH FLOWS

For fiscal 2016, net cash provided by operating activities exceeded net cash used in investing activities by ¥38.7 billion. On the other hand, net cash used in financing activities resulted in ¥18.0 billion. Including the cash and cash equivalents at subsidiaries not previously included in consolidation and the effect of exchange rate changes, cash and cash equivalents as of March 31, 2017 amounted to ¥131.4 billion, up by ¥21.6 billion (19.7%).

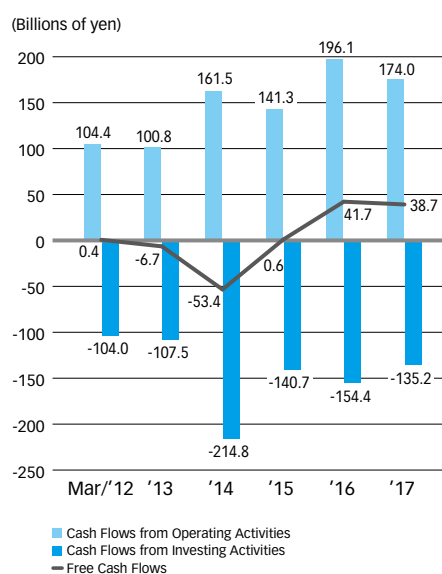
### Cash Flows from Operating Activities

Net cash provided by operating activities decreased by ¥22.2 billion compared to the previous fiscal year to ¥174.0 billion. Major cash-increasing factors included income before income taxes and non-controlling interests of ¥139.0 billion, and depreciation and amortization of ¥89.1 billion. Major cash-decreasing factors, on the other hand, were the increase in trade receivables of ¥25.0 billion, the increase in inventories of ¥16.5 billion, and income taxes paid of ¥28.3 billion.

### Interest-bearing Liabilities and D/E Ratio



### Cash Flows





### **Cash Flows from Investing Activities**

Net cash used in investing activities totaled ¥135.2 billion, down by ¥19.2 billion compared to the previous fiscal year. Major cash-flow factors included capital expenditures of ¥143.9 billion.

### **Cash Flows from Financing Activities**

Net cash used in financing activities decreased by ¥59.6 billion year on year to ¥18.0 billion. Repayment of long-term debt of ¥49.3 billion was offset by proceeds from long-term debt of ¥50.9 billion. In addition, short-term debt recorded a net increase of ¥8.6 billion, reversing the net decrease of ¥42.3 billion for the previous fiscal year.

## **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 their 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***

As a supplier of basic materials to a broad range of industries, Toray Group is exposed to various factors that could cause a sharp drop in demand for its products. These include changes in both worldwide and regional supply-demand conditions, increased use of substitute materials, and changes to the purchasing policies of business partners. In addition to severe competition with other companies, Toray Group's various businesses also face the risk of new players entering the market. Price fluctuations, stemming from the reduction of National Health Insurance (NHI) drug prices and reimbursement prices, also affect the pharmaceuticals and medical products business. Although Toray Group takes steps to maintain its competitive advantage, a decline in demand for, or falling prices of, such items, or the appearance of a credit risk affecting Toray 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) Capital expenditures, joint ventures, alliances and acquisitions***

Toray Group makes capital expenditures in a wide range of business fields. Its other activities include formation of various joint ventures or strategic alliances with third parties, as well as business acquisitions.

When Toray Group becomes involved in capital expenditures, joint ventures, alliances and acquisitions, it considers the potential for profitability and return on investment. However, there is not necessarily any guarantee that the outcome will be consistent with expectations. If unforeseen market changes or significant discrepancies between actual results and initial business plans occur due to sudden changes in the operating environment, there could be a loss on impairment of fixed assets or equity in losses of unconsolidated subsidiaries and affiliated companies. As a result, Toray Group's results of operations and financial conditions could be negatively affected.

### ***(4) 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, rapid and unforeseen changes in interest rates and other aspects of financial market turmoils, as well as changes in the value of securities and pension assets held by Toray Group, may have an impact on Toray Group's results of operations and financial conditions.



**(5) Changes in assumptions on which forecasts are based that might affect employee retirement benefit obligations and deferred tax assets**

Toray's consolidated financial statements contain employee retirement benefit obligations based on future pension payments calculated in accordance with certain criteria, as well as deferred tax assets stated according to likely tax refunds based on taxable income estimates for the future fiscal years. However, if changes in the criteria used to calculate pension payments were to occur, or if fluctuations arose in the estimates of future taxable income, Toray Group's results of operations and financial conditions could be affected.

**(6) 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 systems
- Unforeseen economic or political events
- Social upheaval, including acts of terror or war

**(7) Product liability**

Toray Group strives to supply the world's best-in-class product 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.

**(8) 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.

**(9) Laws and regulations, taxes, competition policies and internal controls**

Various laws and regulations apply in the countries and regions where Toray Group conducts its business. These laws and regulations include regulations related to the environment, commercial trading, labor, intellectual property, taxation and foreign exchange, investment approval protocols and import/export controls, and policies on competition based on antitrust laws. Through the establishment and maintenance of internal control systems, Toray Group endeavors to comply with all such laws and regulations. However, changes to such laws and regulations, including the introduction of new environmental regulations and taxes, as well as changes to the corporate income tax rate could affect Toray Group's results of operations and financial conditions. Also, if Toray Group is judged as having violated such laws and regulations, is subject to government sanctions initiated by a fair trade commission, receives a notice of correction from tax authorities, has an employee who engages in illicit behavior, or is unable to uphold internal controls pertaining to financial statements, its results of operations and financial conditions could be negatively affected.

**(10) Natural disasters and accidents**

Toray Group places top priority on safety, accident prevention, and environmental preservation. To minimize losses caused by the suspension of production, Toray Group conducts regular accident prevention inspections, 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.

**(11) Information security risk**

The Toray Group's information systems and networks are fundamentally essential elements in the execution of the Group's business operations and every security precaution is taken in their formulation and operation. Unauthorized access, data alteration, theft or deletion, an interruption of system operations that causes a work stoppage or leads to a loss of trust in the Group, or a leak of confidential information outside the Company, or other such incident could negatively impact the Toray Group's earnings and financial conditions.

## Consolidated Balance Sheets

Toray Industries, Inc. and Consolidated Subsidiaries  
March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash (Note 5)	¥ 97,920	¥ 89,976	\$ 872,727
Time deposits (Notes 4 and 5)	45,191	30,192	402,772
Trade receivables (Notes 5 and 7):			
Notes receivable	53,213	35,633	474,269
Accounts receivable	372,909	366,587	3,323,610
Inventories (Note 3)	409,332	394,034	3,648,235
Deferred tax assets (Note 10)	26,438	24,113	235,633
Prepaid expenses and other current assets (Notes 5 and 6)	63,911	70,815	569,617
Allowance for doubtful accounts	(2,205)	(1,791)	(19,652)
Total current assets	1,066,709	1,009,559	9,507,210
<b>Property, plant and equipment (Notes 4 and 13):</b>			
Land	79,831	76,942	711,506
Buildings	602,423	584,763	5,369,189
Machinery and equipment	1,859,050	1,808,732	16,569,073
Construction in progress	107,562	97,497	958,663
Other	111,307	106,510	992,041
	2,760,173	2,674,444	24,600,472
Accumulated depreciation	(1,878,739)	(1,843,832)	(16,744,554)
Property, plant and equipment, net	881,434	830,612	7,855,918
<b>Intangible assets (Note 13):</b>			
Goodwill	45,779	54,299	408,012
Other	31,516	32,860	280,891
Total intangible assets	77,295	87,159	688,904
<b>Investments and other assets:</b>			
Investments in unconsolidated subsidiaries and affiliated companies (Note 5)	113,206	118,949	1,008,966
Investment securities (Notes 4, 5 and 6)	186,512	158,541	1,662,317
Long-term loans receivable	1,566	1,494	13,957
Deferred tax assets (Note 10)	13,513	12,633	120,437
Other (Notes 4 and 8)	59,813	62,868	533,093
Allowance for doubtful accounts	(3,263)	(3,429)	(29,082)
Total investments and other assets	371,347	351,056	3,309,688
<b>Total assets</b>	<b>¥ 2,396,785</b>	<b>¥ 2,278,386</b>	<b>\$ 21,361,720</b>

