
FINANCIAL SECTION

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Ten-Year Summary of Selected Financial Data

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

	2009	2010	2011
Net sales*1,3	¥ 1,471,561	¥ 1,359,631	¥ 1,539,693
Fibers & Textiles	568,996	525,204	584,115
Performance Chemicals	—	—	—
Carbon Fiber Composite Materials	70,390	50,676	67,018
Environment & Engineering	160,207	159,787	178,183
Life Science	—	46,656	52,430
Others	—	14,140	13,621
Plastics & Chemicals	377,644	332,735	382,299
IT-related Products	229,421	230,433	262,027
Life Science & Other Businesses	64,903	—	—
Operating income	36,006	40,107	100,087
Income (loss) before income taxes	(19,751)	(2,415)	82,893
Net income (loss) attributable to owners of parent	(16,326)	(14,158)	57,925
Net cash provided by operating activities	38,447	166,215	129,214
Depreciation and amortization	83,764	74,904	70,479
Capital expenditures	92,349	57,073	55,942
Total assets	1,523,603	1,556,796	1,567,470
Property, plant and equipment, net	596,261	580,344	531,595
Interest-bearing liabilities	663,945	632,160	493,509
Net assets	512,610	518,216	640,970
Per share of common stock:			
Net income (loss) attributable to owners of parent:			
Basic	¥ (11.66)	¥ (10.12)	¥ 36.41
Diluted	—	—	34.43
Cash dividends	7.50	5.00	7.50
Net assets	335.04	336.65	363.90
Ratios:			
Operating income to net sales	2.45	2.95	6.50
Net income (loss) attributable to owners of parent to net sales	(1.11)	(1.04)	3.76
Equity ratio	30.8	30.3	37.8
Return on equity	(3.1)	(3.0)	10.9
Debt/equity ratio (times)	1.42	1.34	0.83
Common stock price range:			
High	¥ 694	¥ 591	¥ 643
Low	350	390	420
Number of employees	37,924	37,936	38,740

*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.

*3 Toray Group changed the reportable segments from the year ended March 31, 2018. Accordingly, the actual figures for the year ended March 31, 2017 are restated to reflect the changes in reportable segments.

Millions of yen

2012	2013 ^{1,2}	2014	2015	2016	2017	2018
¥ 1,588,604	¥ 1,592,279	¥ 1,837,778	¥ 2,010,734	¥ 2,104,430	¥ 2,026,470	¥ 2,204,858
638,375	632,150	755,474	856,676	892,039	856,124	913,610
—	—	—	—	—	724,648	803,310
69,914	77,620	113,342	158,365	186,196	161,608	177,949
170,247	178,355	180,197	179,988	183,324	212,548	238,256
55,554	56,599	58,205	57,039	55,841	54,150	53,803
13,295	14,127	14,277	14,321	14,720	17,392	17,930
397,815	395,835	470,542	496,370	521,238	—	—
243,404	237,593	245,741	247,975	251,072	—	—
—	—	—	—	—	—	—
107,721	83,436	105,253	123,481	154,480	146,893	156,464
101,091	77,828	97,760	114,469	137,808	139,012	136,612
64,218	48,477	59,608	71,021	90,132	99,418	95,915
104,410	100,815	161,455	141,282	196,142	173,958	129,180
67,443	67,588	78,743	81,480	91,168	89,073	95,815
98,384	99,135	118,207	124,929	136,556	152,039	153,324
1,581,501	1,731,933	2,119,683	2,357,925	2,278,386	2,396,785	2,592,914
561,923	627,240	781,235	855,593	830,612	881,434	927,029
481,906	532,002	654,163	700,258	704,253	716,399	816,325
674,149	778,626	944,625	1,080,757	1,024,909	1,100,176	1,169,188
Yen						
¥ 39.41	¥ 29.75	¥ 36.59	¥ 44.33	¥ 56.38	¥ 62.17	¥ 59.97
37.46	28.90	35.70	44.28	56.31	62.10	59.90
10.00	10.00	10.00	11.00	13.00	14.00	15.00
384.90	444.45	527.32	616.70	591.50	638.64	681.92
%						
6.78	5.24	5.73	6.14	7.34	7.25	7.10
4.04	3.04	3.24	3.53	4.28	4.91	4.35
39.7	41.8	40.5	41.8	41.5	42.6	42.1
10.5	7.2	7.5	7.7	9.3	10.1	9.1
0.77	0.73	0.76	0.71	0.74	0.70	0.75
Yen						
¥ 631	¥ 654	¥ 786	¥ 1,057.5	¥ 1,146.0	¥ 1,027.5	¥ 1,208.0
511	421	584	626	871.7	854.0	903.1
40,227	42,584	45,881	45,789	45,839	46,248	45,762

Management's Discussion and Analysis

OVERVIEW

For the year ended March 31, 2018, the U.S. and European economy continued to register a gradual recovery. There were signs of the economy picking up in many emerging countries. The Japanese economy, in general, continued on its gradual recovery track on the back of improving employment and income situation.

In the meantime, the rise in raw material and fuel prices had a negative impact on Toray Group's profits.

Under such circumstances, Toray Group, in April 2017, embarked on the new medium-term management program "Project AP-G 2019" that spans over three years from fiscal year 2017 to 2019 and has been implementing the growth strategy with focus on taking advantage of growth business fields, pursuing business expansion in growth countries and regions as well as further bolstering its cost competitiveness.

As a result, Toray Group posted record net sales and operating income.

INCOME ANALYSIS

Net Sales

Net sales for the year ended March 31, 2018 were in ¥2,204.9 billion, up by ¥178.4 billion (8.8%) from the previous year. Regarding the sales by business segment, net sales in the Fibers & Textiles, Performance Chemicals, Carbon Fiber Composite Materials, Environment & Engineering and Others segments increased, while those in the Life Science segments decreased.

Costs and Expenses

The ratio of total costs and expenses to net sales for the year ended March 31, 2018 was 92.9%, slightly up by 0.2 percentage points year on year.

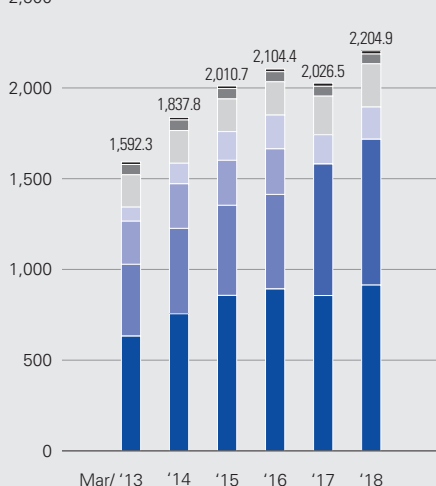
Net sales and cost of sales increased from the previous year by 8.8% and 9.5%, respectively. As a result, the cost of sales ratio rose by 0.5 percentage points to 79.3%.

Selling, general and administrative expenses increased by ¥17.3 billion (6.1%) to ¥300.4 billion. The ratio of selling, general and administrative expenses to net sales declined by 0.3 percentage points to 13.6%.

R&D expenses increased by ¥7.0 billion (11.8%) to ¥66.2 billion.

Net Sales by Segment

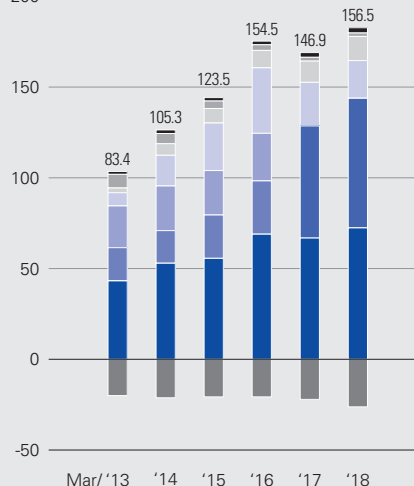
(Billions of yen)



■ Fibers & Textiles ■ Performance Chemicals ■ Plastics & Chemicals
 ■ IT-related Products ■ Carbon Fiber Composite Materials
 ■ Environment & Engineering ■ Life Science ■ Others

Operating Income by Segment

(Billions of yen)



■ Fibers & Textiles ■ Performance Chemicals ■ Plastics & Chemicals
 ■ IT-related Products ■ Carbon Fiber Composite Materials
 ■ Environment & Engineering ■ Life Science ■ Others
 ■ Adjustment

*1 Toray Group changed the reportable segments from the year ended March 31, 2018. Accordingly, the actual figures for the year ended March 31, 2017 are restated to reflect the changes in reportable segments.

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

Operating Income and Net Income

Operating income climbed by ¥9.6 billion (6.5%) year on year to ¥156.5 billion, the ratio of operating income to net sales declined slightly by 0.2 percentage points to 7.1%. Operating income by business segment increased in the Fibers & Textiles, Performance Chemicals, Environment & Engineering and Others segments, while decreasing in the Carbon Fiber Composite Materials and Life Science segments.

