

Disclosed information on the Internet at the Time  
of Notifying Convocation of the 137th Ordinary  
General Meeting of Stockholders

Organization and Policies of the Company  
Consolidated Statement of Changes in Net Assets  
Notes to Consolidated Financial Statements  
Nonconsolidated Statement of Changes in Net Assets  
Notes to Nonconsolidated Financial Statements  
(From April 1, 2017 to March 31, 2018)

Toray Industries, Inc.

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

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**Organization and Policies of the Company**

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

Following are the contents of the resolutions adopted by the Company at the Board of Directors meeting held on December 18, 2015 with respect to the basic policy on the internal control system for ensuring the appropriate execution of operations (“Contents of the Basic Policy”), and the principal activities conducted during the period under review based on the Contents of the Basic Policy (“Overview of Operation”).

[Contents of the Basic Policy]

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

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

[Contents of the Basic Policy]

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

[Overview of Operations]

- (1) During the period under review, the Company held the Board of Directors meetings fifteen times, the Corporate Ethics Committee twice, and a company-wide Legal Compliance Committee twice.
- (2) In accordance with the Regulations on Corporate Ethics and Legal Compliance established in October 2016, the Company strove to detect company misconduct in the earlier stage, investigated all instances of company misconduct and scandals, their causes, and the parties responsible, and resolved such cases accordingly while carrying out measures to prevent recurrences.
- (3) The Company has established Corporate Ethics and Legal Compliance Guidelines specifying the details of the Corporate Ethics and Legal Compliance Code of Conduct. The Company has formulated and distributed the Corporate Ethics and Legal Compliance Handbook, a compilation of issues to which all Board members and employees should pay attention, including the above.
- (4) The Company established the Toray Group Policy for Human Rights in December 2017.
- (5) The Company handles all internal reporting according to the predetermined procedures.
- (6) The Company has established the Security Trade Administration Dept. as a department dedicated to security export control. The Company has also established the Security Trade Administration Committee as a company-wide committee, held a meeting of the Security Trade Administration Committee once during the period under review, and checked the results of activities and deliberated issues for initiatives.
- (7) As stated in “Issue to be Addressed,” the fact that a subsidiary of the Company had inappropriately overwritten data in product inspection reports was discovered. In order to ensure the effectiveness of quality assurance across the entire Group based on the recommendation received from the Expert Committee to which the Group entrusted investigation, Toray Group appointed an officer supervising the Group’s quality assurance operations in February 2018 and established the Quality Assurance Division.

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

[Contents of the Basic Policy]

- (1) Toray shall establish the Authority of Top Management to stipulate matters with respect to which decision-making

authority is reserved by the Board of Directors and matters with respect to which decision-making is delegated to the President, General Managers, etc., from among matters necessary for decision-making.

- (2) Toray shall establish the Executive Committee and Board of Senior Vice Presidents as deliberative organs for important matters decided by the Board of Directors or the President. The Executive Committee shall be responsible for the general direction of policy, while the Board of Senior Vice Presidents shall be in charge of issues related to implementation.

[Overview of Operations]

- (1) During the period under review, the Company revised part of the Authority of Top Management in April and October 2017 and January 2018.
- (2) During the period under review, the Company held the Executive Committee fifteen times and the Board of Senior Vice Presidents twelve times.

3. System for preserving and managing information pertaining to the execution of duties by the members of the Board

[Contents of the Basic Policy]

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

[Overview of Operations]

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

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

[Contents of the Basic Policy]

- (1) Toray shall identify potential risks in business activities, promote company-wide risk management to strive to reduce the level of risk under normal business conditions, and prevent future crises, as well as improve regulations and establish an internal committee to enable immediate implementation in the event of a major crisis.

- (2) Toray shall establish an internal control system for financial reporting that ensures the reliability of financial reporting.

[Overview of Operations]

- (1) The Company established Crisis Management Regulations. During the period under review, the Company held the CSR Committee, one of the company-wide committees, twice, and the Risk Management Committee, a committee under the CSR Committee, twice.
- (2) In June 2017, the Company prepared and submitted an internal control report to the effect that internal control related to financial reporting was effective.

5. System for ensuring appropriate business operations within subsidiaries

[Contents of the Basic Policy]

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

request the subsidiaries to establish their own codes of conduct, guidelines, etc. in consideration of the laws and regulations, business practices, business forms, and other factors in their respective countries. In addition, the Company shall direct its subsidiaries to establish systems under which the status of internal whistle-blowing by members of the Board, etc. and employees of the subsidiaries is appropriately reported to the Company.