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
<b>Current liabilities:</b>			
Short-term bank loans (Notes 4, 5 and 7)	¥ 132,014	¥ 135,960	\$ 1,176,595
Current portion of long-term debt (Notes 4, 5 and 7)	110,244	48,507	982,567
Commercial paper (Note 5)	19,000	6,000	169,340
Trade payables (Notes 5 and 7):			
Notes payable	40,814	38,273	363,761
Accounts payable	188,378	174,870	1,678,948
Income taxes payable (Note 10)	18,560	15,815	165,419
Accrued liabilities	58,244	57,645	519,109
Other current liabilities (Notes 4 and 10)	102,722	94,278	915,526
Total current liabilities	669,976	571,348	5,971,266
<b>Long-term debt (Notes 4, 5 and 7)</b>	<b>450,757</b>	<b>510,349</b>	<b>4,017,442</b>
<b>Deferred tax liabilities (Note 10)</b>	<b>43,320</b>	<b>34,632</b>	<b>386,096</b>
<b>Net defined benefit liability (Note 8)</b>	<b>103,459</b>	<b>104,803</b>	<b>922,094</b>
<b>Customers' guarantee deposits and other liabilities (Note 4)</b>	<b>29,097</b>	<b>32,345</b>	<b>259,332</b>
Total liabilities	1,296,609	1,253,477	11,556,230
<b>Commitments and contingent liabilities (Note 12)</b>			
<b>Net assets (Note 11):</b>			
Stockholders' equity:			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,631,481,403 shares	147,873	147,873	1,317,941
Capital surplus	121,091	119,180	1,079,242
Retained earnings	691,290	614,334	6,161,230
Treasury stock, at cost	(20,822)	(21,163)	(185,579)
Total stockholders' equity	939,432	860,224	8,372,834
Accumulated other comprehensive income:			
Net unrealized gains on securities	66,513	61,272	592,807
Net deferred gains (losses) on hedges	21	(490)	187
Foreign currency translation adjustments	13,764	29,270	122,674
Remeasurements of defined benefit plans	1,542	(4,708)	13,743
Total accumulated other comprehensive income	81,840	85,344	729,412
Stock acquisition rights (Note 9)	1,205	1,181	10,740
Non-controlling interests	77,699	78,160	692,504
Total net assets	1,100,176	1,024,909	9,805,490
Total liabilities and net assets	¥2,396,785	¥2,278,386	\$21,361,720

## Consolidated Statements of Income

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
<b>Net sales</b>	<b>¥2,026,470</b>	¥2,104,430	<b>\$18,061,230</b>
<b>Costs and expenses:</b>			
Cost of sales (Notes 3, 8, 13 and 14)	1,596,472	1,662,556	14,228,806
Selling, general and administrative expenses (Notes 8, 9, 13 and 14)	283,105	287,394	2,523,217
	<b>1,879,577</b>	1,949,950	<b>16,752,023</b>
Operating income	<b>146,893</b>	154,480	<b>1,309,207</b>
<b>Other income (expenses):</b>			
Interest expense	(4,654)	(5,350)	(41,480)
Interest and dividend income	5,010	5,042	44,652
Equity in earnings of unconsolidated subsidiaries and affiliated companies	7,506	5,016	66,898
Loss on sales and disposal of property, plant and equipment, net	(4,971)	(5,098)	(44,305)
Loss on impairment of fixed assets (Note 15)	(2,925)	(9,063)	(26,070)
Gain on sales and loss on write-down of investment securities, net	2,951	2,273	26,301
Other, net	(10,798)	(9,492)	(96,239)
	<b>(7,881)</b>	(16,672)	<b>(70,241)</b>
Income before income taxes and non-controlling interests	<b>139,012</b>	137,808	<b>1,238,966</b>
<b>Income taxes (Note 10):</b>			
Current	31,361	31,435	279,510
Deferred	1,708	9,191	15,223
	<b>33,069</b>	40,626	<b>294,733</b>
Net income	<b>105,943</b>	97,182	<b>944,234</b>
<b>Net income attributable to non-controlling interests</b>	<b>(6,525)</b>	(7,050)	<b>(58,155)</b>
Net income attributable to owners of parent	<b>¥ 99,418</b>	¥ 90,132	<b>\$ 886,078</b>

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
Net income	<b>¥105,943</b>	¥ 97,182	<b>\$ 944,234</b>
Other comprehensive income (Note 16)			
Net unrealized gains (losses) on securities	5,131	(17,868)	45,731
Net deferred gains (losses) on hedges	643	(100)	5,731
Foreign currency translation adjustments	(14,114)	(59,118)	(125,793)
Remeasurements of defined benefit plans	6,305	(3,273)	56,194
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	(1,950)	(3,933)	(17,380)
Total other comprehensive income	<b>(3,985)</b>	(84,292)	<b>(35,517)</b>
Comprehensive income	<b>¥101,958</b>	¥ 12,890	<b>\$ 908,717</b>
Total comprehensive income attributable to:			
Owners of parent	<b>¥ 95,914</b>	¥ 10,881	<b>\$ 854,848</b>
Non-controlling interests	<b>6,044</b>	2,009	<b>53,868</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, 2017 and 2016

	Millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance as of April 1, 2015</b>	¥147,873	¥136,727	¥544,557	¥(21,345)	¥807,812	¥ 79,093	¥(387)	¥100,097	¥ (947)	¥177,856	¥1,207	¥ 93,882	¥1,080,757
Changes in:													
Dividends			(19,191)		(19,191)								(19,191)
Net income attributable to owners of parent			90,132		90,132								90,132
Purchase of treasury stock				(64)	(64)								(64)
Disposition of treasury stock		(52)		246	194								194
Change in equity attributable to parent arising from transaction with non-controlling shareholders		(17,547)			(17,547)								(17,547)
Effect of change in accounting period of subsidiaries and affiliated companies			(1,105)		(1,105)								(1,105)
Other		52	(59)		(7)								(7)
Items other than stockholders' equity, net						(17,821)	(103)	(70,827)	(3,761)	(92,512)	(26)	(15,722)	(108,260)
Total changes	—	(17,547)	69,777	182	52,412	(17,821)	(103)	(70,827)	(3,761)	(92,512)	(26)	(15,722)	(55,848)
<b>Balance as of March 31, 2016</b>	¥147,873	¥119,180	¥614,334	¥(21,163)	¥860,224	¥ 61,272	¥(490)	¥ 29,270	¥(4,708)	¥ 85,344	¥1,181	¥ 78,160	¥1,024,909
<b>Balance as of April 1, 2016</b>	¥147,873	¥119,180	¥614,334	¥(21,163)	¥860,224	¥ 61,272	¥(490)	¥ 29,270	¥(4,708)	¥ 85,344	¥1,181	¥ 78,160	¥1,024,909
Changes in:													
Dividends			(22,396)		(22,396)								(22,396)
Net income attributable to owners of parent			99,418		99,418								99,418
Purchase of treasury stock				(25)	(25)								(25)
Disposition of treasury stock		(43)		366	323								323
Change in equity attributable to parent arising from transaction with non-controlling shareholders		1,911			1,911								1,911
Effect of change in accounting period of subsidiaries and affiliated companies					—								—
Other		43	(66)		(23)								(23)
Items other than stockholders' equity, net						5,241	511	(15,506)	6,250	(3,504)	24	(461)	(3,941)
Total changes	—	1,911	76,956	341	79,208	5,241	511	(15,506)	6,250	(3,504)	24	(461)	75,267
<b>Balance as of March 31, 2017</b>	¥147,873	¥121,091	¥691,290	¥(20,822)	¥939,432	¥ 66,513	¥ 21	¥ 13,764	¥ 1,542	¥ 81,840	¥1,205	¥ 77,699	¥1,100,176

	Thousands of U.S. dollars (Note 2)												
	Stockholders' equity					Accumulated other comprehensive income							
	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	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
<b>Balance as of April 1, 2016</b>	\$1,317,941	\$1,062,210	\$5,475,348	\$(188,619)	\$7,666,881	\$546,096	\$(4,367)	\$ 260,873	\$(41,961)	\$760,642	\$10,526	\$696,613	\$9,134,661
Changes in:													
Dividends			(199,608)		(199,608)								(199,608)
Net income attributable to owners of parent			886,078		886,078								886,078
Purchase of treasury stock				(223)	(223)								(223)
Disposition of treasury stock		(383)		3,262	2,879								2,879
Change in equity attributable to parent arising from transaction with non-controlling shareholders		17,032			17,032								17,032
Effect of change in accounting period of subsidiaries and affiliated companies					—								—
Other		383	(588)		(205)								(205)
Items other than stockholders' equity, net						46,711	4,554	(138,200)	55,704	(31,230)	214	(4,109)	(35,125)
Total changes	—	17,032	685,882	3,039	705,954	46,711	4,554	(138,200)	55,704	(31,230)	214	(4,109)	670,829
<b>Balance as of March 31, 2017</b>	\$1,317,941	\$1,079,242	\$6,161,230	\$(185,579)	\$8,372,834	\$592,807	\$ 187	\$ 122,674	\$ 13,743	\$729,412	\$10,740	\$692,504	\$9,805,490