In net other income (expenses), Toray Group reported net expenses of ¥19.9 billion in the year ended March 31, 2018, up by ¥12.0 billion (151.9%) from the previous year. Interest and dividend income increased by ¥0.2 billion (4.2%) to ¥5.2 billion, and interest expense also climbed by ¥0.4 billion (9.4%). As a result, net financial income of ¥0.1 billion was recorded in the year ended March 31, 2018, down ¥0.2 billion compared with the previous year. Equity in earnings of unconsolidated subsidiaries and affiliated companies rose year on year by ¥1.7 billion (22.8%) to ¥9.2 billion. Net loss on sales and disposal of property, plant and equipment climbed by ¥2.1 billion (42.5%) to ¥7.1 billion. Loss on impairment of fixed assets increased by ¥1.0 billion (34.8%) to ¥3.9 billion. Net gain on sales and loss on write-down of investment securities grew by ¥0.5 billion (16.7%) to ¥3.4 billion. In the year ended March 31, 2018, the Group posted a loss on liquidation and devaluation of subsidiaries and affiliated companies of ¥3.6 billion and environmental expenses of ¥2.6 billion.

As a result of the aforementioned, income before income taxes declined by ¥2.4 billion (1.7%) year on year to ¥136.6 billion. After deductions for income taxes and net income attributable to non-controlling interests, net income attributable to owners of parent amounted to ¥95.9 billion, down ¥3.5 billion (3.5%) year on year.

Net income per share was ¥59.97, a decrease of ¥2.2. In light of profit conditions for the year ended March 31, 2018 and outlook for the next year, the total annual dividend for the year ended March 31, 2018 was set at ¥15.00 per share. This comprised an interim cash dividend of ¥7.00 per share and a year-end cash dividend of ¥8.00 per share.

Business Performance by Segment

Toray Group changed the reportable segments from the year ended March 31, 2018. The following analysis bases on the new reportable segments and the accordingly restated figures for the year ended March 31, 2017.

Fibers & Textiles

In Japan, demand for some industrial applications such as automobiles was strong and apparel applications saw gradual improvement in store sales of final products. Against this background, Toray Group not only strived to expand sales in both apparel and industrial applications but also worked to expand the business format that integrates fibers to textiles to final products while focusing on strengthening cost competitiveness.

Overseas, business performance of some subsidiaries in Southeast Asia and Republic of Korea remained slow. On the other hand, materials for automotive applications and hygiene products remained strong in general and the Group expanded the integrated business for apparel applications.

As a result, overall sales of Fibers & Textiles segment increased 6.7% to ¥913.6 billion from the previous year and operating income rose 8.5% to ¥72.4 billion.

Performance Chemicals

In the resin business, shipment for automotive applications was strong in general, mainly in Japan. Besides automotive applications, Toray Group also promoted sales expansion of ABS and PPS resins. In the film business, shipment of battery separator films for lithium-ion secondary batteries increased reflecting demand growth, while films for electronic parts which are used for applications such as smartphones continued to be favorable. In the electronic & information materials business, demand for OLED panels increased and shipment of related materials expanded.

As a result, overall sales of Performance Chemicals segment increased 10.9% to ¥803.3 billion from the previous year and operating income increased 15.5% to ¥71.4 billion.

Carbon Fiber Composite Materials

With the final demand for the aircraft remaining strong in the aerospace applications, shipments showed signs of recovery as the inventory adjustment in the supply chain was completed. In the industrial applications, demand showed a recovery trend primarily in the environment and energy-related field led by compressed natural gas tank applications and wind turbine blade applications. The segment was affected by increases in raw material prices as well as intensifying competition.

As a result, overall sales of Carbon Fiber Composite Materials segment increased 10.1% to ¥177.9 billion from the previous year while operating income fell 13.3% to ¥20.8 billion.

Environment & Engineering

In the water treatment business, demand for reverse osmosis membranes and other products in general grew strongly in Japan and abroad.

In terms of domestic subsidiaries in the segment, industrial machinery and electronics-related equipment performed strongly at an engineering subsidiary.

As a result, overall sales of Environment & Engineering segment increased 12.1% to ¥238.3 billion from the previous year and operating income rose 13.5% to ¥13.3 billion.

Life Science

In the pharmaceutical business, shipment of pruritus treatment REMITCH®* expanded due to the impact of the introduction of a new dosage form and approval of new indications. On the other hand, 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, and royalty income on some products decreased.

In the medical devices business, shipment of dialyzers grew strongly.

As a result, overall sales of Life Science segment declined 0.6% to ¥53.8 billion from the previous year and operating income fell 9.6% to ¥1.9 billion.

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

Others

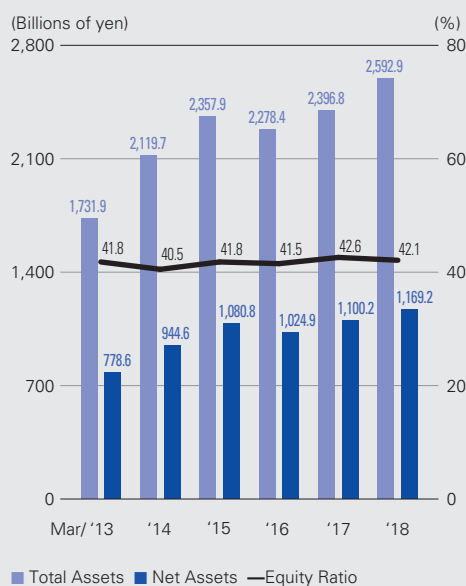
Net sales increased 3.1% to ¥17.9 billion from the previous year and operating income as well increased 10.4% to ¥2.9 billion.

FINANCIAL POSITION

Analysis of Assets, Liabilities and Net Assets

As of March 31, 2018, Toray Group's total assets stood at ¥2,592.9 billion, up ¥196.1 billion from the end of the previous year. Current assets rose ¥86.0 billion as trade notes and accounts receivable as well as inventories increased, while

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.

noncurrent assets expanded ¥110.2 billion due to increases in property, plant and equipment and investment securities.

Total liabilities rose ¥127.1 billion from the end of the previous year to ¥1,423.7 billion, due primarily to an increase in interest-bearing debts.

Net assets expanded by ¥69.0 billion compared with the end of the previous year to ¥1,169.2 billion, reflecting an increase in retained earnings due to net income for the year. Net assets less non-controlling interests and stock acquisition rights stood at ¥1,090.7 billion. The equity ratio at the end of the year came to 42.1%, a 0.5 percentage-point decrease compared with the level at the end of the previous year.

CASH FLOWS

For the year ended March 31, 2018, net cash used in investing activities exceeded net cash provided by operating activities by ¥57.5 billion. Meanwhile, net cash provided by financing activities came to ¥61.8 billion owing mainly to the increase in interest-bearing liabilities. As a result, after counting exchange rate changes and cash and cash equivalents at subsidiaries not previously included in consolidation, cash and cash equivalents as of March 31, 2018 amounted to ¥134.3 billion, up by ¥2.9 billion (2.2%) compared with the end of the previous year on a consolidated basis.

Cash Flows from Operating Activities

Net cash provided by operating activities decreased by ¥44.8 billion (25.7%) compared with the previous year to ¥129.2 billion. Major cash-increasing factors included income before income taxes of ¥136.6 billion, down ¥2.4 billion, and depreciation and amortization of ¥95.8 billion, up ¥6.7 billion. Major cash-decreasing factors, on the other hand, were the increase in trade receivables of ¥62.0 billion, up ¥37.0 billion, and income taxes paid of ¥34.3 billion, up ¥6.0 billion.

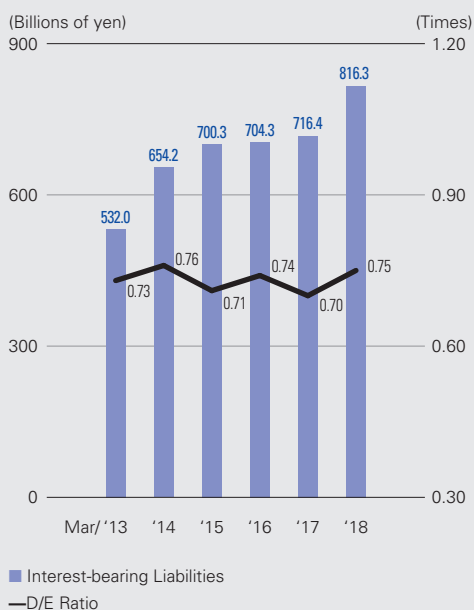
Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥186.7 billion, up ¥51.4 billion (38.0%) compared with the previous year. Major cash-decreasing factors included capital expenditures of ¥147.9 billion, up ¥4.0 billion, and purchases of investment securities of ¥67.3 billion, up ¥62.7 billion.

