

Disclosed information on the Internet at the Time  
of Notifying Convocation of the 139th Ordinary  
General Meeting of Stockholders

Organization and Policies of the Company  
Consolidated Statement of Changes in Net Assets  
Notes to Consolidated Financial Statements  
Nonconsolidated Statement of Changes in Net Assets  
Notes to Nonconsolidated Financial Statements  
(From April 1, 2019 to March 31, 2020)

Toray Industries, Inc.

All matters above are provided to stockholders of the Company on the website of the Company on the Internet ([www.toray.com](http://www.toray.com)) in accordance with laws and regulations, and the provision of the Articles of Incorporation of the Company.

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## Organization and Policies of the Company

System to ensure that the members of the Board perform their duties in compliance with laws and regulations as well as the Articles of Incorporation, and other systems for ensuring appropriate business operations.

Following are the basic policy on the internal control system resolved by the Board of Directors of the Company and the principal activities conducted during the period under review based on the policy (“Overview of Operation”).

### [Contents of the Basic Policy]

To realize the Management Philosophy, the Company shall establish a structure to execute its business legally and effectively by improving its internal control system according to the following basic policy as a structure to enable it to appropriately establish organization, formulate regulations, communicate information, and monitor the execution of operations.

1. System to ensure that the execution of duties by members of the Board and employees complies with laws and regulations and the Company’s Articles of Incorporation

### [Contents of the Basic Policy]

- (1) Toray shall establish the Corporate Ethics and Compliance Committee, as one of the Group-wide committees to promote observance of corporate ethics and legal compliance, and shall take other measures to improve the required internal systems, including the establishment of dedicated organizations.
- (2) Toray shall establish the Corporate Ethics and Legal Compliance Code of Conduct as specific provisions to be observed by members of the Board and employees, and shall take other measures to improve the required guidelines, etc. Especially with regard to eliminating relations with antisocial forces, the Company shall act as one to stand firmly against them.
- (3) Toray shall establish an internal reporting system (whistle-blowing system) for the reporting of the discovery of violation of laws, regulations, or the Company’s Articles of Incorporation.
- (4) Toray shall establish Security Trade Control Program, one of the most important legal compliance issues, and establish an organization dedicated to security export control.

### [Overview of Operations]

- (1) During the period under review, the Company held the Board of Directors meetings fourteen times and the Corporate Ethics and Compliance Committee twice.
- (2) In accordance with the Regulations on Corporate Ethics and Compliance, the Company strove to detect company misconduct in the earlier stage, investigated all instances of company misconduct and scandals, their causes, and the parties responsible, and resolved such cases accordingly while carrying out measures to prevent recurrences.
- (3) The Company has established Corporate Ethics and Legal Compliance Guidelines specifying the details of the Corporate Ethics and Legal Compliance Code of Conduct. The Company has formulated and distributed the Corporate Ethics and Legal Compliance Handbook, a compilation of issues to which all Board members and employees should pay attention, including the above.
- (4) The Company established the Toray Group Policy for Human Rights in December 2017.
- (5) The Company handles all internal whistle-blowing according to the predetermined procedures.
- (6) The Company has established the Security Trade Administration Dept. as a department dedicated to security export control. The Company has also established the Security Trade Administration Committee as a company-wide committee, held a meeting of the Security Trade Administration Committee once during the period under review, and checked the results of activities and deliberated issues for initiatives.

2. System to ensure the efficient execution of duties by members of the Board

### [Contents of the Basic Policy]

- (1) Toray shall establish the Authority of Top Management to stipulate matters with respect to which decision-making authority is reserved by the Board of Directors and matters with respect to which decision-making is delegated to the President, General Managers, etc., from among matters necessary for decision-making.
- (2) Toray shall establish the Executive Committee as deliberative organs for important matters decided by the Board of Directors or the President. The Executive Committee shall deliberate on the general direction of policy or issues related to implementation.

[Overview of Operations]

- (1) During the period under review, the Company revised part of the Authority of Top Management in July 2019.
  - (2) During the period under review, the Company held the Executive Committee meetings twenty-two times.
3. System for preserving and managing information pertaining to the execution of duties by the members of the Board

[Contents of the Basic Policy]

- (1) Toray shall establish regulations for important documents and important information related to management, confidential information and personal information, and appropriately preserve and manage them in accordance with the rules.

[Overview of Operations]

- (1) The Company established the Confidential Information Management Regulations as a set of company-wide regulations, prescribed a confidential information management standard for each division, department and plant, and periodically provided training sessions and made them thoroughly familiar to all officers and employees of the Company.

4. Regulations and other systems pertaining to controls over risks of loss

[Contents of the Basic Policy]

- (1) In order to identify potential risks in business activities, strive to mitigate such risks under normal business conditions, and prevent future crises, Toray shall establish the Risk Management Committee as one of the Group-wide committees to promote company-wide risk management, and improve regulations to enable immediate implementation in the event of a major crisis.
- (2) Toray shall establish an internal control system for financial reporting that ensures the reliability of financial reporting.