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Cash Flows

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2017	2016	2017
<b>Cash flows from operating activities:</b>			
Income before income taxes and non-controlling interests	¥ 139,012	¥ 137,808	\$ 1,238,966
Adjustments to reconcile income before income taxes and non-controlling interests to net cash provided by operating activities:			
Depreciation and amortization	89,073	91,168	793,877
Loss on impairment of fixed assets	2,925	9,063	26,070
Interest and dividend income	(5,010)	(5,042)	(44,652)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(7,506)	(5,016)	(66,898)
Interest expense	4,654	5,350	41,480
Loss on sales and disposal of property, plant and equipment, net	4,971	5,098	44,305
Gain and loss on sales and loss on write-down of investment securities, net	(3,010)	(1,998)	(26,827)
Decrease in net defined benefit liability	(234)	(2,829)	(2,086)
Increase in trade receivables	(24,993)	(20,775)	(222,754)
Increase in inventories	(16,483)	(15,207)	(146,907)
Increase (decrease) in trade payables	17,982	(473)	160,267
Other, net	(3,714)	16,817	(33,102)
Subtotal	197,667	213,964	1,761,738
Interest and dividends received	9,175	14,945	81,774
Interest paid	(4,572)	(5,212)	(40,749)
Income taxes paid	(28,312)	(27,555)	(252,335)
Net cash provided by operating activities	173,958	196,142	1,550,428
<b>Cash flows from investing activities:</b>			
Capital expenditures	(143,894)	(129,114)	(1,282,478)
Purchases of investment securities	(4,616)	(11,308)	(41,141)
Proceeds from sales of property, plant and equipment	2,114	1,702	18,841
Proceeds from sales of investment securities	7,009	5,762	62,469
Acquisition of shares of consolidated subsidiaries resulting in change in scope of consolidation	—	(6,226)	—
Other, net	4,145	(15,230)	36,943
Net cash used in investing activities	(135,242)	(154,414)	(1,205,365)
<b>Cash flows from financing activities:</b>			
Net increase (decrease) in short-term debt	8,621	(42,255)	76,836
Proceeds from long-term debt	50,929	88,182	453,913
Repayment of long-term debt	(49,323)	(66,894)	(439,599)
Cash dividends paid	(24,316)	(20,600)	(216,720)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(3,064)	(32,024)	(27,308)
Other, net	(865)	(4,014)	(7,709)
Net cash used in financing activities	(18,018)	(77,605)	(160,588)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>(847)</b>	<b>(7,860)</b>	<b>(7,549)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>19,851</b>	<b>(43,737)</b>	<b>176,925</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>109,778</b>	<b>112,489</b>	<b>978,414</b>
<b>Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation</b>	<b>1,712</b>	<b>57</b>	<b>15,258</b>
<b>Increase in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries</b>	<b>—</b>	<b>40,969</b>	<b>—</b>
<b>Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries</b>	<b>64</b>	<b>—</b>	<b>570</b>
<b>Cash and cash equivalents at end of year</b>	<b>¥ 131,405</b>	<b>¥ 109,778</b>	<b>\$ 1,171,168</b>

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Toray Industries, Inc. and Consolidated Subsidiaries  
Years ended March 31, 2017 and 2016

### 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 Act 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.

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. However, 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.

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 Company acquires control over the subsidiaries.

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 and amortized principally over its estimated useful life not exceeding twenty years on a straight-line method.

#### c) Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2017 and 2016 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
	2017	2016	2017
Cash	¥ 97,920	¥ 89,976	\$ 872,727
Time deposits	45,191	30,192	402,772
Less—Time deposits with maturities of over 3 months	(11,746)	(10,390)	(104,688)
Marketable securities with original maturities of 3 months or less	40	—	357
Cash and cash equivalents	¥131,405	¥109,778	\$1,171,168

#### 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**

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.

#### **g) Property, Plant and Equipment**

Property, plant and equipment are stated at cost.

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

#### **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 subsidiaries and affiliated companies.

The Company and some of its domestic consolidated subsidiaries adopt the consolidated taxation system.

#### **i) Consumption Taxes**

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

#### **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.

To provide for the payment of retirement benefits to employees, net defined benefit liability is recognized at an amount equal to the expected retirement benefit obligations net of the fair value of pension assets at the end of the period.

Past service cost is amortized as incurred using the straight-line method over a certain period within the employees' average remaining years of service (primarily 13 years).

Actuarial gains and losses are amortized from the following fiscal year after recognition using the straight-line method over a certain period within the employees' average remaining years of service (primarily 13 years).

Unrecognized actuarial gains and losses and unrecognized past service cost are recognized in remeasurements of defined benefit plans in accumulated other comprehensive income under the net assets section, net of deferred taxes.

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.

#### **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 non-controlling shareholders, which is included in "non-controlling interests" in net assets.

#### n) Application of Revised Implementation Guidance on Recoverability of Deferred Tax Assets

The Company and its consolidated subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the beginning of the year ended March 31, 2017.

## 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 ¥112.2 to \$1.00, the approximate exchange rate prevailing on March

31, 2017. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that the 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, 2017 and 2016, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Merchandise and finished goods	¥235,127	¥229,199	\$2,095,606
Work in process	78,646	75,992	700,945
Raw materials and supplies	95,559	88,843	851,684
	¥409,332	¥394,034	\$3,648,235

Losses recognized and charged to cost of sales as a result of valuation at March 31, 2017 and 2016 were ¥6,246 million (\$55,668 thousand) and ¥6,443 million, respectively.

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

Short-term bank loans at March 31, 2017 and 2016 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, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Loans principally from banks and insurance companies with interest rates primarily from 0.02% to 11.50%, maturing serially through 2026:			
Unsecured	¥420,399	¥418,581	\$3,746,872
Secured	592	255	5,276
Lease obligations maturing serially through 2036:			
Unsecured	4,384	3,437	39,073
Yen notes with an interest rate of 0.42% due 2018	10	20	89
Yen notes with an interest rate of 0.93% due 2022	20,000	20,000	178,253
Yen notes with an interest rate of 1.01% due 2023	20,000	20,000	178,253
Zero coupon convertible bonds due 2019	50,000	50,000	445,633
Zero coupon convertible bonds due 2021	50,000	50,000	445,633
	565,385	562,293	5,039,082
Less amounts due within one year	111,376	49,558	992,656
	¥454,009	¥512,735	\$4,046,426

At March 31, 2017, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 828	\$ 7,380
Property, plant and equipment, net	4,045	36,052
Investment securities	1,023	9,118
Others	518	4,617
	¥6,414	\$57,166

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2017 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2018	¥111,376	\$ 992,656
2019	62,007	552,647
2020	64,451	574,430
2021	66,946	596,667
2022	68,070	606,684
2023 and thereafter	192,535	1,715,998
	¥565,385	\$5,039,082

## 5. FINANCIAL INSTRUMENTS

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### Conditions of Financial Instruments

#### a) Policy in Relation to Financial Instruments

The policy of the Company and its consolidated subsidiaries is to manage funds only by short-term deposits, etc. and to raise funds by borrowing from banks and issuing corporate bonds. The Company and its consolidated subsidiaries use derivatives to hedge risks associated with foreign currency exchange rates and fluctuations of borrowing interest rates and do not enter into derivative transactions for speculative or trading purposes.

#### b) Contents and Risk of Financial Instruments and Risk Management System

Trade receivables are operating receivables and therefore are exposed to customer credit risk. Under its internal regulations, the Company carefully manages the payment periods for receivables and outstanding balances of all customers and regularly monitors the credit standing of major clients. Consolidated subsidiaries also monitor and manage the credit standings of their clients. Operating receivables and payables denominated in foreign currencies that arise from the global business operations are also exposed to foreign currency exchange risk. The Company and its consolidated subsidiaries hedge this risk mainly through the use of forward exchange contracts against positions after netting receivables and payables denominated in the same foreign currencies. Likewise, the Company and its consolidated subsidiaries mainly use currency swaps to hedge the foreign currency exchange risk of bank loans denominated in foreign currencies.

Investment securities are mostly the shares of corporations with which the Group has business relationships and are exposed to the risk of market price fluctuations. The fair value of the investment securities and financial positions of the issuing entities (clients) are regularly monitored.

Trade payables are operating payables, most of which are due and payable within one year.

Short-term bank loans and commercial paper are financing instruments mainly for operating transactions, while long-term bank loans and bonds (due within ten years, in principle) are primarily for capital expenditures. Bank loans and bonds are exposed to the risk of interest rate fluctuation. Bank loans and bonds at floating interest rates carry the risk of higher interest expenses when rates rise, while bank loans and bonds at fixed interest rates carry the risk of higher interest expenses when rates fall. The Company and its consolidated subsidiaries use derivative transactions (interest rate swap transactions) to minimize the risk of interest rate fluctuation, taking into consideration the balance between fixed interest rates and floating interest rates.

Hedging instruments, hedged items, the policy for utilizing such hedging instruments and the method for evaluating the effectiveness of hedging activities are described in Note 1. SIGNIFICANT ACCOUNTING POLICIES d) Financial Instruments, Hedge Accounting in the Notes to the Consolidated Financial Statements.

Derivative transactions are executed and managed in accordance with the internal regulations prescribing the authorization for transactions. To mitigate credit risk, the Company and its consolidated subsidiaries carry out derivative transactions only with highly rated financial institutions.