Cash Flows from Financing Activities

Net cash provided by financing activities came to ¥61.8 billion, a turnaround of ¥79.8 billion from the net cash used in financing activities of the previous year. Major cash-increasing factors included proceeds from long-term debt of ¥178.9 billion, up ¥128.0 billion. The major cash-decreasing factor, on the other hand, was repayment of long-term debt of ¥111.4 billion, up ¥62.1 billion.

Interest-bearing Liabilities and D/E Ratio



Cash Flows



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 turmoil, 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

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 development and operation. However, if such an incident as a work stoppage, a loss of trust in the Group, and a leak of confidential information were caused by unauthorized access, data alteration, theft or deletion, an interruption of system operations, or any other information security threats, Toray Group's earnings and financial conditions could be negatively affected.

Consolidated Balance Sheets

Toray Industries, Inc. and Consolidated Subsidiaries
March 31, 2018 and 2017

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Current assets:			
Cash (Note 5)	¥ 108,379	¥ 97,920	\$ 1,020,518
Time deposits (Notes 4 and 5)	32,722	45,191	308,117
Trade receivables (Notes 5 and 7):			
Notes receivable	55,499	53,213	522,589
Accounts receivable	434,050	372,909	4,087,100
Inventories (Note 3)	439,673	409,332	4,140,047
Deferred tax assets (Note 10)	25,641	26,438	241,441
Prepaid expenses and other current assets (Notes 5 and 6)	58,739	63,911	553,098
Allowance for doubtful accounts	(2,037)	(2,205)	(19,181)
Total current assets	1,152,666	1,066,709	10,853,729
Property, plant and equipment (Notes 4 and 13):			
Land	78,370	79,831	737,947
Buildings	631,681	602,423	5,948,032
Machinery and equipment	1,902,003	1,859,050	17,909,633
Construction in progress	120,514	107,562	1,134,783
Other	115,121	111,307	1,084,002
	2,847,689	2,760,173	26,814,397
Accumulated depreciation	(1,920,660)	(1,878,739)	(18,085,311)
Property, plant and equipment, net	927,029	881,434	8,729,087
Intangible assets (Note 13):			
Goodwill	40,146	45,779	378,023
Other	28,501	31,516	268,371
Total intangible assets	68,647	77,295	646,394
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies (Note 5)	172,315	113,206	1,622,552
Investment securities (Notes 4, 5 and 6)	201,314	186,512	1,895,612
Long-term loans receivable	1,447	1,566	13,625
Deferred tax assets (Note 10)	12,902	13,513	121,488
Other (Notes 4 and 8)	59,555	59,813	560,782
Allowance for doubtful accounts	(2,961)	(3,263)	(27,881)
Total investments and other assets	444,572	371,347	4,186,177
Total assets	¥ 2,592,914	¥ 2,396,785	\$ 24,415,386

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Current liabilities:			
Short-term bank loans (Notes 4, 5 and 7)	¥ 135,936	¥ 132,014	\$ 1,280,000
Current portion of long-term debt (Notes 4, 5 and 7)	63,203	110,244	595,132
Commercial paper (Note 5)	46,000	19,000	433,145
Trade payables (Notes 5 and 7):			
Notes payable	38,433	40,814	361,893
Accounts payable	207,117	188,378	1,950,254
Income taxes payable (Note 10)	13,966	18,560	131,507
Accrued liabilities	62,363	58,244	587,222
Other current liabilities (Notes 4 and 10)	109,508	102,722	1,031,149
Total current liabilities	676,526	669,976	6,370,301
Long-term debt (Notes 4, 5 and 7)	567,657	450,757	5,345,169
Deferred tax liabilities (Note 10)	48,361	43,320	455,377
Net defined benefit liability (Note 8)	101,786	103,459	958,437
Customers' guarantee deposits and other liabilities (Note 4)	29,396	29,097	276,798
Total liabilities	1,423,726	1,296,609	13,406,083
Commitments and contingent liabilities (Note 12)			
Net assets (Note 11):			
Stockholders' equity:			
Common stock:			
Authorized—4,000,000,000 shares			
Issued—1,631,481,403 shares	147,873	147,873	1,392,401
Capital surplus	117,572	121,091	1,107,081
Retained earnings	763,504	691,290	7,189,303
Treasury stock, at cost	(20,631)	(20,822)	(194,266)
Total stockholders' equity	1,008,318	939,432	9,494,520
Accumulated other comprehensive income:			
Net unrealized gains (losses) on securities	74,290	66,513	699,529
Net deferred gains (losses) on hedges	(901)	21	(8,484)
Foreign currency translation adjustments	4,830	13,764	45,480
Remeasurements of defined benefit plans	4,158	1,542	39,153
Total accumulated other comprehensive income	82,377	81,840	775,678
Stock acquisition rights (Note 9)	1,334	1,205	12,561
Non-controlling interests	77,159	77,699	726,544
Total net assets	1,169,188	1,100,176	11,009,303
Total liabilities and net assets	¥ 2,592,914	¥ 2,396,785	\$ 24,415,386

Consolidated Statements of Income

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Net sales	¥ 2,204,858	¥ 2,026,470	\$ 20,761,375
Costs and expenses:			
Cost of sales (Notes 3, 8, 13 and 14)	1,748,017	1,596,472	16,459,670
Selling, general and administrative expenses (Notes 8, 9, 13 and 14)	300,377	283,105	2,828,409
	2,048,394	1,879,577	19,288,079
Operating income	156,464	146,893	1,473,296
Other income (expenses):			
Interest expense	(5,091)	(4,654)	(47,938)
Interest and dividend income	5,222	5,010	49,171
Equity in earnings of unconsolidated subsidiaries and affiliated companies	9,221	7,506	86,827
Loss on sales and disposal of property, plant and equipment, net	(7,084)	(4,971)	(66,704)
Loss on impairment of fixed assets (Note 15)	(3,944)	(2,925)	(37,137)
Gain on sales and loss on write-down of investment securities, net	3,445	2,951	32,439
Loss on liquidation and devaluation of subsidiaries and affiliated companies	(3,591)	—	(33,814)
Environmental expenses	(2,597)	—	(24,454)
Other, net	(15,433)	(10,798)	(145,320)
	(19,852)	(7,881)	(186,930)
Income before income taxes	136,612	139,012	1,286,365
Income taxes (Note 10):			
Current	34,851	31,361	328,164
Deferred	(1,419)	1,708	(13,362)
	33,432	33,069	314,802
Net income	103,180	105,943	971,563
Net income attributable to non-controlling interests	(7,265)	(6,525)	(68,409)
Net income attributable to owners of parent	¥ 95,915	¥ 99,418	\$ 903,154

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Net income	¥ 103,180	¥ 105,943	\$ 971,563
Other comprehensive income (Note 16)			
Net unrealized gains (losses) on securities	8,100	5,131	76,271
Net deferred gains (losses) on hedges	(997)	643	(9,388)
Foreign currency translation adjustments	(5,820)	(14,114)	(54,802)
Remeasurements of defined benefit plans	2,635	6,305	24,812
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	(1,770)	(1,950)	(16,667)
Total other comprehensive income	2,148	(3,985)	20,226
Comprehensive income	¥ 105,328	¥ 101,958	\$ 991,789
Total comprehensive income attributable to:			
Owners of parent	¥ 96,452	¥ 95,914	\$ 908,211
Non-controlling interests	8,876	6,044	83,578

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	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 (losses) 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
Balance as of April 1, 2016	¥ 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
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
Balance as of March 31, 2017	¥ 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
Balance as of April 1, 2017	¥ 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
Changes in:													
Dividends			(22,402)		(22,402)								(22,402)
Net income attributable to owners of parent			95,915		95,915								95,915
Purchase of treasury stock				(3)	(3)								(3)
Disposition of treasury stock		2		194	196								196
Change in equity attributable to parent arising from transaction with non-controlling shareholders		(3,521)			(3,521)								(3,521)
Other			(1,299)		(1,299)								(1,299)
Items other than stockholders' equity, net						7,777	(922)	(8,934)	2,616	537	129	(540)	126
Total changes	—	(3,519)	72,214	191	68,886	7,777	(922)	(8,934)	2,616	537	129	(540)	69,012
Balance as of March 31, 2018	¥ 147,873	¥ 117,572	¥ 763,504	¥ (20,631)	¥ 1,008,318	¥ 74,290	¥ (901)	¥ 4,830	¥ 4,158	¥ 82,377	¥ 1,334	¥ 77,159	¥ 1,169,188