[Overview of Operations]

- (1) The Company established Risk Management Regulations. During the period under review, the Company held the Risk Management Committee, one of the company-wide committees, once.
- (2) In June 2019, the Company prepared and submitted an internal control report to the effect that internal control related to financial reporting was effective.

5. System for ensuring appropriate business operations within subsidiaries

[Contents of the Basic Policy]

- (1) To establish a system under which subsidiaries report to the Company on matters regarding the execution of duties by members of the Board, etc. of the subsidiaries, the Company shall provide regulations on the regular reporting of important management information to the Company and regularly hold conferences at which the Company's management receives direct reports on the status of the management of the subsidiaries.
- (2) To establish regulations and other systems pertaining to controls over risks of loss for subsidiaries, the Company shall provide subsidiaries with guidance to help them to establish risk management systems appropriate for their respective business forms and business environments, and shall receive regular reports on the status of their activities.
- (3) To establish a system for ensuring that members of the Board, etc. of subsidiaries effectively execute their duties, the Company shall provide regulations on the scope under which the Company can reserve its authority over the execution of business operations. In addition, the Company shall endeavor to grasp management information in a unified manner and provide assistance and guidance necessary for subsidiaries by determining divisions, etc. with control over its respective subsidiaries.
- (4) To establish a system for ensuring that the execution of duties by members of the Board, etc. and employees of subsidiaries complies with laws and regulations and the Articles of Incorporation, the Company shall thoroughly familiarize its subsidiaries with the Company's Corporate Ethics and Legal Compliance Code of Conduct as a code of conduct in common for the Toray Group. At the same time, the Company shall request the subsidiaries to establish their own codes of conduct, guidelines, etc. in consideration of the laws and regulations, business practices, business forms, and other factors in their respective countries. In addition, the Company shall direct its subsidiaries to establish systems under which the status of internal whistle-blowing by members of the Board, etc. and employees of the subsidiaries is appropriately reported to the Company.

[Overview of Operations]

- (1) The Company established a Standard for Assistance and Administration for Domestic Group Companies and a Standard for Assistance and Administration for Overseas

Group Companies as regulations governing the subsidiaries' reports on important management information. During the period under review, the Company made partial amendments to the two standards. The Company also held a Domestic Group Company Conference once during the period under review as a conference at which the top management directly received reports from subsidiaries on their business conditions. The Company also held the respective regional committees for overseas Group companies, when appropriate.

- (2) The Company checked the results of activities performed to establish risk management systems at the subsidiaries. The Company also promoted the development of Risk Management Regulations in subsidiaries.
  - (3) The Company stipulated the scope under which the Company can reserve its authority over the execution of business operations by subsidiaries in Guidelines for Reserving Authority over Domestic Group Companies and Standards for the Execution of Business Operations at Overseas Group Companies.
  - (4) With respect to the matters stated in 1. (2) and (3) of the Overview of Operations, the Company applies them to its subsidiaries and makes them thoroughly familiar to its subsidiaries, in consideration of the laws, regulations, and business practices of the countries in which the subsidiaries are located. The Company established the Corporate Ethics and Legal Compliance Helpline System, a system for receiving internal whistle-blowing on seriously fraudulent acts from the overall Group.
6. System for reporting to corporate auditors and systems for ensuring that persons who report to corporate auditors are not treated disadvantageously because of their reporting

[Contents of the Basic Policy]

- (1) Members of the Board, etc. and employees of Toray Group and corporate auditors of subsidiaries shall report matters regarding the execution of duties to corporate auditors in response to requests from the corporate auditors.
- (2) Department in charge of the internal reporting system (whistle-blowing system) shall regularly report the status of internal whistle-blowing in the Toray Group to the corporate auditors.
- (3) Toray shall stipulate regulations to the effect that members of the Board and employees who report to corporate auditors shall not be subjected to any disadvantageous treatment because of the said reporting, and shall provide subsidiaries with guidance to help them stipulate the same regulations.

[Overview of Operations]

- (1) At the meetings with the corporate auditors and the audits by the corporate auditors, the members of the Board, etc. and employees of Toray Group and corporate auditors of subsidiaries reported matters regarding the execution of duties to the corporate auditors and otherwise responded to requests from the corporate auditors.
  - (2) The Department in charge of the internal reporting system (whistle-blowing system) appropriately reported the status of internal whistle-blowing to the corporate auditors each time the department received internal whistle-blowing reports, and otherwise regularly reported to the corporate auditors.
  - (3) Based on the Whistleblower Protection Act, the Company stipulated the prohibition of disadvantageous treatment in the Unified Labor Agreement, Central Labor Agreement, and Work Regulations. In addition, the Company instructs its subsidiaries to formulate similar regulations in consideration of laws and regulations, etc. of the countries in which the subsidiaries are located.
7. Items pertaining to the handling of expenses and liabilities arising from the execution of duties by corporate auditors

[Contents of the Basic Policy]

- (1) Toray shall pay expenses, etc. incurred from the execution of duties by corporate auditors.