#### c) Supplemental Explanation on Fair Value of Financial Instruments

The fair value of financial instruments is based on market prices, or reasonable estimate of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ various factors and assumptions. In addition, the contract amount of derivatives in Note 7. DERIVATIVES in the Notes to the Consolidated Financial Statements is not an indicator of market risk associated with derivative transactions.

### Fair Value of Financial Instruments

Carrying value, fair value and unrealized gain (loss) as of March 31, 2017 and 2016 were as follows.

In addition, financial instruments, for which it is extremely difficult to measure the fair value, are not included. (Please refer to Note 2 below).

	Millions of yen		
	2017		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	¥143,111	¥143,111	¥ —
Trade receivables	426,122	426,122	—
Investment securities			
Held-to-maturity debt securities	100	103	3
Investment securities in subsidiaries and affiliated companies	22,001	20,788	(1,213)
Other securities	177,825	177,825	—
Assets	¥769,159	¥767,949	¥ (1,210)
Trade payables	¥229,192	¥229,192	¥ —
Short-term bank loans	132,014	132,014	—
Commercial paper	19,000	19,000	—
Bonds* <sup>1</sup>	140,010	162,942	22,932
Long-term bank loans* <sup>2</sup>	420,991	420,261	(730)
Liabilities	¥941,207	¥963,409	¥22,202
Derivative transactions* <sup>3</sup>			
Hedge accounting is not applied	¥ (135)	¥ (135)	¥ —
Hedge accounting is applied	101	101	—
Derivative transactions	¥ (34)	¥ (34)	¥ —

	Millions of yen		
	2016		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	¥120,168	¥120,168	¥ —
Trade receivables	402,220	402,220	—
Investment securities			
Held-to-maturity debt securities	105	110	5
Investment securities in subsidiaries and affiliated companies	20,785	19,178	(1,607)
Other securities	151,051	151,051	—
Assets	¥694,329	¥692,727	¥ (1,602)
Trade payables	¥213,143	¥213,143	¥ —
Short-term bank loans	135,960	135,960	—
Commercial paper	6,000	6,000	—
Bonds* <sup>1</sup>	140,020	163,078	23,058
Long-term bank loans* <sup>2</sup>	418,836	422,631	3,795
Liabilities	¥913,959	¥940,812	¥26,853
Derivative transactions* <sup>3</sup>			
Hedge accounting is not applied	¥ 56	¥ 56	¥ —
Hedge accounting is applied	12	12	—
Derivative transactions	¥ 68	¥ 68	¥ —

Thousands of U.S. dollars			
<b>2017</b>			
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	\$1,275,499	\$1,275,499	\$ —
Trade receivables	3,797,879	3,797,879	—
Investment securities			
Held-to-maturity debt securities	891	918	27
Investment securities in subsidiaries and affiliated companies	196,087	185,276	(10,811)
Other securities	1,584,893	1,584,893	—
<b>Assets</b>	<b>\$6,855,250</b>	<b>\$6,844,465</b>	<b>\$ (10,784)</b>
Trade payables	\$2,042,709	\$2,042,709	\$ —
Short-term bank loans	1,176,595	1,176,595	—
Commercial paper	169,340	169,340	—
Bonds* <sup>1</sup>	1,247,861	1,452,246	204,385
Long-term bank loans* <sup>2</sup>	3,752,148	3,745,642	(6,506)
<b>Liabilities</b>	<b>\$8,388,654</b>	<b>\$8,586,533</b>	<b>\$197,879</b>
Derivative transactions* <sup>3</sup>			
Hedge accounting is not applied	\$ (1,203)	\$ (1,203)	\$ —
Hedge accounting is applied	900	900	—
<b>Derivative transactions</b>	<b>\$ (303)</b>	<b>\$ (303)</b>	<b>\$ —</b>

\*1 Bonds include bonds due within one year.

\*2 Long-term bank loans include long-term bank loans due within one year.

\*3 Receivables and payables arising from derivative transactions are indicated in net amounts. Total net payables, if any, are shown in parentheses.

#### **Notes:**

##### 1. Estimation method for fair value of financial instruments and items related to securities and derivative transactions

###### Assets

###### Cash and time deposits and Trade receivables

Carrying value is used for fair value since the items will be settled within the short term and the fair value is approximately equal to the carrying value.

###### Investment securities

Securities are valued at quoted market price. Debt securities, etc. are valued at quoted market price or at the price provided by correspondent financial institutions. For information on securities classified by holding purpose, please refer to Note 6. SECURITIES of the Notes to the Consolidated Financial Statements.

###### Liabilities

###### Trade payables, Short-term bank loans and Commercial paper

Carrying value is used for fair value since the items will be settled within the short term and the fair value is approximately equal to the carrying value.

###### Bonds

The fair value of bonds with market price is based on market price. The fair value of bonds without market price is estimated by discounting the principal amounts and interest based on interest rates adjusted for the remaining periods and credit risk of the bonds. However, for floating-rate bonds or fixed-rate bonds converted to floating using interest rate swaps accounted for under the special accounting treatment for interest rate swaps, the fair value is approximately equal to the carrying value because the interest rates are adjusted periodically. Therefore, the fair value is based on the carrying value.

###### Long-term bank loans

The fair value of long-term bank loans is estimated by discounting the principal amounts and interest based on estimated interest rates if similar new loans were entered into in the current period. The fair value of long-term bank loans for which the special accounting method for interest rate swaps is applied is estimated by discounting the total principal amount and interest (accounted for together with the interest rate swaps) based on estimated interest rates if similar new loans were entered into in the current period. For long-term bank loans at floating interest rates, however, the fair value is approximately equal to the carrying value because the interest rates are adjusted periodically. Therefore, the fair value is based on the carrying value.

###### Derivative transactions

Please refer to Note 7. DERIVATIVES in the Notes to the Consolidated Financial Statements.

2. Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unlisted equity securities	¥78,266	¥83,080	\$ 697,558
Unlisted debt securities	2,000	2,000	17,825

These securities have no quoted market price and the fair value is extremely difficult to determine. Therefore, they are not included in the preceding table.

3. Redemption schedule for receivables and investment securities with maturities at March 31, 2017 and 2016

	Millions of yen			
	2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	¥143,111	¥—	¥—	¥—
Trade receivables	426,112	10	—	—
Investment securities				
Held-to-maturity debt securities	9	79	12	—
Other securities	40	1	60	—
	¥569,272	¥90	¥72	¥—

	Millions of yen			
	2016			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	¥120,168	¥ —	¥—	¥ —
Trade receivables	402,106	114	—	—
Investment securities				
Held-to-maturity debt securities	16	79	10	—
Other securities	986	—	10	100
	¥523,276	¥193	¥20	¥100

	Thousands of U.S. dollars			
	2017			
	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash and time deposits	\$1,275,499	\$ —	\$ —	\$—
Trade receivables	3,797,790	89	—	—
Investment securities				
Held-to-maturity debt securities	80	704	107	—
Other securities	357	9	535	—
	\$5,073,725	\$802	\$642	\$—

4. The redemption schedule for long-term debt is disclosed in Note 4. SHORT-TERM BANK LOANS, LONG-TERM DEBT AND LEASE OBLIGATIONS of the Notes to the Consolidated Financial Statements.



## 6. SECURITIES

At March 31, 2017 and 2016, information on securities classified as held-to-maturity debt securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2017				2017			
	Carrying value	Fair value	Unrealized gains	Unrealized losses	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥100	¥103	¥3	¥0	\$891	\$918	\$27	\$0

	Millions of yen			
	2016			
	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥105	¥110	¥5	¥—

At March 31, 2017 and 2016, information on securities classified as other securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2017				2017			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥177,825	¥84,862	¥95,378	¥2,415	\$1,584,893	\$756,346	\$850,071	\$21,524

	Millions of yen			
	2016			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥151,051	¥65,632	¥87,758	¥2,339

## 7. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivative contracts outstanding at March 31, 2017 and 2016:

### Hedge accounting is not applied

	Millions of yen			Thousands of U.S. dollars		
	2017			2017		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Buying U.S. dollar	¥9,964	¥ 36	¥ 36	\$88,806	\$ 321	\$ 321
Buying euro	1,141	(10)	(10)	10,169	(89)	(89)
Buying Thai baht	319	37	37	2,843	330	330
Buying Japanese yen	4,397	(211)	(211)	39,189	(1,881)	(1,881)
Selling U.S. dollar	9,098	(9)	(9)	81,087	(80)	(80)
Selling euro	446	(5)	(5)	3,975	(45)	(45)
Selling British pound	67	(0)	(0)	597	(0)	(0)
Selling Chinese yuan	107	1	1	954	9	9
Selling Japanese yen	2,053	(27)	(27)	18,298	(241)	(241)
Foreign currency swaps:						
Receiving U.S. dollar, paying Thai baht	5,075	53	53	45,232	472	472
	¥ —	¥(135)	¥(135)	\$ —	\$(1,203)	\$(1,203)