[Overview of Operations]

- (1) The Company established a Standard for Assistance and Administration for Domestic Group Companies and a Standard for Assistance and Administration for Overseas Group Companies as regulations governing the subsidiaries' reports on important management information. During the period under review, the Company made partial amendments to the two standards. The Company also respectively held a Global Budget Conference and Domestic Group Company Conference once during the period under review as conferences at which the top management directly received reports from subsidiaries on their business conditions. The Company also held regional committees overseas, when appropriate.
  - (2) The Risk Management Subcommittee checked the results of activities performed to establish risk management systems at the subsidiaries.
  - (3) The Company stipulated the scope under which the Company can reserve its authority over the execution of business operations by subsidiaries in Guidelines for Reserving Authority over Domestic Group Companies and Standards for the Execution of Business Operations at Overseas Group Companies.
  - (4) With respect to the matters stated in 1. (2) and (3) of the Overview of Operations, the Company applies them to its subsidiaries and makes them thoroughly familiar to its subsidiaries, in consideration of the laws, regulations, and business practices of the countries in which the subsidiaries are located. The Company has developed a system for receiving internal whistle-blowing on seriously fraudulent acts from the overall Group. During the period under review, the Company completed the overseas establishment of the Corporate Ethics and Legal Compliance Helpline System.
6. System for reporting to corporate auditors and systems for ensuring that persons who report to corporate auditors are not treated disadvantageously because of their reporting

[Contents of the Basic Policy]

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

[Overview of Operations]

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

7. Items pertaining to the handling of expenses and liabilities arising from the execution of duties by corporate auditors

[Contents of the Basic Policy]

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

[Overview of Operations]

- (1) The Company pays expenses, etc. incurred from the execution of duties by corporate auditors.
8. Items pertaining to employees assisting with corporate

auditors' duties, items pertaining to the independence of said employees from members of the Board, and items pertaining to the assurance of effectiveness of instructions from the corporate auditors to said employees

[Contents of the Basic Policy]

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

[Overview of Operations]

- (1) The Company has established a system under which it may set up an organization and assign a full-time employee to provide assistance if and when corporate auditors request assistance.
9. Other systems for ensuring effective implementation of audits by corporate auditors

[Contents of the Basic Policy]

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

[Overview of Operations]

- (1) During the period under review, the corporate auditors attended all fifteen meetings of the Board of Directors and all twelve meetings of the Board of Senior Vice Presidents.
- (2) In accordance with auditing policy and plans formulated by the Board of Corporate Auditors in July 2017, corporate auditors held meetings with members of the Board as well as divisional and departmental general managers during the period under review, and conducted audits of the Company's offices and plants, and laboratories as well as Japanese and overseas subsidiaries.

## Consolidated Statement of Changes in Net Assets

Toray Industries, Inc. and Subsidiaries  
April 1, 2017 - March 31, 2018

Millions of yen					
	Stockholders' equity				Total stockholders' equity
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	
Balance at beginning of the fiscal year	¥147,873	¥121,091	¥691,290	¥(20,822)	¥939,432
Changes during the fiscal year:					
Cash dividend			(22,402)		(22,402)
Net income attributable to owners of parent			95,915		95,915
Purchase of treasury stock				(3)	(3)
Disposal of treasury stock		2		194	196
Change in equity attributable to parent arising from transaction with non-controlling shareholders		(3,521)			(3,521)
Other			(1,299)		(1,299)
Net changes in items other than stockholders' equity during the fiscal year					
Total changes during the fiscal year	—	(3,519)	72,214	191	68,886
Balance at end of the fiscal year	¥147,873	¥117,572	¥763,504	¥(20,631)	¥1,008,318

Millions of yen								
	Accumulated other comprehensive income					Stock acquisition rights	Non-controlling interests	Total net assets
	Net unrealized gains on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of the fiscal year	¥66,513	¥21	¥13,764	¥1,542	¥81,840	¥1,205	¥77,699	¥1,100,176
Changes during the fiscal year:								
Cash dividend								(22,402)
Net income attributable to owners of parent								95,915
Purchase of treasury stock								(3)
Disposal of treasury stock								196
Change in equity attributable to parent arising from transaction with non-controlling shareholders								(3,521)
Other								(1,299)
Net changes in items other than stockholders' equity during the fiscal year	7,777	(922)	(8,934)	2,616	537	129	(540)	126
Total changes during the fiscal year	7,777	(922)	(8,934)	2,616	537	129	(540)	69,012
Balance at end of the fiscal year	¥74,290	¥(901)	¥4,830	¥4,158	¥82,377	¥1,334	¥77,159	¥1,169,188

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

## Notes to Consolidated Financial Statements

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

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

##### (1) Number of Subsidiaries: 162

Names of major consolidated subsidiaries are omitted here as they are shown in “(7) Major Subsidiaries” of “1. Review of Operations of Toray Group.”

Effective from the year ended March 31, 2018, eleven subsidiaries were consolidated due to their increased significance and other reasons, and seven subsidiaries were removed from consolidation due to merger and other reasons.