	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 (losses) 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
Balance as of April 1, 2017	\$ 1,392,401	\$ 1,140,217	\$ 6,509,322	\$ (196,064)	\$ 8,845,876	\$ 626,299	\$ 198	\$ 129,605	\$ 14,520	\$ 770,621	\$ 11,347	\$ 731,629	\$ 10,359,473
Changes in:													
Dividends			(210,942)		(210,942)								(210,942)
Net income attributable to owners of parent			903,154		903,154								903,154
Purchase of treasury stock				(28)	(28)								(28)
Disposition of treasury stock		19		1,827	1,846								1,846
Change in equity attributable to parent arising from transaction with non-controlling shareholders		(33,154)			(33,154)								(33,154)
Other			(12,232)		(12,232)								(12,232)
Items other than stockholders' equity, net						73,230	(8,682)	(84,124)	24,633	5,056	1,215	(5,085)	1,186
Total changes	—	(33,136)	679,981	1,798	648,644	73,230	(8,682)	(84,124)	24,633	5,056	1,215	(5,085)	649,831
Balance as of March 31, 2018	\$ 1,392,401	\$ 1,107,081	\$ 7,189,303	\$ (194,266)	\$ 9,494,520	\$ 699,529	\$ (8,484)	\$ 45,480	\$ 39,153	\$ 775,678	\$ 12,561	\$ 726,544	\$ 11,009,303

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2018	2017	2018
Cash flows from operating activities:			
Income before income taxes	¥ 136,612	¥ 139,012	\$ 1,286,365
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	95,815	89,073	902,213
Loss on impairment of fixed assets	3,944	2,925	37,137
Interest and dividend income	(5,222)	(5,010)	(49,171)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(9,221)	(7,506)	(86,827)
Interest expense	5,091	4,654	47,938
Loss (gain) on sales and disposal of property, plant and equipment, net	7,084	4,971	66,704
Loss (gain) on sales and write-down of investment securities, net	(3,239)	(3,010)	(30,499)
Increase (decrease) in net defined benefit liability	193	(234)	1,817
Decrease (increase) in trade receivables	(61,969)	(24,993)	(583,512)
Decrease (increase) in inventories	(31,492)	(16,483)	(296,535)
Increase (decrease) in trade payables	11,594	17,982	109,171
Other, net	3,271	(3,714)	30,800
Subtotal	152,461	197,667	1,435,603
Interest and dividends received	16,111	9,175	151,704
Interest paid	(5,052)	(4,572)	(47,571)
Income taxes paid	(34,340)	(28,312)	(323,352)
Net cash provided by operating activities	129,180	173,958	1,216,384
Cash flows from investing activities:			
Capital expenditures	(147,925)	(143,894)	(1,392,891)
Purchases of investment securities	(67,274)	(4,616)	(633,465)
Proceeds from sales of property, plant and equipment	2,996	2,114	28,211
Proceeds from sales of investment securities	13,421	7,009	126,375
Other, net	12,097	4,145	113,908
Net cash used in investing activities	(186,685)	(135,242)	(1,757,863)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	30,520	8,621	287,382
Proceeds from long-term debt	178,912	50,929	1,684,670
Repayment of long-term debt	(111,446)	(49,323)	(1,049,397)
Cash dividends paid	(24,439)	(24,316)	(230,122)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(10,480)	(3,064)	(98,682)
Other, net	(1,294)	(865)	(12,185)
Net cash provided by (used in) financing activities	61,773	(18,018)	581,667
Effect of exchange rate changes on cash and cash equivalents	(1,924)	(847)	(18,117)
Net increase (decrease) in cash and cash equivalents	2,344	19,851	22,072
Cash and cash equivalents at beginning of year	131,405	109,778	1,237,335
Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation	566	1,712	5,330
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	64	—
Cash and cash equivalents at end of year	¥ 134,315	¥ 131,405	\$ 1,264,736

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2018 and 2017

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, 2018 and 2017 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
	2018	2017	2018
Cash	¥108,379	¥ 97,920	\$1,020,518
Time deposits	32,722	45,191	308,117
Less—Time deposits with maturities of over 3 months	(6,786)	(11,746)	(63,898)
Marketable securities with original maturities of 3 months or less	—	40	—
Cash and cash equivalents	¥134,315	¥131,405	\$1,264,736

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 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 12 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 12 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 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 the executives were to retire at the balance sheet date. Any amounts payable to the 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) Standards Issued but Not Yet Adopted

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, the Accounting Standards Board of Japan (ASBJ) issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. The standard establishes the following five-step model that an entity applies when recognizing revenue from customers:

- Step 1: Identify the contract(s) with a customer.
- Step 2: Identify the performance obligations in the contract.
- Step 3: Determine the transaction price.
- Step 4: Allocate the transaction price to the performance obligations in the contract.
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

(2) Scheduled Date of Adoption

The Company is currently deciding the date of adopting this accounting standard and implementation guidance.

(3) Impact of Adoption

The Company is currently evaluating the effect of adopting this accounting standard and implementation guidance on its consolidated financial statements.

o) Changes in Accounting Estimates

In accounting for retirement benefits, the actuarial gains and

losses and past service costs, which were previously amortized primarily over 13 years, are now amortized primarily over 12 years effective from the year ended March 31, 2018 because of a decrease in the employees' average remaining years of service.

This change resulted in increases of ¥2,540 million (\$23,917 thousand) and ¥2,573 million (\$24,228 thousand) in operating income and income before income taxes, respectively, for the year ended March 31, 2018.

The impact of this change on each reportable segment is explained in Note 17. SEGMENT INFORMATION in the Notes to the Consolidated Financial Statements.

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 ¥106.2 to \$1.00, the approximate exchange

rate prevailing on March 31, 2018. 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, 2018 and 2017, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Merchandise and finished goods	¥ 248,513	¥ 235,127	\$ 2,340,047
Work in process	92,501	78,646	871,008
Raw materials and supplies	98,659	95,559	928,992
	¥ 439,673	¥ 409,332	\$ 4,140,047

Losses recognized and charged to cost of sales as a result of valuation at March 31, 2018 and 2017 were ¥2,578 million (\$24,275 thousand) and ¥6,246 million, respectively.

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

Short-term bank loans at March 31, 2018 and 2017 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Loans principally from banks and insurance companies with interest rates primarily from 0.01% to 11.50%, maturing serially through 2026:			
Unsecured	¥ 388,821	¥ 420,399	\$ 3,661,215
Secured	546	592	5,141
Lease obligations maturing serially through 2036:			
Unsecured	3,529	4,384	33,230
Yen notes with an interest rate of 0.42% due 2018	—	10	—
Yen notes with an interest rate of 0.96% due 2018	4	—	38
Yen notes with an interest rate of 0.93% due 2022	20,000	20,000	188,324
Yen notes with an interest rate of 1.01% due 2023	20,000	20,000	188,324
Yen notes with an interest rate of 0.25% due 2024	40,000	—	376,648
Yen notes with an interest rate of 0.38% due 2027	60,000	—	564,972
Zero coupon convertible bonds due 2019	50,000	50,000	470,810
Zero coupon convertible bonds due 2021	50,000	50,000	470,810
Yen notes with a floating interest rate of 6 month Japanese yen TIBOR + 0% due 2024	1,488	—	14,011
	634,389	565,385	5,973,531
Less amounts due within one year	63,646	111,376	599,303
	¥ 570,743	¥ 454,009	\$ 5,374,228

At March 31, 2018, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 922	\$ 8,682
Property, plant and equipment, net	1,312	12,354
Investment securities	1,279	12,043
Others	568	5,348
	¥ 4,081	\$ 38,427

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2018 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2019	¥ 63,646	\$ 599,303
2020	93,260	878,154
2021	90,674	853,804
2022	78,091	735,320
2023	71,746	675,574
2024 and thereafter	236,972	2,231,375
	¥ 634,389	\$ 5,973,531

5. FINANCIAL INSTRUMENTS

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. 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 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 the 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, 2018 and 2017 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		
	2018		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 141,101	¥ 141,101	¥ —
Trade receivables	489,549	489,549	—
Investment securities			
Held-to-maturity debt securities	100	101	1
Investment securities in subsidiaries and affiliated companies	75,608	62,736	(12,872)
Other securities	191,975	191,975	—
Assets	¥ 898,333	¥ 885,462	¥(12,871)
Trade payables	¥ 245,550	¥ 245,550	¥ —
Short-term bank loans	135,936	135,936	—
Commercial paper	46,000	46,000	—
Bonds *1	241,493	263,419	21,926
Long-term bank loans *2	389,367	386,972	(2,395)
Liabilities	¥1,058,346	¥1,077,877	¥ 19,531
Derivative transactions *3			
Hedge accounting is not applied	¥ (614)	¥ (614)	¥ —
Hedge accounting is applied	(1,479)	(1,479)	—
Derivative transactions	¥ (2,093)	¥ (2,093)	¥ —