	Millions of yen		
	2016		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Buying U.S. dollar	¥ 7,408	¥(332)	¥(332)
Buying euro	31	(0)	(0)
Buying Chinese yuan	680	(2)	(2)
Buying Thai baht	360	(12)	(12)
Buying Japanese yen	7,678	55	55
Selling U.S. dollar	11,923	296	296
Selling euro	187	(7)	(7)
Selling British pound	41	1	1
Selling Chinese yuan	18	(0)	(0)
Selling Japanese yen	1,614	41	41
Foreign currency swaps:			
Receiving U.S. dollar, paying Korean won	1,076	(22)	(22)
Receiving U.S. dollar, paying Thai baht	5,132	38	38
	¥ —	¥ 56	¥ 56

## Hedge accounting is applied

Millions of yen

		2017		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value*1,2	Estimation method for fair value
<b>Deferral hedge method</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying Japanese yen	¥ 1,397	¥ 15	Forward foreign exchange quotes
	Selling euro	2,074	(25)	
	Selling Chinese yuan	652	2	
	Foreign currency swaps:			
	Accounted for as part of long-term bank loans			
	Receiving U.S. dollar, paying Korean won	7,028	0	The price provided by correspondent financial institutions
	Receiving Japanese yen, paying Korean won	16,000	(667)	
	Interest rate swaps:			
Accounted for as part of long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	86,468	221		
<b>Special accounting method for interest rate swaps</b>	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	2,000		
	Floating-rate receipt, floating-rate payment	26,900		—
Fixed-rate receipt, floating rate payment	40,000			
<b>Allocation method for forward foreign exchange contracts</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	16,655	302	Forward foreign exchange quotes
	Buying euro	655	5	
	Buying Chinese yuan	377	(2)	
	Buying Thai baht	900	118	
	Buying Korean won	333	5	
	Buying Indian rupee	259	1	
	Selling U.S. dollar	18,140	119	
	Selling euro	1,176	8	
	Selling British pound	17	0	
	Selling Chinese yuan	79	(1)	
	Selling Thai baht	61	0	
	Selling Japanese yen	12	0	
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	13,044		
	Buying euro	232		
	Buying Chinese yuan	1,518		
	Buying Japanese yen	4		
	Selling U.S. dollar	25,972		—
	Selling euro	3,310		
	Selling British pound	24		
	Selling Chinese yuan	502		
	Selling Thai baht	3		
	Foreign currency swaps:			
	Accounted for as part of long-term bank loans			
Receiving U.S. dollar, paying Japanese yen	160,981		—	
Receiving Australian dollar, paying Japanese yen	3,129			
		¥ —	¥ 101	

		Millions of yen		
		2016		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value*1,2	Estimation method for fair value
<b>Deferral hedge method</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying Japanese yen	¥ 1,856	¥ 31	Forward foreign exchange quotes
	Selling U.S. dollar	772	24	
	Selling euro	367	(14)	
	Selling Japanese yen	258	3	
	Foreign currency options:			
	Accounted for as part of trade payables			
	Buying Japanese yen (call)	396	3	The price provided by correspondent financial institutions
	Selling Japanese yen (put)	198	(2)	
<b>Special accounting method for interest rate swaps</b>	Foreign currency swaps:			
	Accounted for as part of long-term bank loans			
	Receiving U.S. dollar, paying Korean won	6,403	234	The price provided by correspondent financial institutions
	Receiving Japanese yen, paying Korean won	6,000	26	
	Interest rate swaps:			
	Accounted for as part of long-term bank loans			
	Floating-rate receipt, fixed-rate payment	14,790	(153)	The price provided by correspondent financial institutions
	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	2,000		
Floating-rate receipt, floating-rate payment	26,900		—	
Fixed-rate receipt, floating rate payment	53,000			
<b>Allocation method for forward foreign exchange contracts</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	26,720	(707)	Forward foreign exchange quotes
	Buying euro	542	6	
	Buying Chinese yuan	566	(7)	
	Buying Korean won	174	(4)	
	Buying Indian rupee	179	(0)	
	Selling U.S. dollar	13,467	564	
	Selling euro	1,117	9	
	Selling British pound	7	0	
	Selling Chinese yuan	75	(1)	
	Selling Thai baht	2	0	
	Selling Japanese yen	29	0	
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	19,569		
	Buying euro	190		
	Buying Chinese yuan	410		
	Buying Japanese yen	5		
	Selling U.S. dollar	34,467		
	Selling euro	3,684		—
	Selling British pound	22		
	Selling Chinese yuan	592		
Selling Thai baht	20			
Selling Japanese yen	2			
Foreign currency swaps:				
Accounted for as part of long-term bank loans				
Receiving U.S. dollar, paying Japanese yen	177,778		—	
Receiving Australian dollar, paying Japanese yen	3,129			
		¥ —	¥ 12	

Thousands of U.S. dollars

		2017		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value*1,2	Estimation method for fair value
<b>Deferral hedge method</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying Japanese yen	\$ 12,451	\$ 134	Forward foreign exchange quotes
	Selling euro	18,485	(223)	
	Selling Chinese yuan	5,811	18	
	Foreign currency swaps:			
	Accounted for as part of long-term bank loans			
	Receiving U.S. dollar, paying Korean won	62,638	0	The price provided by correspondent financial institutions
	Receiving Japanese yen, paying Korean won	142,602	(5,945)	
	Interest rate swaps:			
Accounted for as part of long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	770,660	1,970		
<b>Special accounting method for interest rate swaps</b>	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	17,825		
	Floating-rate receipt, floating-rate payment	239,750		—
Fixed-rate receipt, floating rate payment	356,506			
<b>Allocation method for forward foreign exchange contracts</b>	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	148,440	2,692	Forward foreign exchange quotes
	Buying euro	5,838	45	
	Buying Chinese yuan	3,360	(18)	
	Buying Thai baht	8,021	1,052	
	Buying Korean won	2,968	45	
	Buying Indian rupee	2,308	9	
	Selling U.S. dollar	161,676	1,061	
	Selling euro	10,481	71	
	Selling British pound	152	0	
	Selling Chinese yuan	704	(9)	
	Selling Thai baht	544	0	
	Selling Japanese yen	107	0	
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	116,257		
	Buying euro	2,068		
	Buying Chinese yuan	13,529		
	Buying Japanese yen	36		
	Selling U.S. dollar	231,480		—
	Selling euro	29,501		
	Selling British pound	214		
	Selling Chinese yuan	4,474		
	Selling Thai baht	27		
	Foreign currency swaps:			
	Accounted for as part of long-term bank loans			
	Receiving U.S. dollar, paying Japanese yen	1,434,768		—
	Receiving Australian dollar, paying Japanese yen	27,888		
			\$ —	\$ 900

\*1 The fair value of interest rate swaps to which a special accounting method is applied is included in the fair value of bonds and long-term bank loans in Note 5. FINANCIAL INSTRUMENTS of the Notes to the Consolidated Financial Statements because such interest rate swaps are accounted for together with the corresponding bonds and long-term bank loans.

\*2 The fair value of forward foreign exchange contracts to which the allocation method is applied, except for forecasted transactions, is included in the fair value of trade receivables, trade payables and long-term bank loans in Note 5. FINANCIAL INSTRUMENTS of the Notes to the Consolidated Financial Statements since such forward foreign exchange contracts are accounted for together with the corresponding trade receivables, trade payables and long-term bank loans.

## 8. RETIREMENT BENEFIT PLAN

The changes in the retirement benefit obligation during the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Retirement benefit obligation at beginning of the year	¥203,426	¥210,751	\$1,813,066
Service cost	7,281	7,489	64,893
Interest cost	1,500	1,660	13,369
Actuarial gains and losses	(682)	1,270	(6,078)
Retirement benefit paid	(14,856)	(16,203)	(132,406)
Effect of change in accounting period	—	1,363	—
Other	242	(2,904)	2,157
Retirement benefit obligation at end of the year	¥196,911	¥203,426	\$1,755,000

The changes in the plan assets at fair value during the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Plan assets at beginning of the year	¥131,360	¥140,541	\$1,170,766
Expected return on plan assets	2,490	2,888	22,193
Actuarial gains and losses	12,871	(6,789)	114,715
Contributions	6,552	7,727	58,396
Retirement benefit paid	(10,077)	(10,873)	(89,813)
Return of assets from retirement benefit trust	(21,632)	—	(192,799)
Effect of change in accounting period	—	(336)	—
Other	210	(1,798)	1,872
Plan assets at end of the year	¥121,774	¥131,360	\$1,085,330

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2017 and 2016 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Funded retirement benefit obligation	¥ 102,223	¥ 108,274	\$ 911,078
Plan assets at fair value	(121,774)	(131,360)	(1,085,330)
Unfunded retirement benefit obligation	(19,551)	(23,086)	(174,251)
Net liability for retirement benefits in the balance sheets	94,688	95,152	843,922
	¥ 75,137	¥ 72,066	\$ 669,670
Net defined benefit liability	103,459	104,803	922,094
Net defined benefit asset (included in other non-current assets)	(28,322)	(32,737)	(252,424)
Net liability for retirement benefits in the balance sheets	¥ 75,137	¥ 72,066	\$ 669,670

The components of retirement benefit expense for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Service cost	¥ 7,281	¥ 7,489	\$ 64,893
Interest cost	1,500	1,660	13,369
Expected return on plan assets	(2,490)	(2,888)	(22,193)
Amortization of actuarial gains and losses	648	7,107	5,775
Amortization of past service cost	(4,221)	(4,300)	(37,620)
Gain on return of assets from retirement benefit trust	(810)	—	(7,219)
Retirement benefit expense	¥ 1,908	¥ 9,068	\$ 17,005

In addition to the above, special severance payments of ¥967 million (\$8,619 thousand) and ¥1,329 million were recognized for the years ended March 31, 2017 and 2016, respectively. Contributions to the defined contribution pension plan of ¥6,297 million (\$56,123 thousand) and ¥6,057 million were recognized for the years ended March 31, 2017 and 2016, respectively.