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

The major unconsolidated subsidiaries are Meinan Service, Inc. and Toray International Taipei Inc. (Main reason for exclusion of subsidiaries from consolidation) Unconsolidated subsidiaries are small in scale and the Company’s interests in their respective amounts of total assets, net sales and net income as well as retained earnings do not significantly affect the Group’s consolidated financial statements.

#### 2. Application of Equity Method

##### (1) Number of unconsolidated subsidiaries accounted for by the equity method: 60

Meinan Service, Inc. and Toray International Taipei Inc. are major unconsolidated subsidiaries. Effective from the year ended March 31, 2018, two subsidiaries were included in the list of unconsolidated subsidiaries subject to the equity method due to their increased significance, etc., and three subsidiaries were removed from the list of those accounted for by the equity method because they were consolidated due to their increased significance, etc.

##### (2) Number of affiliated companies accounted for by the equity method: 35

Major affiliated companies are Dow Corning Toray Co., Ltd. and Du Pont-Toray Co., Ltd. Effective from the year ended March 31, 2018, one company was included in the list of those accounted for by the equity method due to the acquisition of shares, and two companies were removed from the list of those accounted for by the equity method due to sales and other reasons.

##### (3) Toray International (Korea), Inc. and other 20 unconsolidated subsidiaries were removed from the list of subsidiaries accounted for by the equity method due to the overall insignificance of the Company’s interests in their respective amounts of net income and retained earnings which might not affect the consolidated financial statements in any significant way.

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

#### 3. Significant Accounting Policies

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

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

Held-to-maturity debt securities:

Amortized cost method (Straight-line method).

Other securities:

With readily determinable market value:

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

With non-readily determinable market value:

Moving-average cost method.

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

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

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

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

###### (a) Property, plant and equipment (except lease assets):

Principally straight-line method

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

Straight-line method

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

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

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

##### (3) Reserves:

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

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

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

The reserve for employees’ bonuses is based on the expected liability for the total bonus amount payable to employees during the year ended March 31, 2018.

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

The reserve for bonuses of members of the Board is based on the expected liability for the total bonus amount payable to directors during the year ended March 31, 2018.

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

The reserve for retirement benefits of members of the Board and corporate auditors represents the amount required at the end of the year ended March 31, 2018 based on internal regulations.

##### (4) Translation of foreign currency transactions and foreign currency financial statements:

All monetary assets and liabilities denominated in the same

foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net income or loss for the period.

Translation of foreign currency financial statements of overseas subsidiaries into Japanese yen for consolidation purposes is made by using the current exchange rates prevailing at their respective balance sheet dates, with the exception that the translation of stockholders' equity is made by using historical rates. Revenue and expense accounts are principally translated at the period's average rate of exchange. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in net assets except for the portion belonging to non-controlling stockholders which is included in "non-controlling interests" in net assets.

(5) Hedge transactions:

The Company and its consolidated subsidiaries apply the deferral accounting method for hedging transactions. For hedging foreign currency exchange rate risk, the allocation method is applied whenever the specific requirements for these transactions are met, while the special accounting method is applied for interest rate swap agreements in cases where the specific requirements for this treatment are fulfilled.

(6) Net defined benefit liability:

To provide for the payment of retirement benefits to employees, net defined benefit liability is recognized at an amount equal to the expected retirement benefit obligations at the end of the year ended March 31, 2018 net of the value of pension assets.

Past service costs are amortized using the straight-line method over a certain period within the employees' average remaining years of service (primarily 12 years) when the costs are incurred.

Actuarial gains and losses are amortized using the straight-line method over a certain period within the employees' average remaining years of service (primarily 12 years) from the following period.

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

(7) Amortization of goodwill and its period:

Goodwill is generally amortized on a straight-line basis over its estimated useful life within twenty years.

(8) Consumption taxes:

Consumption taxes are not included in sales nor in expense accounts.

(9) Consolidated taxation system:

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

### Notes to changes in accounting estimates

Regarding the accounting treatment for retirement benefits, actuarial gains and losses and past service costs have been previously amortized over 13 years. Effective from the current year, however, this period is changed to 12 years because the employees' average remaining years of service have been shortened.

As a result, operating income increased by ¥2,540 million while ordinary income and income before income taxes and non-controlling interests for the current year each increased by ¥2,573 million.