[Overview of Operations]

- (1) The Company pays expenses, etc. incurred from the execution of duties by corporate auditors.
8. Items pertaining to employees assisting with corporate auditors' duties, items pertaining to the independence of said employees from members of the Board, and items pertaining to the assurance of effectiveness of instructions from the corporate auditors to said employees

[Contents of the Basic Policy]

- (1) Toray shall assign a full-time employee to provide assistance if and when corporate auditors request assistance. The said employee shall exclusively follow the corporate auditors' commands and instructions, and the Company shall consult with corporate auditors in advance with respect to the personnel arrangements for the said employee.

[Overview of Operations]

(1) The Company established a Corporate Auditors Office in June 2019 as a staff organization under the direct control of corporate auditors, to assist corporate auditors in the performance of their duties.

9. Other systems for ensuring effective implementation of audits by corporate auditors

[Contents of the Basic Policy]

- (1) Corporate auditors shall attend Board of Directors meetings and other important meetings so that they may ascertain important decision-making processes and the execution of operations.
- (2) Corporate auditors shall hold regular meetings with members of the Board and management and conduct regular visiting audits of Toray offices, plants, and subsidiaries.

[Overview of Operations]

- (1) During the period under review, the corporate auditors attended all fourteen meetings of the Board of Directors and all twenty-two meetings of the Executive Committee.
- (2) In accordance with auditing policy and plans formulated by the Board of Corporate Auditors in July 2019, corporate auditors held meetings with members of the Board as well as divisional and departmental general managers during the period under review, and conducted audits of the Company's offices and plants as well as Japanese and overseas subsidiaries.

## Consolidated Statement of Changes in Net Assets

Toray Industries, Inc. and Subsidiaries  
April 1, 2019 - March 31, 2020

Millions of yen					
	Stockholders' equity				Total stockholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	
Balance at beginning of the fiscal year	¥147,873	¥117,760	¥817,263	¥(20,358)	¥1,062,538
Changes during the fiscal year:					
Cash dividend			(25,612)		(25,612)
Net income attributable to owners of parent			55,725		55,725
Purchase of treasury stock				(1)	(1)
Disposal of treasury stock		10		51	61
Change in equity attributable to parent arising from transaction with non-controlling shareholders		292			292
Other			1,892		1,892
Net changes in items other than stockholders' equity during the fiscal year					
Total changes during the fiscal year	—	302	32,005	50	32,357
Balance at end of the fiscal year	¥147,873	¥118,062	¥849,268	¥(20,308)	¥1,094,895

Millions of yen								
	Accumulated other comprehensive income					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains (losses) on securities	Net deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the fiscal year	¥64,662	¥75	¥896	¥2,862	¥68,495	¥1,338	¥81,573	¥1,213,944
Changes during the fiscal year:								
Cash dividend								(25,612)
Net income attributable to owners of parent								55,725
Purchase of treasury stock								(1)
Disposal of treasury stock								61
Change in equity attributable to parent arising from transaction with non-controlling shareholders								292
Other								1,892
Net changes in items other than stockholders' equity during the fiscal year	(20,566)	1,087	(45,010)	(5,153)	(69,642)	264	2,649	(66,729)
Total changes during the fiscal year	(20,566)	1,087	(45,010)	(5,153)	(69,642)	264	2,649	(34,372)
Balance at end of the fiscal year	¥44,096	¥1,162	¥(44,114)	¥(2,291)	¥(1,147)	¥1,602	¥84,222	¥1,179,572

Note: Figures are shown rounded to the nearest ¥1 million.

## Notes to Consolidated Financial Statements

### Notes to Basis of Presenting Consolidated Financial Statements, etc.

#### 1. Principles of Consolidation of Toray Group

##### (1) Number of Subsidiaries: 185

Names of major consolidated subsidiaries are omitted here as they are shown in “(6) Major Subsidiaries” of “1. Review of Operations of Toray Group.”

Effective from the year ended March 31, 2020, three subsidiaries were consolidated due to establishment and other reasons, and three subsidiaries were removed from consolidation due to absorption-type merger and other reasons.

##### (2) Names of major unconsolidated subsidiaries

The major unconsolidated subsidiaries are Meinan Service, Inc. and Toray International Taipei Inc.

(Main reason for exclusion of subsidiaries from consolidation)

Unconsolidated subsidiaries are small in scale and the Company’s interests in their respective amounts of total assets, net sales and net income as well as retained earnings do not significantly affect the Group’s consolidated financial statements.