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Past service cost	¥ (4,221)	¥ (4,300)	\$ (37,620)
Actuarial gains and losses	13,320	(559)	118,717
Total	¥ 9,099	¥ (4,859)	\$ 81,096

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Unrecognized past service cost	¥(4,202)	¥ (8,423)	\$(37,451)
Unrecognized actuarial gains and losses	1,950	15,276	17,380
Total	¥(2,252)	¥ 6,853	\$(20,071)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2017 and 2016 was as follows:

	2017	2016
Bonds	12%	10%
Stocks	52%	57%
Life insurance	26%	24%
Cash and time deposits	8%	7%
Other	2%	2%
Total	100%	100%

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in accounting for the above plans were as follows:

	2017	2016
Discount rate	primarily 0.6%	primarily 0.6%
Expected rate of return on plan assets	primarily 2.0%	primarily 2.0%
Expected rate of salary increase	primarily 7.5%	primarily 7.5%



## 9. STOCK OPTION PLANS

1. Stock option expense included in selling, general and administrative expenses amounted to ¥346 million (\$3,084 thousand) and ¥351 million for the years ended March 31, 2017 and 2016, respectively.

2. Information on stock options issued

The following table summarizes the stock options outstanding as of March 31, 2017.

Company name		Toray Industries, Inc.		
		No. 1 Stock Option Plan	No. 2 Stock Option Plan	No. 3 Stock Option Plan
Position and number of grantees	Members of the Board of the Company	28	26	26
	Directors of the Company	32	32	26
Type and number of shares to be issued upon exercise	Common stock	747,000 shares	844,000 shares	583,000 shares
Grant date		August 20, 2011	August 4, 2012	August 10, 2013
Vesting conditions		Based on the number of months that have elapsed during the vesting period	Based on the number of months that have elapsed during the vesting period	Based on the number of months that have elapsed during the vesting period
Vesting period		June 24, 2011– June 22, 2012	June 22, 2012– June 26, 2013	June 26, 2013– June 25, 2014
Exercise period		August 21, 2011– August 20, 2041	August 5, 2012– August 4, 2042	August 11, 2013– August 10, 2043

Company name		Toray Industries, Inc.		
		No. 4 Stock Option Plan	No. 5 Stock Option Plan	No. 6 Stock Option Plan
Position and number of grantees	Members of the Board of the Company	25	23	23
	Directors of the Company	27	31	30
Type and number of shares to be issued upon exercise	Common stock	569,000 shares	358,000 shares	381,000 shares
Grant date		August 9, 2014	August 22, 2015	August 20, 2016
Vesting conditions		Based on the number of months that have elapsed during the vesting period	Based on the number of months that have elapsed during the vesting period	Based on the number of months that have elapsed during the vesting period
Vesting period		June 25, 2014– June 24, 2015	June 24, 2015– June 28, 2016	June 28, 2016– June 27, 2017
Exercise period		August 10, 2014– August 9, 2044	August 23, 2015– August 22, 2045	August 21, 2016– August 20, 2046

Company name		Toray Chemical Korea Inc.
		No. 2 Stock Option Plan
Position and number of grantees	Executives of the Company	1
Type and number of shares to be issued upon exercise	Common stock	18,815 shares
Grant date		July 22, 2008
Vesting conditions		Holders must be in continuous employment from the grant date to the vesting date of July 21, 2011
Vesting period		July 22, 2008– July 21, 2011
Exercise period		July 22, 2011– July 21, 2018

The following table summarizes movements of stock options during the year and price information on stock options as of March 31, 2017. The number of stock options are translated into the number of shares.

(1) Number of stock options

Company name	Toray Industries, Inc.		
	No. 1 Stock Option Plan	No. 2 Stock Option Plan	No. 3 Stock Option Plan
Stock acquisition rights not yet vested			
As of March 31, 2016	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
As of March 31, 2017	—	—	—
Stock acquisition rights already vested			
As of March 31, 2016	352,000	512,000	421,000
Vested	—	—	—
Exercised	110,000	157,000	115,000
Forfeited	—	—	—
As of March 31, 2017	242,000	355,000	306,000

Company name	Toray Industries, Inc.		
	No. 4 Stock Option Plan	No. 5 Stock Option Plan	No. 6 Stock Option Plan
Stock acquisition rights not yet vested			
As of March 31, 2016	—	103,000	—
Granted	—	—	381,000
Forfeited	—	—	—
Vested	—	103,000	271,000
As of March 31, 2017	—	—	110,000
Stock acquisition rights already vested			
As of March 31, 2016	480,000	255,000	—
Vested	—	103,000	271,000
Exercised	115,000	72,000	—
Forfeited	—	—	—
As of March 31, 2017	365,000	286,000	271,000

Company name	Toray Chemical Korea Inc.
	No. 2 Stock Option Plan
Stock acquisition rights not yet vested	
As of March 31, 2016	—
Granted	—
Forfeited	—
Vested	—
As of March 31, 2017	—
Stock acquisition rights already vested	
As of March 31, 2016	18,815
Vested	—
Exercised	—
Forfeited	—
As of March 31, 2017	18,815

## (2) Price information

		Yen		
Company name		<b>Toray Industries, Inc.</b>		
		No. 1 Stock Option Plan	No. 2 Stock Option Plan	No. 3 Stock Option Plan
Exercise price		¥ 1	¥ 1	¥ 1
Weighted average price at exercise		880.4	880.4	880.4
Fair value per share at the grant date		513	394	546

		Yen		
Company name		<b>Toray Industries, Inc.</b>		
		No. 4 Stock Option Plan	No. 5 Stock Option Plan	No. 6 Stock Option Plan
Exercise price		¥ 1	¥ 1	¥ 1
Weighted average price at exercise		880.4	880.4	—
Fair value per share at the grant date		605	987	902

		Won
Company name		<b>Toray Chemical Korea Inc.</b>
		No. 2 Stock Option Plan
Exercise price		₩8,480
Weighted average price at exercise		—
Fair value per share at the grant date		7,067

		U.S. dollars		
Company name		<b>Toray Industries, Inc.</b>		
		No. 1 Stock Option Plan	No. 2 Stock Option Plan	No. 3 Stock Option Plan
Exercise price		\$0.01	\$0.01	\$0.01
Weighted average price at exercise		7.85	7.85	7.85
Fair value per share at the grant date		4.57	3.51	4.87

		U.S. dollars		
Company name		<b>Toray Industries, Inc.</b>		
		No. 4 Stock Option Plan	No. 5 Stock Option Plan	No. 6 Stock Option Plan
Exercise price		\$0.01	\$0.01	\$0.01
Weighted average price at exercise		7.85	7.85	—
Fair value per share at the grant date		5.39	8.80	8.04

		U.S. dollars
Company name		<b>Toray Chemical Korea Inc.</b>
		No. 2 Stock Option Plan
Exercise price		\$7.59
Weighted average price at exercise		—
Fair value per share at the grant date		6.32

3. Estimation method and assumptions used for the per share fair value of stock options

(1) Estimation method

Black-Scholes model

(2) Assumptions used for the per share fair value of stock options

Company name	<b>Toray Industries, Inc.</b>
	No. 6 Stock Option Plan
Expected volatility*1	<b>31.825%</b>
Expected holding period*2	<b>8 years</b>
Expected dividend*3	<b>¥13 per share (\$0.12)</b>
Risk-free rate*4	<b>(0.164)%</b>

\*1 The expected volatility is based on actual share prices during 8 years from August 21, 2008 to August 19, 2016.

\*2 The expected holding period is calculated based on the service period of past members of the Board.

\*3 This is based on the dividend for the year ended March 31, 2016.

\*4 The risk-free interest rate is the yield on Japanese government bonds for the period that corresponds to the remaining life of the option.

Because it is difficult to reasonably estimate the number of options that will expire in the future, only the number of options that have actually forfeited is applied.