	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 *1	140,010	162,942	22,932
Long-term bank loans *2	420,991	420,261	(730)
Liabilities	¥ 941,207	¥ 963,409	¥ 22,202
Derivative transactions *3			
Hedge accounting is not applied	¥ (135)	¥ (135)	¥ —
Hedge accounting is applied	101	101	—
Derivative transactions	¥ (34)	¥ (34)	¥ —

Thousands of U.S. dollars

	2018		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	\$ 1,328,635	\$ 1,328,635	\$ —
Trade receivables	4,609,689	4,609,689	—
Investment securities			
Held-to-maturity debt securities	942	951	9
Investment securities in subsidiaries and affiliated companies	711,940	590,734	(121,205)
Other securities	1,807,674	1,807,674	—
Assets	\$ 8,458,879	\$ 8,337,684	\$(121,196)
Trade payables	\$ 2,312,147	\$ 2,312,147	\$ —
Short-term bank loans	1,280,000	1,280,000	—
Commercial paper	433,145	433,145	—
Bonds *1	2,273,945	2,480,405	206,460
Long-term bank loans *2	3,666,356	3,643,804	(22,552)
Liabilities	\$ 9,965,593	\$ 10,149,501	\$ 183,908
Derivative transactions *3			
Hedge accounting is not applied	\$ (5,782)	\$ (5,782)	\$ —
Hedge accounting is applied	(13,927)	(13,927)	—
Derivative transactions	\$ (19,708)	\$ (19,708)	\$ —

*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 and fixed-rate bonds converted to floating using interest rate swaps accounted for under the special accounting method 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
	2018	2017	2018
Unlisted equity securities	¥ 83,414	¥ 78,266	\$ 785,443
Unlisted debt securities	2,000	2,000	18,832

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, 2018 and 2017

	Millions of yen			
	2018			
	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	¥ 141,101	¥ —	¥ —	¥ —
Trade receivables	489,401	148	—	—
Investment securities				
Held-to-maturity debt securities	7	81	12	—
Other securities	—	12	53	—
	¥ 630,509	¥ 241	¥ 65	¥ —

	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	¥ —

	Thousands of U.S. dollars			
	2018			
	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	\$ 1,328,635	\$ —	\$ —	\$ —
Trade receivables	4,608,296	1,394	—	—
Investment securities				
Held-to-maturity debt securities	66	763	113	—
Other securities	—	113	499	—
	\$ 5,936,996	\$ 2,269	\$ 612	\$ —

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, 2018 and 2017, information on securities classified as held-to-maturity debt securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2018				2018			
	Carrying value	Fair value	Unrealized gains	Unrealized losses	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥ 100	¥ 101	¥ 2	¥ 1	\$ 942	\$ 951	\$ 19	\$ 9

	Millions of yen			
	2017			
	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥ 100	¥ 103	¥ 3	¥ 0

At March 31, 2018 and 2017, information on securities classified as other securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2018				2018			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥ 191,975	¥ 87,263	¥ 104,906	¥ 194	\$ 1,807,674	\$ 821,685	\$ 987,815	\$ 1,827

	Millions of yen			
	2017			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥ 177,825	¥ 84,862	¥ 95,378	¥ 2,415

7. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivative contracts outstanding at March 31, 2018 and 2017:

Hedge accounting is not applied

	Millions of yen			Thousands of U.S. dollars		
	2018			2018		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:						
Buying U.S. dollar	¥ 10,350	¥ (252)	¥ (252)	\$ 97,458	\$ (2,373)	\$ (2,373)
Buying euro	1,865	(32)	(32)	17,561	(301)	(301)
Buying Thai baht	370	3	3	3,484	28	28
Buying Malaysian ringgit	212	(2)	(2)	1,996	(19)	(19)
Buying Japanese yen	1,077	2	2	10,141	19	19
Selling U.S. dollar	14,057	117	117	132,363	1,102	1,102
Selling euro	1,532	32	32	14,426	301	301
Selling British pound	10	0	0	94	0	0
Selling Chinese yuan	402	(9)	(9)	3,785	(85)	(85)
Selling Thai baht	179	(1)	(1)	1,685	(9)	(9)
Selling Indonesian rupiah	87	(0)	(0)	819	(0)	(0)
Selling Japanese yen	5,806	(60)	(60)	54,670	(565)	(565)
Foreign currency swaps:						
Receiving U.S. dollar, paying Thai baht	3,592	(412)	(412)	33,823	(3,879)	(3,879)
	¥ —	¥ (614)	¥ (614)	\$ —	\$ (5,782)	\$ (5,782)

	Millions of yen		
	2017		
	Contract amount	Fair value	Unrealized gain (loss)
Forward foreign exchange contracts:			
Buying U.S. dollar	¥ 9,964	¥ 36	¥ 36
Buying euro	1,141	(10)	(10)
Buying Thai baht	319	37	37
Buying Japanese yen	4,397	(211)	(211)
Selling U.S. dollar	9,098	(9)	(9)
Selling euro	446	(5)	(5)
Selling British pound	67	(0)	(0)
Selling Chinese yuan	107	1	1
Selling Japanese yen	2,053	(27)	(27)
Foreign currency swaps:			
Receiving U.S. dollar, paying Thai baht	5,075	53	53
	¥ —	¥ (135)	¥ (135)

Hedge accounting is applied

Millions of yen

		2018		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value ^{*1,2}	Estimation method for fair value
Deferral hedge method	Forward foreign exchange contracts:			
	For trade receivables and trade payables			
	Buying U.S. dollar	¥ 426	¥ 2	Forward foreign exchange quotes
	Buying Japanese yen	2,512	29	
	Selling U.S. dollar	854	(1)	
	Selling euro	1,202	1	
	Selling Chinese yuan	839	4	
	Foreign currency swaps:			
	For long-term bank loans			
	Receiving U.S. dollar, paying Korean won	5,994	(240)	The price provided by correspondent financial institutions
Receiving Japanese yen, paying Korean won	10,196	(321)		
Interest rate swaps:				
For long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	54,985	153		
Special accounting method for interest rate swaps	Interest rate swaps:			
	For bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	364		
	Floating-rate receipt, floating-rate payment	26,900		—
Fixed-rate receipt, floating rate payment	40,000			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	For forecast transactions denominated in foreign currencies			
	Buying U.S. dollar	21,996	(183)	Forward foreign exchange quotes
	Buying euro	123,153	(1,343)	
	Buying Chinese yuan	367	(1)	
	Buying Thai baht	483	105	
	Buying Korean won	177	(2)	
	Selling U.S. dollar	9,583	280	
	Selling euro	1,422	38	
	Selling British pound	10	0	
	Selling Thai baht	3	0	
	Selling Japanese yen	30	0	
	Forward foreign exchange contracts:			
	For trade receivables and trade payables			
	Buying U.S. dollar	12,568		
	Buying euro	91		
	Buying Chinese yuan	8		
	Buying Korean won	31		
	Buying Japanese yen	7		—
	Selling U.S. dollar	25,303		
	Selling euro	3,854		
	Selling British pound	28		
Selling Chinese yuan	73			
Foreign currency swaps:				
For long-term bank loans			—	
Receiving U.S. dollar, paying Japanese yen	131,046			
		¥ —	¥ (1,479)	

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
Deferral hedge method	Forward foreign exchange contracts:			
	For 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:			
	For 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:			
For long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	86,468	221		
Special accounting method for interest rate swaps	Interest rate swaps:			
	For 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			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	For trade receivables and trade payables (forecast 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:			
	For 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:			
	For long-term bank loans			
Receiving U.S. dollar, paying Japanese yen	160,981		—	
Receiving Australian dollar, paying Japanese yen	3,129			
		¥ —	¥ 101	

Thousands of U.S. dollars

		2018		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value ^{*1,2}	Estimation method for fair value
Deferral hedge method	Forward foreign exchange contracts:			
	For trade receivables and trade payables			
	Buying U.S. dollar	\$ 4,011	\$ 19	Forward foreign exchange quotes
	Buying Japanese yen	23,653	273	
	Selling U.S. dollar	8,041	(9)	
	Selling euro	11,318	9	
	Selling Chinese yuan	7,900	38	
	Foreign currency swaps:			
	For long-term bank loans			
	Receiving U.S. dollar, paying Korean won	56,441	(2,260)	The price provided by correspondent financial institutions
Receiving Japanese yen, paying Korean won	96,008	(3,023)		
Interest rate swaps:				
For long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	517,750	1,441		
Special accounting method for interest rate swaps	Interest rate swaps:			
	For bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	3,427		
	Floating-rate receipt, floating-rate payment	253,296		—
Fixed-rate receipt, floating rate payment	376,648			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	For forecast transactions denominated in foreign currencies			
	Buying U.S. dollar	207,119	(1,723)	Forward foreign exchange quotes
	Buying euro	1,159,633	(12,646)	
	Buying Chinese yuan	3,456	(9)	
	Buying Thai baht	4,548	989	
	Buying Korean won	1,667	(19)	
	Selling U.S. dollar	90,235	2,637	
	Selling euro	13,390	358	
	Selling British pound	94	0	
	Selling Thai baht	28	0	
	Selling Japanese yen	282	0	
	Forward foreign exchange contracts:			
	For trade receivables and trade payables			
	Buying U.S. dollar	118,343		
	Buying euro	857		
	Buying Chinese yuan	75		
	Buying Korean won	292		
	Buying Japanese yen	66		—
	Selling U.S. dollar	238,258		
Selling euro	36,290			
Selling British pound	264			
Selling Chinese yuan	687			
Foreign currency swaps:				
For long-term bank loans				
Receiving U.S. dollar, paying Japanese yen	1,233,955		—	
		\$ —	\$ (13,927)	