#### 2. Application of Equity Method

##### (1) Number of unconsolidated subsidiaries accounted for by the equity method: 61

Meinan Service, Inc. and Toray International Taipei Inc. are major unconsolidated subsidiaries. Effective from the year ended March 31, 2020, six subsidiaries were included in the list of unconsolidated subsidiaries subject to the equity method due to their increased significance and other reasons.

##### (2) Number of affiliated companies accounted for by the equity method: 36

Major affiliated companies are Dow Toray Co., Ltd. and Du Pont-Toray Co., Ltd. Effective from the year ended March 31, 2020, two companies were included in the list of those accounted for by the equity method due to their increased significance, and one company was removed from the list of those accounted for by the equity method because that company was included in the list of unconsolidated subsidiaries subject to the equity method as a company deemed to be substantially controlled by the Company.

##### (3) Toray Fibers & Textiles Research Laboratories (China) Co., Ltd. and other 18 unconsolidated subsidiaries were removed from the list of subsidiaries accounted for by the equity method due to the overall insignificance of the Company’s interests in their respective amounts of net income and retained earnings which might not affect the consolidated financial statements in any significant way.

##### (4) Chiyoda Video Co., Ltd. and other four affiliated companies are not subject to the equity method due to the overall insignificance of the Company’s interests in their respective amounts of net income and retained earnings which might not affect the consolidated financial statements in any significant way.

#### 3. Significant Accounting Policies

##### (1) Valuation of major assets:

###### (a) Valuation of securities:

Held-to-maturity debt securities:

Amortized cost method (Straight-line method).

Other securities:

With readily determinable market value:

Based on market value at the end of the year (unrealized gains and losses are accounted for as “net unrealized gains (losses) on securities” in net assets and sales costs are determined by the moving-average cost method).

With non-readily determinable market value:

Moving-average cost method.

###### (b) Derivative financial instruments: Based on market value.

###### (c) Valuation of inventories:

Principally moving-average cost method (balance sheets amounts are lower of the acquisition cost or the net selling value, due to decreased profitability of inventories)

##### (2) Depreciation and amortization for major fixed assets:

###### (a) Property, plant and equipment (except lease assets and right-of-use assets):

Principally straight-line method

###### (b) Intangible assets (except lease assets):

Straight-line method

As for software (for internal use), principally the straight-line method is used with a useful life of 5 years.

###### (c) Lease assets:

Principally, a depreciation method is identical to the method applicable to its own fixed assets.

###### (d) Right-of-use assets:

Straight-line method

##### (3) Reserves:

###### (a) Allowance for doubtful accounts:

The allowance for doubtful accounts, including receivables and loans, is determined from the amounts considered unlikely to be recovered, estimated from claim rate records for general receivables and from studying the probability of recovery in individual cases where there is concern over claims.

###### (b) Reserve for employees’ bonuses:

The reserve for employees’ bonuses is based on the expected liability for the total bonus amount payable to employees during the year ended March 31, 2020.

###### (c) Reserve for bonuses of members of the Board:

The reserve for bonuses of members of the Board is based on the expected liability for the total bonus amount payable to directors during the year ended March 31, 2020.

###### (d) Reserve for retirement benefits of members of the Board and corporate auditors:

The reserve for retirement benefits of members of the Board and corporate auditors represents the amount required at the end of the year ended March 31, 2020 based on internal regulations.

- (4) Translation of foreign currency transactions and foreign currency financial statements:  
All monetary assets and liabilities denominated in the same 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.  
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 respective 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 period's average rate of exchange. 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 stockholders which is included in "non-controlling interests" in net assets.
- (5) Hedge transactions:  
The Company and its consolidated subsidiaries apply the deferral accounting method for hedging transactions. For hedging foreign currency exchange rate risk, the allocation method is applied whenever the specific requirements for these transactions are met, while the special accounting method is applied for interest rate swap agreements in cases where the specific requirements for this treatment are fulfilled.
- (6) Net defined benefit liability:  
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 at the end of the year ended March 31, 2020 net of the value of pension assets.  
Past service costs are amortized using the straight-line method over a certain period within the employees' average remaining years of service (primarily 12 years) when the costs are incurred.  
Actuarial gains and losses are amortized using the straight-line method over a certain period within the employees' average remaining years of service (primarily 12 years) from the following period.  
Unrecognized actuarial gains and losses and unrecognized past service costs are recognized in remeasurements of defined benefit plans in accumulated other comprehensive income under the net assets section, net of deferred taxes.
- (7) Amortization of goodwill and its period:  
Goodwill is generally amortized on a straight-line basis over its estimated useful life within twenty years.
- (8) Consumption taxes:  
Consumption taxes are not included in sales or in expense accounts.
- (9) Consolidated taxation system:  
The Company and some of its consolidated subsidiaries adopted the consolidated taxation system.