## 10. INCOME TAXES

The statutory tax rates in Japan for the years ended March 31, 2017 and 2016 were 30.9% and 33.1%, respectively.

At March 31, 2017 and 2016, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets:			
Accrued bonuses	¥ 5,978	¥ 5,778	\$ 53,280
Depreciation and impairment loss	10,680	11,932	95,187
Net defined benefit liability	33,396	34,731	297,647
Tax loss carryforwards	17,136	18,080	152,727
Unrealized intercompany profits	16,512	15,612	147,166
Investments in subsidiaries and affiliated companies	19,593	20,418	174,626
Other	33,005	31,403	294,162
	136,300	137,954	1,214,795
Valuation allowance	(41,168)	(44,154)	(366,916)
Total deferred tax assets	95,132	93,800	847,879
Deferred tax liabilities:			
Reserve for advanced depreciation	4,854	5,019	43,262
Depreciation	22,070	22,882	196,702
Undistributed earnings of subsidiaries and affiliated companies	17,749	16,028	158,191
Unrealized gains on securities	28,768	26,227	256,399
Other	25,064	21,589	223,387
Total deferred tax liabilities	98,505	91,745	877,941
Net deferred tax assets (liabilities)	¥ (3,373)	¥ 2,055	\$ (30,062)

At March 31, 2017 and 2016, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Deferred tax assets - current	¥26,438	¥24,113	\$235,633
Deferred tax assets - non-current	13,513	12,633	120,437
Deferred tax liabilities - current (included in other current liabilities)	4	59	36
Deferred tax liabilities - non-current	43,320	34,632	386,096

The reconciliation of the statutory tax rate and the effective income tax rate for the years ended March 31, 2017 and 2016 was as follows:

	2017	2016
Statutory tax rate	30.9%	33.1%
Increase (decrease) in taxes resulting from:		
Permanent differences	0.4	0.2
Recognition of certain deferred tax assets by reversal of valuation allowance	(2.4)	(1.1)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(1.7)	(1.2)
Income taxes for prior periods	(1.7)	—
Differences of tax rates for overseas consolidated subsidiaries	(2.9)	(3.3)
Undistributed earnings of subsidiaries and affiliated companies	1.4	0.5
Change in statutory tax rate	—	1.3
Amortization of goodwill	1.9	2.2
Other	(2.1)	(2.2)
Effective income tax rate	23.8%	29.5%

## 11. 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 2017 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥7.00 per share, aggregating to ¥11,200 million (\$99,822 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2017.

## 12. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2017, 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	¥280	\$2,496
Loans receivable outstanding	134	1,194
Balance	¥146	\$1,301

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

At March 31, 2017 and 2016, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥5,774	¥11,283	\$51,462
Other	2,849	9,148	25,392
	¥8,623	¥20,431	\$76,854
Notes discounted	¥ 307	¥ 89	\$ 2,736
Export bills discounted	785	635	6,996
Notes endorsed	1,162	1,160	10,357
Contingent liabilities associated with securitization of receivables	¥3,255	¥ 9,573	\$29,011

### 13. LEASES

#### Finance leases

The Group holds certain buildings, machinery and equipment and intangible assets by leases.

#### Operating leases

Future minimum lease payments under noncancellable operating leases subsequent to March 31, 2017 and 2016 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Due within one year	¥ 343	¥ 368	\$ 3,057
Due after one year	1,193	1,323	10,633
Total	¥1,536	¥1,691	\$13,690

### 14. 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, 2017 and 2016 were ¥59,230 million (\$527,897 thousand) and ¥58,783 million, respectively.

### 15. 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 assets to be disposed and idle assets, each asset is considered to constitute a group.

For the year ended March 31, 2017, the carrying value of certain business-use assets for which profitability declined were written down to the recoverable amount. As a result, the Company and its consolidated subsidiaries recognized loss on impairment of fixed assets in the amount of ¥2,925 million (\$26,070 thousand).

For the year ended March 31, 2016, the carrying value of certain business-use assets for which profitability declined were written down to the recoverable amount. As a result, the Company and its consolidated subsidiaries recognized loss on impairment of fixed assets in the amount of ¥9,063 million.

The major assets for which a loss on impairment was recognized for the year ended March 31, 2016 were as follows:

Location	Use	Classification	Millions of yen
			Loss on impairment
Otsu, Shiga, Japan	Films production facilities	Buildings	¥ 594
		Machinery and equipment	1,401
		Other	243
St-Maurice de Beynost, France	Films production facilities	Machinery and equipment	¥3,949
		Other	87

The recoverable amount of the above assets was measured at their value in use. The value in use was calculated by discounting future cash flows at discount rates of 5% – 8%.

## 16. OTHER COMPREHENSIVE INCOME

The following table presents reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2017 and 2016.

	Millions of yen		Thousands of U.S. dollars
	2017	2016	2017
Net unrealized gains (losses) on securities:			
Amount arising during the year	¥ 11,004	¥(26,313)	\$ 98,075
Reclassification adjustments for gains and losses included in net income	(3,454)	(2,099)	(30,784)
Before tax effect	7,550	(28,412)	67,291
Tax effect	(2,419)	10,544	(21,560)
Net unrealized gains (losses) on securities	5,131	(17,868)	45,731
Net deferred gains (losses) on hedges:			
Amount arising during the year	918	(137)	8,182
Reclassification adjustments for gains and losses included in net income	15	13	134
Assets acquisition cost adjustment	—	22	—
Before tax effect	933	(102)	8,316
Tax effect	(290)	2	(2,585)
Net deferred gains (losses) on hedges	643	(100)	5,731
Foreign currency translation adjustments:			
Amount arising during the year	(14,953)	(59,123)	(133,271)
Reclassification adjustments for gains and losses included in net income	838	—	7,469
Before tax effect	(14,115)	(59,123)	(125,802)
Tax effect	1	5	9
Foreign currency translation adjustments	(14,114)	(59,118)	(125,793)
Remeasurements of defined benefit plans:			
Amount arising during the year	13,482	(7,666)	120,160
Reclassification adjustments for gains and losses included in net income	(4,383)	2,807	(39,064)
Before tax effect	9,099	(4,859)	81,096
Tax effect	(2,794)	1,586	(24,902)
Remeasurements of defined benefit plans	6,305	(3,273)	56,194
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method:			
Amount arising during the year	(1,938)	(3,722)	(17,273)
Reclassification adjustments for gains and losses included in net income	(12)	(211)	(107)
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	(1,950)	(3,933)	(17,380)
Total other comprehensive income	¥ (3,985)	¥(84,292)	\$ (35,517)



## 17. SEGMENT INFORMATION

### (Segment information)

#### 1. Outline of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation to the segments and assess performance.

The Company identifies the following six segments according to the nature of the products and market for their products.

Reportable segment	Main products
Fibers & Textiles	Filament yarns, staple fibers, and woven and knitted fabrics of nylon, polyester and acrylic fibers, etc.; non-woven fabrics, ultra-microfiber non-woven fabric with suede texture and apparel products
Plastics & Chemicals	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; zeolite catalysts; fine chemicals for pharmaceuticals and agrochemicals; veterinary medicine (excludes film and resin covered in IT-related Products segment)
IT-related Products	Films and plastic products for information and telecommunications related products; materials for electronic circuits and semiconductors; color filters for LCDs and related materials and equipment; magnetic recording materials; graphic materials and related equipment
Carbon Fiber Composite Materials	Carbon fibers, carbon fiber composite materials and their molded products
Environment & Engineering	Comprehensive engineering; condominiums; industrial equipment and machinery; environment-related equipment; water treatment membranes and related equipment; materials for housing, building and civil engineering
Life Science	Pharmaceuticals and medical devices

#### 2. Measurement of sales, income, assets and other material items of reportable segments

The accounting policies for the reportable segments are the same as those described in Note 1. SIGNIFICANT ACCOUNTING POLICIES.

The figures of segment income are based on operating income.

Intersegment sales are determined based on consideration of the market price and related information.