*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 forecast 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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligation at beginning of the year	¥ 196,911	¥ 203,426	\$ 1,854,153
Service cost	7,552	7,281	71,111
Interest cost	1,596	1,500	15,028
Actuarial gains and losses	(1,573)	(682)	(14,812)
Retirement benefit paid	(14,178)	(14,856)	(133,503)
Other	(46)	242	(433)
Retirement benefit obligation at end of the year	¥ 190,262	¥ 196,911	\$ 1,791,544

The changes in the plan assets at fair value during the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of the year	¥ 121,774	¥ 131,360	\$ 1,146,648
Expected return on plan assets	2,560	2,490	24,105
Actuarial gains and losses	5,738	12,871	54,030
Contributions	6,602	6,552	62,166
Retirement benefit paid	(9,258)	(10,077)	(87,175)
Return of assets from retirement benefits trust	(9,931)	(21,632)	(93,512)
Other	(197)	210	(1,855)
Plan assets at end of the year	¥ 117,288	¥ 121,774	\$ 1,104,407

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets as of March 31, 2018 and 2017 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligation	¥ 96,258	¥ 102,223	\$ 906,384
Plan assets at fair value	(117,288)	(121,774)	(1,104,407)
	(21,030)	(19,551)	(198,023)
Unfunded retirement benefit obligation	94,004	94,688	885,160
Net liability for retirement benefits in the balance sheets	72,974	75,137	687,137
Net defined benefit liability	101,786	103,459	958,437
Net defined benefit asset (included in other non-current assets)	(28,812)	(28,322)	(271,299)
Net liability for retirement benefits in the balance sheets	¥ 72,974	¥ 75,137	\$ 687,137

The components of retirement benefit expense for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost	¥ 7,552	¥ 7,281	\$ 71,111
Interest cost	1,596	1,500	15,028
Expected return on plan assets	(2,560)	(2,490)	(24,105)
Amortization of actuarial gains and losses	622	648	5,857
Amortization of past service cost	(4,248)	(4,221)	(40,000)
Gain on return of assets from retirement benefits trust	—	(810)	—
Retirement benefit expense	¥ 2,962	¥ 1,908	\$ 27,891

In addition to the above, special severance payments of ¥1,442 million (\$13,578 thousand) and ¥967 million were recognized for the years ended March 31, 2018 and 2017, respectively. Contributions to the defined contribution pension plan of ¥6,996 million (\$65,876 thousand) and ¥6,297 million were recognized for the years ended March 31, 2018 and 2017, respectively.

The components of remeasurements of defined benefit plans included in other comprehensive income (before tax effect) for the years ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Past service cost	¥ (4,248)	¥ (4,221)	\$ (40,000)
Actuarial gains and losses	7,960	13,320	74,953
Total	¥ 3,712	¥ 9,099	\$ 34,953

The components of remeasurements of defined benefit plans included in accumulated other comprehensive income (before tax effect) as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized past service cost	¥ 46	¥ (4,202)	\$ 433
Unrecognized actuarial gains and losses	(6,010)	1,950	(56,591)
Total	¥ (5,964)	¥ (2,252)	\$ (56,158)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2018 and 2017 was as follows:

	2018	2017
Bonds	11%	12%
Stocks	50%	52%
Life insurance	26%	26%
Cash and time deposits	10%	8%
Other	3%	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:

	2018	2017
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 ¥338 million (\$3,183 thousand) and ¥346 million for the years ended March 31, 2018 and 2017, respectively.

2. Information on stock options issued

The following table summarizes the stock options outstanding as of March 31, 2018.

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 Industries, Inc.
		No.7 Stock Option Plan
Position and number of grantees	Members of the Board of the Company	23
	Directors of the Company	31
Type and number of shares to be issued upon exercise	Common stock	374,000 shares
Grant date		August 19, 2017
Vesting conditions		Based on the number of months that have elapsed during the vesting period
Vesting period		June 27, 2017- June 26, 2018
Exercise period		August 20, 2017- August 19, 2047

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		Holder 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, 2018. 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, 2017	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
As of March 31, 2018	—	—	—
Stock acquisition rights already vested			
As of March 31, 2017	242,000	355,000	306,000
Vested	—	—	—
Exercised	24,000	65,000	54,000
Forfeited	—	—	—
As of March 31, 2018	218,000	290,000	252,000

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, 2017	—	—	110,000
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	110,000
As of March 31, 2018	—	—	—
Stock acquisition rights already vested			
As of March 31, 2017	365,000	286,000	271,000
Vested	—	—	110,000
Exercised	63,000	45,000	51,000
Forfeited	—	—	—
As of March 31, 2018	302,000	241,000	330,000

Company name	Toray Industries, Inc.	Toray Chemical Korea Inc.
	No.7 Stock Option Plan	No.2 Stock Option Plan
Stock acquisition rights not yet vested		
As of March 31, 2017	—	—
Granted	374,000	—
Forfeited	—	—
Vested	265,000	—
As of March 31, 2018	109,000	—
Stock acquisition rights already vested		
As of March 31, 2017	—	18,815
Vested	265,000	—
Exercised	—	18,815
Forfeited	—	—
As of March 31, 2018	265,000	—

(2) Price information

Yen

Company name	Toray Industries, Inc.		
	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	948.8	948.8	948.8
Fair value per share at the grant date	513	394	546

Yen

Company name	Toray Industries, Inc.		
	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	948.8	948.8	948.8
Fair value per share at the grant date	605	987	902

Yen

Won

Company name	Toray Industries, Inc.	Toray Chemical Korea Inc.
	No.7 Stock Option Plan	No.2 Stock Option Plan
Exercise price	¥ 1	₩ 8,480
Weighted average price at exercise	—	19,000
Fair value per share at the grant date	899	7,067

U.S. dollars

Company name	Toray Industries, Inc.		
	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	8.93	8.93	8.93
Fair value per share at the grant date	4.83	3.71	5.14

U.S. dollars

Company name	Toray Industries, Inc.		
	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	8.93	8.93	8.93
Fair value per share at the grant date	5.70	9.29	8.49

U.S. dollars

Company name	Toray Industries, Inc.	Toray Chemical Korea Inc.
	No.7 Stock Option Plan	No.2 Stock Option Plan
Exercise price	\$ 0.01	\$ 7.97
Weighted average price at exercise	—	17.87
Fair value per share at the grant date	8.47	6.65

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	Toray Industries, Inc.
	No.7 Stock Option Plan
Expected volatility*1	26.630%
Expected holding period*2	7 years
Expected dividend*3	¥14 per share (\$0.13)
Risk-free rate*4	(0.056)%

*1 The expected volatility is based on actual share prices during 7 years from August 20, 2010 to August 18, 2017.

*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, 2017.

*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 rate in Japan for the years ended March 31, 2018 and 2017 was 30.9%.