- (10) Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system  
With regard to items to be transitioned to a group tax sharing system instituted in the "Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020)" and items to be amended in the non-consolidated taxation system in line with the transition to the group tax sharing system, the Company and some of its domestic consolidated subsidiaries did not apply the provision of Paragraph 44 of the "Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018)," pursuant to Paragraph 3 of the "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020)." Accordingly, the amounts of deferred tax assets and deferred tax liabilities are stated based on the provisions of tax acts in effect before the amendments.

## Notes to Changes in Accounting Policies

Effective from the year ended March 31, 2020, overseas subsidiaries subject to the International Financial Reporting Standards (IFRS) have applied IFRS 16 "Leases." Accordingly, those subsidiaries recognize assets and liabilities for all leases in which they are lessees, in principle, and some of the assets that have been included in "Investments and other assets" are reclassified to "Property, plant and equipment." When applying IFRS 16, the cumulative effect of the application is recognized at the beginning of application, in accordance with transitional measures.  
As a result, "Other" in "Property, plant and equipment," "Other current liabilities" in "Current liabilities," and "Other noncurrent liabilities" in "Noncurrent liabilities" as of the end of the fiscal year ended March 31, 2020 increased by ¥20,735 million, ¥2,676 million, and ¥8,971 million, respectively, and "Other" in "Investments and other assets" decreased by ¥9,278 million. The effect of the changes on the profit or loss for the fiscal year ended March 31, 2020 is immaterial.

## Notes to Consolidated Balance Sheet

(Millions of yen)

1. Accumulated depreciation for property, plant and equipment	¥	2,008,452
2. Assets pledged as collateral and debts with collateral		
Assets pledged as collateral:		
Cash and time deposits	¥	908
Property, plant and equipment, net	¥	247
Investment securities	¥	1,236
Other in Investments and other assets	¥	655
Debts with collateral:		
Notes and accounts payable - trade	¥	4,547
Short-term borrowings	¥	1,000
Long-term borrowings due within one year	¥	71
Long-term borrowings	¥	268
3. Guarantees of bank loans, etc. of subsidiaries and affiliated companies	¥	7,708
Guarantees of bank loans, etc. of clients	¥	2,791
4. Discounted notes receivable - trade	¥	1,977
Endorsed notes receivable - trade	¥	1,160
Discounted export bills	¥	8,156
5. Contingent liabilities associated with securitization of receivables	¥	552
6. Total committed lines of credit*	¥	380
Loans receivables outstanding	¥	207
Balance	¥	173

\* This commitment does not necessarily mean that the Company will extend loans to the maximum limit, since every provision of funds has been made after financial positions and cash flows of the respective subsidiaries and affiliated companies have been taken into consideration by the Company.

## Notes to Consolidated Statement of Changes in Net Assets

1. Number of shares in issue and outstanding as of the end of the year ended March 31, 2020  
Common stock 1,631,481,403 shares

### 2. Dividends

(1) Amounts paid during the year ended March 31, 2020

Resolution	Ordinary General Meeting of Stockholders held on June 25, 2019	Board of Directors Meeting held on November 7, 2019
Class of shares	Common stock	Common stock
Total amount	¥12,806 million	¥12,806 million
Dividend per share	¥8	¥8
Record date	March 31, 2019	September 30, 2019
Effective date	June 26, 2019	December 2, 2019

(2) For dividends with record dates that fall in the year ended March 31, 2020, dividends with effective dates that fall after the end of the year ended March 31, 2020.

The Company will propose, at the Ordinary General Meeting of Stockholders to be held on June 23, 2020, the distribution of the following dividend on common stock:

- (a) Total amount: ¥12,806 million
- (b) Dividend per share (yen): ¥8
- (c) Record date: March 31, 2020
- (d) Effective date: June 24, 2020

Retained earnings are scheduled to be used as a dividend resource.

3. Class and number of shares to be issued upon exercise of the stock acquisition rights (excluding those rights whose exercise period has not yet commenced) as of the end of the year ended March 31, 2020  
Common stock 2,389,000 shares

## Notes to Financial Instruments

### 1. Conditions of financial instruments

#### (1) Policy in relation to financial instruments

The policy of Toray Group (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 Group uses derivatives to hedge risks associated with foreign currency exchange rates and fluctuations of borrowing interest rates and does not enter into derivative transactions for speculative or trading purposes.

#### (2) Contents and risk of financial instruments and risk management system

Notes and accounts receivable - trade 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 the foreign currency exchange risk. The Group

hedges 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 Group mainly uses currency swaps to hedge the foreign currency exchange risk of borrowings 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.

Notes and accounts payable - trade are operating payables, most of which are due and payable within one year.