#### 3. Information on sales, income, assets and other material items of reportable segments

Year ended March 31, 2017:	Millions of yen								Adjustments	Consolidated Total
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total		
Sales to outside customers	¥856,124	¥499,099	¥254,439	¥161,608	¥186,113	¥54,150	¥14,937	¥2,026,470	¥ —	¥2,026,470
Intersegment sales	1,001	16,043	7,627	519	68,038	2	16,681	109,911	(109,911)	—
Total sales	¥857,125	¥515,142	¥262,066	¥162,127	¥254,151	¥54,152	¥31,618	¥2,136,381	¥(109,911)	¥2,026,470
Segment income	¥ 66,768	¥ 33,798	¥ 30,528	¥ 23,963	¥ 9,904	¥ 2,148	¥ 1,990	¥ 169,099	¥ (22,206)	¥ 146,893
Segment assets	¥722,078	¥541,995	¥384,773	¥460,968	¥204,323	¥79,732	¥57,463	¥2,451,332	¥ (54,547)	¥2,396,785
Depreciation and amortization	27,460	18,019	15,702	19,967	4,231	2,581	1,209	89,169	(96)	89,073
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	26,827	42,598	1,800	8,563	10,058	2,763	7,727	100,336	(414)	99,922
Capital expenditures	41,143	25,133	32,437	46,459	4,544	3,445	1,157	154,318	(2,279)	152,039

Millions of yen										
Year ended March 31, 2016:	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
Sales to outside customers	¥892,039	¥521,238	¥251,072	¥186,196	¥183,324	¥55,841	¥14,720	¥2,104,430	¥ —	¥2,104,430
Intersegment sales	1,035	19,148	7,614	369	62,608	8	16,422	107,204	(107,204)	—
<b>Total sales</b>	<b>¥893,074</b>	<b>¥540,386</b>	<b>¥258,686</b>	<b>¥186,565</b>	<b>¥245,932</b>	<b>¥55,849</b>	<b>¥31,142</b>	<b>¥2,211,634</b>	<b>¥(107,204)</b>	<b>¥2,104,430</b>
Segment income	¥ 68,909	¥ 29,384	¥ 26,150	¥ 36,115	¥ 9,584	¥ 3,068	¥ 1,962	¥ 175,172	¥ (20,692)	¥ 154,480
Segment assets	¥680,947	¥524,558	¥362,851	¥429,503	¥193,837	¥83,277	¥55,302	¥2,330,275	¥ (51,889)	¥2,278,386
Depreciation and amortization	25,839	18,514	17,034	21,313	4,408	2,832	1,201	91,141	27	91,168
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	34,860	39,492	1,873	10,273	10,613	3,243	6,331	106,685	(451)	106,234
Capital expenditures	35,436	31,244	29,773	32,095	3,604	3,223	1,531	136,906	(350)	136,556

Thousands of U.S. dollars										
<b>Year ended March 31, 2017:</b>	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
Sales to outside customers	\$7,630,339	\$4,448,298	\$2,267,727	\$1,440,357	\$1,658,761	\$482,620	\$133,128	\$18,061,230	\$ —	\$18,061,230
Intersegment sales	8,922	142,986	67,977	4,626	606,399	18	148,672	979,599	(979,599)	—
<b>Total sales</b>	<b>\$7,639,260</b>	<b>\$4,591,283</b>	<b>\$2,335,704</b>	<b>\$1,444,982</b>	<b>\$2,265,160</b>	<b>\$482,638</b>	<b>\$281,800</b>	<b>\$19,040,829</b>	<b>\$(979,599)</b>	<b>\$18,061,230</b>
Segment income	\$ 595,080	\$ 301,230	\$ 272,086	\$ 213,574	\$ 88,271	\$ 19,144	\$ 17,736	\$ 1,507,121	\$(197,914)	\$ 1,309,207
Segment assets	\$6,435,633	\$4,830,615	\$3,429,349	\$4,108,449	\$1,821,061	\$710,624	\$512,148	\$21,847,879	\$(486,159)	\$21,361,720
Depreciation and amortization	244,742	160,597	139,947	177,959	37,709	23,004	10,775	794,733	(856)	793,877
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	239,100	379,661	16,043	76,319	89,643	24,626	68,868	894,260	(3,690)	890,570
Capital expenditures	366,693	224,002	289,100	414,073	40,499	30,704	10,312	1,375,383	(20,312)	1,355,071

#### Notes:

- "Others" represents service-related businesses such as analysis, survey and research.
- a) "Adjustments" of segment income for the year ended March 31, 2017 of ¥(22,206) million (\$197,914 thousand) includes intersegment eliminations of ¥(708) million (\$6,310 thousand) and corporate expenses of ¥(21,498) million (\$191,604 thousand). "Adjustments" of segment income for the year ended March 31, 2016 of ¥(20,692) million includes intersegment eliminations of ¥(167) million and corporate expenses of ¥(20,525) million. The corporate expenses consist of the headquarters' research expenses, etc. that are not allocated to each reportable segment.  
b) "Adjustments" of segment assets at March 31, 2017 of ¥(54,547) million (\$486,159 thousand) includes intersegment eliminations of ¥(71,516) million (\$637,398 thousand) and corporate assets of ¥16,969 million (\$151,239 thousand). "Adjustments" of segment assets at March 31, 2016 of ¥(51,889) million includes intersegment eliminations of ¥(68,133) million and corporate assets of ¥16,244 million. The corporate assets consist of the headquarters' research assets, etc. that are not allocated to each reportable segment.
- "Segment income" is reconciled to operating income.

#### (Related information)

#### Geographic information

#### Sales to outside customers

Millions of yen					
<b>Year ended March 31, 2017:</b>	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Sales to outside customers	¥976,839	¥335,469	¥376,134	¥338,028	¥2,026,470

Millions of yen					
Year ended March 31, 2016:	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Sales to outside customers	¥995,093	¥352,967	¥387,219	¥369,151	¥2,104,430

	Thousands of U.S. dollars				
	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
<b>Year ended March 31, 2017:</b>					
Sales to outside customers	\$8,706,230	\$2,989,920	\$3,352,353	\$3,012,727	\$18,061,230

Sales amounts are allocated to countries or regions according to the customers' location.

	Millions of yen					
	Japan	Asia		North America, Europe and other areas		Total
		Republic of Korea	Others	U.S.A.	Others	
<b>March 31, 2017:</b>						
Property, plant and equipment, net	¥316,310	¥186,259	¥155,441	¥122,890	¥100,534	¥881,434

	Millions of yen					
	Japan	Asia		North America, Europe and other areas		Total
		Republic of Korea	Others	U.S.A.	Others	
March 31, 2016:						
Property, plant and equipment, net	¥315,020	¥168,706	¥158,930	¥91,080	¥96,876	¥830,612

	Thousands of U.S. dollars					
	Japan	Asia		North America, Europe and other areas		Total
		Republic of Korea	Others	U.S.A.	Others	
<b>March 31, 2017:</b>						
Property, plant and equipment, net	\$2,819,162	\$1,660,062	\$1,385,392	\$1,095,276	\$896,025	\$7,855,918

#### (Information about loss on impairment of fixed assets by reportable segments)

	Millions of yen								
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
<b>Year ended March 31, 2017:</b>									
Loss on impairment	¥1,095	¥401	¥476	¥—	¥15	¥938	¥—	¥—	¥2,925

	Millions of yen								
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
Year ended March 31, 2016:									
Loss on impairment	¥—	¥5,281	¥3,297	¥—	¥485	¥—	¥—	¥—	¥9,063

	Thousands of U.S. dollars								
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
<b>Year ended March 31, 2017:</b>									
Loss on impairment	\$9,759	\$3,574	\$4,242	\$—	\$134	\$8,360	\$—	\$—	\$26,070

#### (Information about amortization and balance of goodwill by reportable segments)

	Millions of yen								
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
<b>Year ended March 31, 2017:</b>									
Amortization of goodwill	¥1,208	¥1,083	¥3,098	¥2,768	¥323	¥—	¥—	¥—	¥8,480
Balance of goodwill	8,657	3,250	14,716	16,842	2,314	—	—	—	45,779

	Millions of yen								
	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
Year ended March 31, 2016:									
Amortization of goodwill	¥1,331	¥1,132	¥3,102	¥3,116	¥356	¥—	¥—	¥—	¥9,037
Balance of goodwill	9,762	4,328	17,814	19,786	2,609	—	—	—	54,299

Thousands of U.S. dollars

Year ended March 31, 2017:	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
Amortization of goodwill	\$10,766	\$ 9,652	\$ 27,611	\$ 24,670	\$ 2,879	\$—	\$—	\$—	\$ 75,579
Balance of goodwill	77,157	28,966	131,159	150,107	20,624	—	—	—	408,012

"Others" represents service-related businesses such as analysis, survey and research.

## 18. AMOUNTS PER SHARE

Basic net income per share is computed based on the net income attributable to owners of parent 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 attributable to owners of parent 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 acquisition 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 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
	2017	2016	2017
Net income attributable to owners of parent:			
Basic	¥ 62.17	¥ 56.38	\$0.55
Diluted	62.10	56.31	0.55
Cash dividends applicable to the year	14.00	13.00	0.12
Net assets	638.64	591.50	5.69

## 19. RELATED PARTY TRANSACTIONS

### Corporate pension for employees

#### Year ended March 31, 2017

Name	Retirement benefit trust
Category	Corporate pension
Relationship	Plan assets under retirement benefit accounting
Description of the transaction	Return of part of assets
Amount of the transaction	¥21,632 million (\$192,799 thousand)

Year ended March 31, 2016

No items to be reported.



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## Independent Auditor's Report

The Board of Directors  
Toray Industries, Inc.

We have audited the accompanying consolidated financial statements of Toray Industries, Inc. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

### *Management's Responsibility for the Consolidated Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toray Industries, Inc. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### *Convenience Translation*

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 27, 2017  
Tokyo, Japan