At March 31, 2018 and 2017, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets:			
Accrued bonuses	¥ 6,134	¥ 5,978	\$ 57,759
Depreciation and impairment loss	10,876	10,680	102,411
Net defined benefit liability	32,101	33,396	302,269
Tax loss carryforwards	13,473	17,136	126,864
Unrealized intercompany profits	15,401	16,512	145,019
Investments in subsidiaries and affiliated companies	21,764	19,593	204,934
Other	33,481	33,005	315,264
	133,230	136,300	1,254,520
Valuation allowance	(44,992)	(41,168)	(423,653)
Total deferred tax assets	88,238	95,132	830,866
Deferred tax liabilities:			
Reserve for advanced depreciation	4,571	4,854	43,041
Depreciation	18,419	22,070	173,437
Undistributed earnings of subsidiaries and affiliated companies	19,870	17,749	187,100
Unrealized gains on securities	31,776	28,768	299,209
Other	23,450	25,064	220,810
Total deferred tax liabilities	98,086	98,505	923,597
Net deferred tax assets (liabilities)	¥ (9,848)	¥ (3,373)	\$ (92,731)

At March 31, 2018 and 2017, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred tax assets - current	¥ 25,641	¥ 26,438	\$ 241,441
Deferred tax assets - non-current	12,902	13,513	121,488
Deferred tax liabilities - current (included in other current liabilities)	30	4	282
Deferred tax liabilities - non-current	48,361	43,320	455,377

The reconciliation of the statutory tax rate and the effective income tax rate for the years ended March 31, 2018 and 2017 was as follows:

	2018	2017
Statutory tax rate	30.9%	30.9%
Increase (decrease) in taxes resulting from:		
Permanent differences	0.7	0.4
Recognition of certain deferred tax assets by reversal of valuation allowance	(0.2)	(2.4)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(2.1)	(1.7)
Income taxes for prior periods	(0.2)	(1.7)
Differences of tax rates for overseas consolidated subsidiaries	(3.9)	(2.9)
Undistributed earnings of subsidiaries and affiliated companies	1.6	1.4
Impact of the Tax Cuts and Jobs Act in the United States	(3.2)	—
Amortization of goodwill	2.0	1.9
Other	(1.1)	(2.1)
Effective income tax rate	24.5%	23.8%

On December 22, 2017, the Tax Cuts and Jobs Act was enacted in the United States, effectively lowering the federal corporate income tax rate effective for the periods beginning on or after January 1, 2018. Consequently, the federal corporate income tax rate applicable to the Company's consolidated subsidiaries in the U.S. was reduced from 35% to 21%.

As a result, as of and for the year ended March 31, 2018, net deferred tax liabilities have decreased by ¥4,822 million (\$45,405 thousand), deferred income taxes have decreased by ¥4,838 million (\$45,556 thousand) and remeasurements of defined benefit plans have decreased by ¥16 million (\$151 thousand).

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 2018 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥8.00 per share, aggregating to ¥12,802 million (\$120,546 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2018.

12. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2018, 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	¥ 380	\$ 3,578
Loans receivable outstanding	212	1,996
Balance	¥ 168	\$ 1,582

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

At March 31, 2018 and 2017, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥ 5,959	¥ 5,774	\$ 56,111
Other	3,494	2,849	32,900
	¥ 9,453	¥ 8,623	\$ 89,011
Notes discounted	¥ 1,922	¥ 307	\$ 18,098
Export bills discounted	2,820	785	26,554
Notes endorsed	1,538	1,162	14,482
Contingent liabilities associated with securitization of receivables	¥ 1,216	¥ 3,255	\$ 11,450

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Due within one year	¥ 358	¥ 343	\$ 3,371
Due after one year	952	1,193	8,964
Total	¥ 1,310	¥ 1,536	\$ 12,335

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, 2018 and 2017 were ¥66,229 million (\$623,625 thousand) and ¥59,230 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, 2018, 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 ¥3,944 million (\$37,137 thousand).

The major assets for which a loss on impairment was recognized were as follows:

Location	Use	Classification	Millions of yen	Thousands of U.S. dollars
			Loss on impairment	
Esslingen, Germany, etc.	Manufacturing facilities for carbon fiber composites	Buildings	¥ 156	\$ 1,469
		Machinery and equipment	893	8,409
		Construction in progress	1,781	16,770
		Other	94	885

The recoverable amount of the above assets was measured at the net selling value. The net selling value was calculated based on the appraisal value.

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.

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, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Net unrealized gains (losses) on securities:			
Amount arising during the year	¥ 15,089	¥ 11,004	\$ 142,081
Reclassification adjustments for gains and losses included in net income	(3,400)	(3,454)	(32,015)
Before tax effect	11,689	7,550	110,066
Tax effect	(3,589)	(2,419)	(33,795)
Net unrealized gains (losses) on securities	8,100	5,131	76,271
Net deferred gains (losses) on hedges:			
Amount arising during the year	(1,302)	918	(12,260)
Reclassification adjustments for gains and losses included in net income	(104)	15	(979)
Before tax effect	(1,406)	933	(13,239)
Tax effect	409	(290)	3,851
Net deferred gains (losses) on hedges	(997)	643	(9,388)
Foreign currency translation adjustments:			
Amount arising during the year	(4,471)	(14,953)	(42,100)
Reclassification adjustments for gains and losses included in net income	(1,375)	838	(12,947)
Before tax effect	(5,846)	(14,115)	(55,047)
Tax effect	26	1	245
Foreign currency translation adjustments	(5,820)	(14,114)	(54,802)
Remeasurements of defined benefit plans:			
Amount arising during the year	7,338	13,482	69,096
Reclassification adjustments for gains and losses included in net income	(3,626)	(4,383)	(34,143)
Before tax effect	3,712	9,099	34,953
Tax effect	(1,077)	(2,794)	(10,141)
Remeasurements of defined benefit plans	2,635	6,305	24,812
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method:			
Amount arising during the year	(1,697)	(1,938)	(15,979)
Reclassification adjustments for gains and losses included in net income	(73)	(12)	(687)
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	(1,770)	(1,950)	(16,667)
Total other comprehensive income	¥ 2,148	¥ (3,985)	\$ 20,226

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 five segments according to the nature of the products and market for their products.

Reportable segment	Main products
Fibers & Textiles	Filament yarns, staple fibers, spun yarns, woven and knitted fabrics of nylon, polyester, acrylic, etc.; non-woven fabrics; ultra-microfiber non-woven fabric with suede texture; apparel products
Performance Chemicals	Nylon, ABS, PBT, PPS and other resins and molded products; polyolefin foam; polyester, polyethylene, polypropylene and other films and processed film products; raw materials for synthetic fibers and other plastics; fine chemicals; electronic and information materials and graphic materials
Carbon Fiber Composite Materials	Carbon fibers, carbon fiber composite materials and their molded products
Environment & Engineering	Comprehensive engineering; condominiums; industrial equipment and machinery; IT-related equipment; water treatment membranes and related equipment; materials for housing, building and civil engineering applications
Life Science	Pharmaceuticals and medical devices

Changes in Reportable Segments

The Company changed the reportable segments from six reportable segments of Fibers & Textiles, Plastics & Chemicals, IT-related Products, Carbon Fiber Composite Materials, Environment & Engineering and Life Science to five reportable segments by integrating the Plastics & Chemicals and IT-related Products segments into the Performance Chemicals segment, effective from the year ended March 31, 2018. IT-related equipment business and service-related business such as information processing, previously classified in IT-related Products, were reclassified to Environment & Engineering and Others, respectively.

Accordingly, the actual figures for the year ended March 31, 2017 are restated to reflect the changes in reportable segments.

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.

Changes in Accounting Estimates

As noted in Note 1. SIGNIFICANT ACCOUNTING POLICIES, in accounting for retirement benefits, the actuarial gains and losses and past service costs, which were previously amortized primarily over 13 years, are now amortized primarily over 12 years effective from the year ended March 31, 2018 because of a decrease in the employees' average remaining years of service.

This change increased segment income in the year ended March 31, 2018 by ¥679 million (\$6,394 thousand) in Fibers & Textiles, ¥1,022 million (\$9,623 thousand) in Performance Chemicals, ¥349 million (\$3,286 thousand) in Carbon Fiber Composite Materials, ¥274 million (\$2,580 thousand) in Environment & Engineering and ¥216 million (\$2,034 thousand) in Life Science segments.

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

Millions of yen									
Year ended March 31, 2018:	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
Sales to outside customers	¥ 913,610	¥ 803,310	¥ 177,949	¥ 238,256	¥ 53,803	¥ 17,930	¥ 2,204,858	¥ —	¥ 2,204,858
Intersegment sales	1,248	17,902	591	69,453	—	24,456	113,650	(113,650)	—
Total sales	¥ 914,858	¥ 821,212	¥ 178,540	¥ 307,709	¥ 53,803	¥ 42,386	¥ 2,318,508	¥ (113,650)	¥ 2,204,858
Segment income	¥ 72,418	¥ 71,363	¥ 20,764	¥ 13,287	¥ 1,942	¥ 2,897	¥ 182,671	¥ (26,207)	¥ 156,464
Segment assets	¥ 783,869	¥ 981,288	¥ 466,119	¥ 274,219	¥ 79,015	¥ 65,044	¥ 2,649,554	¥ (56,640)	¥ 2,592,914
Depreciation and amortization	28,186	37,451	21,575	4,719	2,572	1,418	95,921	(106)	95,815
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	84,079	48,318	8,073	10,930	2,780	7,867	162,047	(240)	161,807
Capital expenditures	48,761	61,362	32,604	5,978	2,768	1,564	153,037	287	153,324