Short-term borrowings and commercial paper are financing instruments mainly for operating transactions, while long-term borrowings and bonds are primarily for capital expenditures. Borrowings and bonds are exposed to the risk of interest rate fluctuation. Those with floating rates bear the risk of higher nominal interest expenses when interest rates rise, whereas those with fixed rates bear the risk of higher real interest expenses when interest rates fall. The Group uses 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.

The method for hedge accounting is stated in "Notes to Basis of Presenting Consolidated Financial Statements, etc." 3. (5). Derivative transactions are executed and managed in accordance with the internal regulations prescribing the authorizations for transactions. To mitigate credit risk, the Group carries out derivative transactions only with highly rated financial institutions.

### (3) Supplemental explanation on fair value of financial instruments

The fair value of financial instruments is based on market prices, or reasonable estimates 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.

### 2. Fair value of financial instruments

Carrying value, fair value and difference as of March 31, 2020 are as follows.

In addition, financial instruments, for which it is extremely difficult to measure the fair value, are not included. (See note 2)

	Carrying value (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and time deposits	¥173,698	¥173,698	—
(2) Notes and accounts receivable - trade	483,761	483,761	—
(3) Investment securities			
(a) Held-to-maturity debt securities	78	81	3
(b) Investment securities in subsidiaries and affiliated companies	50,503	39,022	(11,481)
(c) Other securities	164,176	164,176	—
<b>Assets</b>	<b>872,216</b>	<b>860,738</b>	<b>(11,478)</b>
(1) Notes and accounts payable - trade	212,323	212,323	—
(2) Short-term borrowings	132,358	132,358	—
(3) Commercial paper	10,000	10,000	—
(4) Bonds	290,000	289,746	(254)
(5) Long-term borrowings (*1)	491,199	491,182	(17)
<b>Liabilities</b>	<b>1,135,880</b>	<b>1,135,609</b>	<b>(271)</b>
Derivative transactions (*2)			
(a) Hedge accounting is not applied	(450)	(450)	—
(b) Hedge accounting is applied	1,837	1,837	—
<b>Derivative transactions</b>	<b>1,387</b>	<b>1,387</b>	<b>—</b>

\*1: Long-term borrowings include long-term borrowings due within one year.

\*2: Receivables and payables arising from derivative transactions are indicated in net amounts. Total net payables, if any, are shown in parenthesis.

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

##### Assets

##### (1) Cash and time deposits and (2) Notes and accounts receivable - trade

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.

##### (3) Investment securities

Equity securities are valued at quoted market price. Bonds, etc. are valued at quoted market price or at the price provided by financial institutions.

## Liabilities

- (1) Notes and accounts payable - trade, (2) Short-term borrowings, and (3) 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.
- (4) Bonds  
The fair value of bonds is based on market price.
- (5) Long-term borrowings  
The fair value of long-term borrowings is estimated by discounting the principal amounts and interest based on estimated interest rates if similar new borrowings were entered into in the year ended March 31, 2020. The fair value of long-term borrowings 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 borrowings were entered into in the year ended March 31, 2020. For long-term borrowings 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

- (a) Hedge accounting is not applied  
The fair value of derivative transactions for which hedge accounting is not applied is the forward foreign exchange quotation or the price provided by financial institutions.
- (b) Hedge accounting is applied  
The fair value of derivative transactions for which hedge accounting is applied is the forward foreign exchange quotation or the price provided by financial institutions. However, the fair value of a derivative transaction subject to the special accounting method for interest rate swaps is included in the fair value of long-term borrowings because the derivative transactions are accounted for together with the hedged long-term borrowings. The fair value of forward foreign exchange contracts, etc. to which the allocation method is applied, except for forecasted transactions, is included in the fair value of receivables, payables, long-term borrowings, etc. because such forward foreign exchange contracts are accounted for together with the corresponding receivables and payables, long-term borrowings, etc.

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

	Carrying value (Millions of yen)
Unlisted equity securities	¥87,012

These securities have no quoted market price and the fair value is extremely difficult to determine. Therefore, they are not included in “Assets (3) (b) Investment securities in subsidiaries and affiliated companies and (c) Other securities.”

## Notes to Per Share Information

1. Net assets per share: ¥683.61  
2. Net income per share: ¥34.83

## Other Notes

(Additional information)

The Company’s accounting estimates were premised on the assumption that the world economy, which was severely stalled by the COVID-19 pandemic, would begin recovering from the second half of fiscal 2020, but that the recovery would be slow and would not be complete until fiscal 2021 or later.