Millions of yen									
Year ended March 31, 2017:	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
Sales to outside customers	¥ 856,124	¥ 724,648	¥ 161,608	¥ 212,548	¥ 54,150	¥ 17,392	¥ 2,026,470	¥ —	¥ 2,026,470
Intersegment sales	1,001	16,684	519	68,588	2	23,666	110,460	(110,460)	—
Total sales	¥ 857,125	¥ 741,332	¥ 162,127	¥ 281,136	¥ 54,152	¥ 41,058	¥ 2,136,930	¥ (110,460)	¥ 2,026,470
Segment income	¥ 66,768	¥ 61,807	¥ 23,963	¥ 11,710	¥ 2,148	¥ 2,625	¥ 169,021	¥ (22,128)	¥ 146,893
Segment assets	¥ 722,078	¥ 890,870	¥ 460,968	¥ 233,890	¥ 79,732	¥ 63,650	¥ 2,451,188	¥ (54,403)	¥ 2,396,785
Depreciation and amortization	27,460	33,077	19,967	4,737	2,581	1,365	89,187	(114)	89,073
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	26,827	44,398	8,563	10,058	2,763	7,727	100,336	(414)	99,922
Capital expenditures	41,143	56,824	46,459	5,053	3,445	1,394	154,318	(2,279)	152,039

Thousands of U.S. dollars

Year ended March 31, 2018:	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
Sales to outside customers	\$ 8,602,731	\$ 7,564,124	\$ 1,675,603	\$ 2,243,465	\$ 506,620	\$ 168,832	\$ 20,761,375	\$ —	\$ 20,761,375
Intersegment sales	11,751	168,569	5,565	653,983	—	230,282	1,070,151	(1,070,151)	—
Total sales	\$ 8,614,482	\$ 7,732,693	\$ 1,681,168	\$ 2,897,448	\$ 506,620	\$ 399,115	\$ 21,831,525	\$ (1,070,151)	\$ 20,761,375
Segment income	\$ 681,902	\$ 671,968	\$ 195,518	\$ 125,113	\$ 18,286	\$ 27,279	\$ 1,720,066	\$ (246,770)	\$ 1,473,296
Segment assets	\$ 7,381,064	\$ 9,240,000	\$ 4,389,068	\$ 2,582,100	\$ 744,021	\$ 612,467	\$ 24,948,719	\$ (533,333)	\$ 24,415,386
Depreciation and amortization	265,405	352,646	203,154	44,435	24,218	13,352	903,211	(998)	902,213
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	791,704	454,972	76,017	102,919	26,177	74,077	1,525,866	(2,260)	1,523,606
Capital expenditures	459,143	577,797	307,006	56,290	26,064	14,727	1,441,026	2,702	1,443,729

Notes:

- 1) "Others" represents service-related businesses such as analysis, physical evaluation and research.
- 2) a) "Adjustments" of segment income for the year ended March 31, 2018 of ¥(26,207) million (\$ (246,770) thousand) includes inter-segment eliminations of ¥(1,600) million (\$ (15,066) thousand) and corporate expenses of ¥(24,607) million (\$ (231,704) thousand). "Adjustments" of segment income for the year ended March 31, 2017 of ¥(22,128) million includes intersegment eliminations of ¥(630) million and corporate expenses of ¥(21,498) million. The corporate expenses consist of the headquarters' research expenses, etc. that are not allocated to each reportable segment.
b) "Adjustments" of segment assets for the year ended March 31, 2018 of ¥(56,640) million (\$ (533,333) thousand) includes inter-segment eliminations of ¥(77,624) million (\$ (730,923) thousand) and corporate assets of ¥20,984 million (\$ (197,589) thousand). "Adjustments" of segment assets for the year ended March 31, 2017 of ¥(54,403) million includes intersegment eliminations of ¥(71,372) million and corporate assets of ¥16,969 million. The corporate assets consist of the headquarters' research assets, etc. that are not allocated to each reportable segment.
- 3) "Segment income" is reconciled to operating income.

(Related information)

Geographic information

Sales to outside customers

Millions of yen

Year ended March 31, 2018:	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Sales to outside customers	¥ 1,005,260	¥ 386,520	¥ 421,456	¥ 391,622	¥ 2,204,858

Millions of yen

Year ended March 31, 2017:	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

Thousands of U.S. dollars

Year ended March 31, 2018:	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Sales to outside customers	\$ 9,465,725	\$ 3,639,548	\$ 3,968,512	\$ 3,687,589	\$ 20,761,375

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

Property, plant and equipment, net

Millions of yen

	Japan	Asia		North America, Europe and other areas		Total
		Republic of Korea	Others	U.S.A.	Others	
March 31, 2018:						
Property, plant and equipment, net	¥ 326,679	¥ 199,721	¥ 153,741	¥ 123,042	¥ 123,846	¥ 927,029

Millions of yen

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

Thousands of U.S. dollars

	Japan	Asia		North America, Europe and other areas		Total
		Republic of Korea	Others	U.S.A.	Others	
March 31, 2018:						
Property, plant and equipment, net	\$ 3,076,073	\$ 1,880,612	\$ 1,447,655	\$ 1,158,588	\$ 1,166,158	\$ 8,729,087

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

Millions of yen

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2018:								
Loss on impairment	¥ 24	¥ 899	¥ 2,924	¥ 36	¥ 61	¥ —	¥ —	¥ 3,944

Millions of yen

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2017:								
Loss on impairment	¥ 1,095	¥ 877	¥ —	¥ 15	¥ 938	¥ —	¥ —	¥ 2,925

Thousands of U.S. dollars

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2018:								
Loss on impairment	\$ 226	\$ 8,465	\$ 27,533	\$ 339	\$ 574	\$ —	\$ —	\$ 37,137

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

Millions of yen

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2018:								
Amortization of goodwill	¥ 1,289	¥ 4,186	¥ 2,613	¥ 777	¥ —	¥ —	¥ —	¥ 8,865
Balance of goodwill	7,440	15,094	13,474	4,138	—	—	—	40,146

Millions of yen

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2017:								
Amortization of goodwill	¥ 1,208	¥ 4,181	¥ 2,768	¥ 323	¥ —	¥ —	¥ —	¥ 8,480
Balance of goodwill	8,657	17,966	16,842	2,314	—	—	—	45,779

Thousands of U.S. dollars

Year ended	Fibers & Textiles	Performance Chemicals	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & Corporate	Total
March 31, 2018:								
Amortization of goodwill	\$ 12,137	\$ 39,416	\$ 24,605	\$ 7,316	\$ —	\$ —	\$ —	\$ 83,475
Balance of goodwill	70,056	142,128	126,874	38,964	—	—	—	378,023

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
	2018	2017	2018
Net income attributable to owners of parent:			
Basic	¥ 59.97	¥ 62.17	\$ 0.56
Diluted	59.90	62.10	0.56
Cash dividends applicable to the year	15.00	14.00	0.14
Net assets	681.92	638.64	6.42

19. RELATED PARTY TRANSACTIONS

Corporate pension for employees

Year ended March 31, 2018

No items to be reported.

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

20. ADDITIONAL INFORMATION

Planned Share Purchase of TenCate Advanced Composites Holding B.V.

On March 14, 2018, the Company reached an agreement with Koninklijke Ten Cate B.V. to purchase the entire share of its subsidiary TenCate Advanced Composites Holding B.V. (TCAC).

(1) Objective of share purchase

TCAC is a prepreg manufacturer with its main manufacturing bases in Europe and the U.S. and has a track record of widely supplying thermoplastic prepreg and high heat resistance thermoset resin materials. Especially, TCAC is a global leading company of carbon fiber intermediate materials using thermoplastic resins. The acquisition is expected to generate significant synergies by combining the product lineup in which TCAC specializes with the broad range of carbon fiber as well as polymer technologies, which are the Company's strengths. Combining the two companies' distribution channels, the Company can offer a wider product lineup to the customers. The Company will respond swiftly to the expansion of the market for small-sized aircraft and expand the business further for industrial use applications including automobiles in the medium- to long-term.

(2) Name of the seller

Koninklijke Ten Cate B.V.

(3) Outline of the acquired company

Name: TenCate Advanced Composites Holding B.V.

Business: Manufacture and distribution of carbon fiber composite materials

Size of business (year ended December 31, 2017)

Revenues: EUR 197 million

Total assets: EUR 148 million

(4) Number of shares to be purchased, purchase price and percentage ownership after purchase

Shares to be purchased: 100 shares

Aggregate purchase price: EUR 930 million

Percentage ownership after purchase: 100%

Note: The purchase price includes net debt in addition to the share purchase price. The purchase price will be adjusted in accordance with any adjustments stipulated in the share purchase agreement.

(5) Methods for fundraising

Own funds, borrowings, bonds, etc.



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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, 2018, 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, 2018, 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.

Ernst & Young ShinNihon LLC
June 26, 2018
Tokyo, Japan