## Nonconsolidated Statement of Changes in Net Assets

Toray Industries, Inc.  
April 1, 2019 - March 31, 2020

Millions of yen							
	Stockholders' equity						
	Common stock	Capital surplus		Legal reserve	Retained earnings		
		Additional paid-in capital	Other capital surplus		Other retained earnings		Retained earnings brought forward
				Reserve for tax purpose reduction entry	General reserve		
Balance at beginning of the fiscal year	¥147,873	¥136,727	¥16	¥24,234	¥12,795	¥112,000	¥183,221
Changes during the fiscal year:							
Cash dividend							(25,612)
Reversal of reserve for tax purpose reduction entry					(469)		469
Net income							5
Purchase of treasury stock							
Disposal of treasury stock			10				
Net changes in items other than stockholders' equity during the fiscal year							
Total changes during the fiscal year	—	—	10	—	(469)	—	(25,139)
Balance at end of the fiscal year	¥147,873	¥136,727	¥26	¥24,234	¥12,326	¥112,000	¥158,082

Millions of yen							
	Stockholders' equity		Valuation, translation adjustments and other			Stock acquisition rights	Total net assets
	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains (losses) on securities	Net deferred gains (losses) on hedges	Total valuation, translation adjustments and other		
Balance at beginning of the fiscal year	¥(19,779)	¥597,088	¥59,872	¥39	¥59,911	¥1,338	¥658,336
Changes during the fiscal year:							
Cash dividend		(25,612)					(25,612)
Reversal of reserve for tax purpose reduction entry		—					—
Net income		5					5
Purchase of treasury stock	(1)	(1)					(1)
Disposal of treasury stock	52	61					61
Net changes in items other than stockholders' equity during the fiscal year			(19,380)	1,042	(18,338)	264	(18,074)
Total changes during the fiscal year	50	(25,547)	(19,380)	1,042	(18,338)	264	(43,621)
Balance at end of the fiscal year	¥(19,729)	¥571,541	¥40,492	¥1,081	¥41,573	¥1,602	¥614,716

Note: Figures are shown rounded to the nearest ¥1 million.

## Notes to Nonconsolidated Financial Statements

### Notes (Significant Accounting Policies)

1. Valuation of securities:
  - Equity securities issued by subsidiaries and affiliated companies:
    - Moving-average cost method
  - Other securities:
    - With readily determinable market value:
      - Based on market value at the end of the period (unrealized gains and losses are accounted for as “net unrealized gains on securities” in net assets and sales costs are determined by the moving-average cost method)
    - With non-readily determinable market value:
      - Moving-average cost method
2. Valuation of inventories:
  - Moving-average cost (balance sheets amounts are lower of the acquisition cost or the net selling value, due to decreased profitability of inventories)
3. Depreciation and amortization for fixed assets:
  - Property, plant and equipment: Straight-line method
  - Intangible assets: Straight-line method
  - As for software (for internal use), the straight-line method is used with a useful life of 5 years.
4. Reserves:
  - Allowance for doubtful accounts:*  
The allowance for doubtful accounts, including receivables and loans, is determined from the amounts considered unlikely to be recovered, estimated from claim rate records for general receivables and from studying the probability of recovery in individual cases where there is concern over claims.  
*Reserve for employees' bonuses:*  
The reserve for employees' bonuses is based on the expected liability for the total bonus amount payable to the employees during the year ended March 31, 2020.  
*Reserve for bonuses of members of the Board:*  
The reserve for bonuses of members of the Board is based on the expected liability for the total bonus amount payable to directors during the year ended March 31, 2020.  
*Reserve for employees' retirement benefits:*  
The reserve for employees' retirement benefits is based on the expected retirement benefit obligations payable to employees and the value of pension assets at the end of the year ended March 31, 2020. Past service costs are amortized using the straight-line method over a certain period within the employees' average remaining years of service (12 years) when the costs are incurred. Actuarial gains and losses are amortized using the straight-line method, over a certain period within the employees' average remaining years of service (12 years), from the following period.  
*Reserve for loss on guarantees:*  
Reserve for loss on guarantees represents the loss estimated based on the financial conditions, etc. of the guaranteed companies.  
*Reserve for loss on business of subsidiaries and affiliated companies:*  
Reserve for loss on business of subsidiaries and affiliated companies represents the loss estimated based on consideration of the financial conditions and business results, etc. of the subsidiaries and affiliated companies.
5. Hedge transactions:
  - The Company applies the deferral accounting method for hedging transactions. For hedging foreign currency exchange rate risk, the Company applies the allocation method whenever the specific requirements for these transactions are met, while the special accounting method is applied for interest rate swap agreements in cases where the specific requirements for this treatment are fulfilled.
6. Retirement benefits:
  - The accounting method adopted for actuarial gains and losses and unrecognized past service costs in relation to retirement benefits in the nonconsolidated financial statements differs from the accounting method for the same items in the consolidated financial statements.
7. Consumption taxes:
  - Consumption taxes are not included in sales or in expense accounts.
8. Consolidated taxation system:
  - The Company adopts the consolidated taxation system.
9. Tax effect accounting for the transition from the consolidated taxation system to the group tax sharing system
  - With regard to items to be transitioned to a group tax sharing system instituted in the “Act for Partial Amendment of the Income Tax Act, etc. (Act No. 8 of 2020)” and items to be amended in the non-consolidated taxation system in line with the transition to the group tax sharing system, the Company did not apply the provision of Paragraph 44 of the “Implementation Guidance on Tax Effect Accounting (ASBJ Guidance No. 28, February 16, 2018),” pursuant to Paragraph

3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System (PITF No. 39, March 31, 2020).” Accordingly, the amounts of deferred tax assets and deferred tax liabilities are stated based on the provisions of tax acts in effect before the amendments.

## Notes to Nonconsolidated Balance Sheet

(Millions of yen)

1. Accumulated depreciation for property, plant and equipment	¥	1,072,151
2. Guarantees of bank loans, etc. of subsidiaries and affiliated companies (including guarantee obligations)	¥	57,487
Guarantees of bank loans, etc. of clients	¥	4
3. Total committed lines of credit*	¥	83,930
Loans receivable outstanding	¥	22,938
Balance	¥	60,992
* This commitment does not necessarily mean that the Company will extend loans to the maximum limit, since every provision of funds has been made after financial positions and cash flows of the respective subsidiaries and affiliated companies have been taken into consideration by the Company.		
4. Amounts due from and amounts due to subsidiaries and affiliated companies:		
Short-term amounts due from subsidiaries and affiliated companies	¥	98,198
Long-term receivables from subsidiaries and affiliated companies	¥	277
Short-term amounts due to subsidiaries and affiliated companies	¥	83,053
Long-term payable to subsidiaries and affiliated companies	¥	568

## Notes to Nonconsolidated Statement of Income

(Millions of yen)

Transactions with subsidiaries and affiliated companies:	
Sales of goods to subsidiaries and affiliated companies	¥ 292,301
Purchases of goods from subsidiaries and affiliated companies	¥ 173,414
Transactions other than operating transactions with subsidiaries and affiliated companies	¥ 68,220

## Note to Nonconsolidated Statement of Changes in Net Assets

Type and number of shares of treasury stock at March 31, 2020

Common stock	30,707,673 shares
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## Notes to Tax Effect Accounting

Details of recognition of deferred tax assets and liabilities by principal causes

(Millions of yen)

Deferred tax assets:	
Investment securities in subsidiaries and affiliated companies	¥ 35,394
Reserve for employees' retirement benefits	¥ 21,266
Reserve for employees' bonuses	¥ 2,541
Other	¥ 22,114
Gross deferred tax assets	¥ 81,315
Valuation allowance	¥(41,761)
Total deferred tax assets	¥ 39,554
Deferred tax liabilities:	
Unrealized gains on securities	¥(19,801)
Securities returned from retirement benefit trust	¥(5,712)
Prepaid pension cost	¥(5,518)
Reserve for advanced depreciation of fixed assets for tax purposes	¥(5,440)
Other	¥(1,083)
Total deferred tax liabilities	¥(37,554)
Net deferred tax assets	¥2,000

## Transactions with Related Parties

Type	Name of company, etc.	Ownership percentage of voting rights, etc.	Relationship with related parties	Details of transaction	Transaction amount (Millions of yen)	Account	Balance as of the end of the fiscal year (Millions of yen)
Subsidiary	Toray International, Inc.	Direct 100%	Business transactions, loans of funds, members of the Board or corporate auditors serving concurrently	Sales of goods, etc. (Note 1)	199,093	Accounts receivable - trade	41,960
				Purchases of goods, etc. (Note 1)	96,797	Accounts payable - trade	9,059
Subsidiary	Toray Composite Materials America, Inc.	Indirect 100%	Guarantee liability, members of the Board or corporate auditors serving concurrently	Guarantee liability (Note 2)	19,373	—	—
Subsidiary	Toray Engineering Co., Ltd.	Direct 100%	Purchase of facilities, deposit of surplus funds received, members of the Board or corporate auditors serving concurrently	Deposit of surplus funds received (Note 3)	—	Deposits received	13,036

The transaction amounts in the table referred to above do not include consumption taxes, but the balances as of the end of the fiscal year include consumption taxes.

Conditions of transactions and policy for determining conditions of transactions:

Note 1: Conditions of transactions for sales, purchases of goods, etc. are determined by the same methods used to determine the general terms and conditions of business, based on considerations of market value and other factors.

Note 2: The Company has guaranteed the obligations related to the energy supply agreement concluded by Toray Composite Materials America, Inc.

Note 3: The interest rates for the deposits of surplus funds received are determined based on considerations of the market interest rates.

## Notes to Per Share Information

1. Net assets per share: ¥383.01

2. Net income per share: ¥0.00

## Other Notes

The notes are omitted here as they are shown in "Other Notes" of the "Notes to Consolidated Financial Statements."