## Notes to Consolidated Balance Sheet

(Millions of yen)

1. Accumulated depreciation for property, plant and equipment	¥	1,920,660
2. Assets pledged as collateral and debts with collateral		
Assets pledged as collateral:		
Cash and time deposits	¥	922
Property, plant and equipment, net	¥	1,312
Investment securities	¥	1,279
Other in Investments and other assets	¥	568
Debts with collateral:		
Notes and accounts payable - trade	¥	8,066
Short-term borrowings	¥	1,200
Long-term borrowings due within one year	¥	81
Long-term borrowings	¥	465
3. Guarantees of bank loans, etc. of subsidiaries and affiliated companies	¥	5,959
Guarantees of bank loans, etc. of clients and employees	¥	3,494
4. Discounted notes receivable - trade	¥	1,922
Endorsed notes receivable - trade	¥	1,538
Discounted export bills	¥	2,820
5. Contingent liabilities associated with securitization of receivables	¥	1,216
6. Total committed lines of credit*	¥	380
Loans receivables outstanding	¥	212
Balance	¥	168

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

7. Disposition of notes matured at the end of the current year
- Notes matured at the end of the current year and cash settlements due on the final date of the current year (settlements in cash on the same terms as notes) are treated as if they were settled on that date, although the final date of the current year was a bank holiday.
- The amounts of notes matured, etc. at the end of the year ended March 31, 2018 are as follows:

(Millions of yen)

Notes and accounts receivable - trade	¥	10,747
Other current assets	¥	265
Notes and accounts payable - trade	¥	4,638
Other current liabilities	¥	720

## Notes to Consolidated Statement of Changes in Net Assets

1. Number of shares in issue and outstanding as of the end of the year ended March 31, 2018
- |              |                      |
|--------------|----------------------|
| Common stock | 1,631,481,403 shares |
|--------------|----------------------|

### 2. Dividends

#### (1) Amounts to be paid

Resolution	Ordinary General Meeting of Stockholders held on June 27, 2017	Board of Directors Meeting held on November 10, 2017
Class of shares	Common stock	Common stock
Total amount	¥11,200 million	¥11,202 million
Dividend per share	¥7	¥7
Record date	March 31, 2017	September 30, 2017
Effective date	June 28, 2017	December 1, 2017

- (2) For dividends with record dates that fall in the year ended March 31, 2018, dividends with effective dates that fall after the end of the year ended March 31, 2018.

The Company will propose, at the Ordinary General Meeting of Stockholders to be held on June 26, 2018, the distribution of the following dividend on common stock:

- (a) Total amount: ¥12,802 million  
 (b) Dividend per share (yen): ¥8  
 (c) Record date: March 31, 2018  
 (d) Effective date: June 27, 2018

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

3. Type and number of shares to be issued upon exercise of the stock acquisition rights (excluding those rights whose exercise period has not yet commenced) as of the end of the year ended March 31, 2018
- |              |                  |
|--------------|------------------|
| Common stock | 2,007,000 shares |
|--------------|------------------|

## Notes to Financial Instruments

### 1. Conditions of financial instruments

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

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

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

Notes and accounts receivable - trade are operating receivables and therefore are exposed to customer credit risk. Under its internal regulations, the Company carefully manages the payment periods for receivables and outstanding balances of all customers and regularly monitors the credit standing of major clients. Consolidated subsidiaries also monitor and manage the credit standings of their clients. Operating receivables and payables denominated in foreign currencies that arise from the global business operations are also exposed to the foreign currency exchange risk. The Group

hedges this risk mainly through the use of forward exchange contracts against positions after netting receivables and payables denominated in the same foreign currencies. Likewise, the Group mainly uses currency swaps to hedge the foreign currency exchange risk of borrowings denominated in foreign currencies.

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

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

Short-term borrowings and commercial paper are financing instruments mainly for operating transactions, while long-term borrowings and bonds (due within ten years, in principle) are primarily for capital expenditure. Borrowings and bonds are exposed to the risk of interest rate fluctuation. Borrowings and bonds at floating interest rates carry the risk of higher interest expenses when rates rise, while borrowings and bonds at fixed interest rates carry the risk of higher interest expenses when rates fall. The Group uses derivative transactions (interest rate swap transactions) to minimize the risk of interest rate fluctuation, taking into consideration the balance between fixed interest rates and floating interest rates.

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

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

The fair value of financial instruments is based on market prices, or reasonable estimates of fair value for instruments for which market prices are not available. Estimates of fair value are subject to fluctuation because they employ various factors and assumptions.

### 2. Fair value of financial instruments

Carrying value, fair value and difference as of March 31, 2018 are as follows.

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

	Carrying value (Millions of yen)	Fair value (Millions of yen)	Difference (Millions of yen)
(1) Cash and time deposits	¥141,101	¥141,101	—
(2) Notes and accounts receivable - trade	489,549	489,549	—
(3) Investment securities			
(a) Held-to-maturity debt securities	100	101	1
(b) Investment securities in subsidiaries and affiliated companies	75,608	62,736	(12,872)
(c) Other securities	191,975	191,975	—
<b>Assets</b>	<b>898,333</b>	<b>885,462</b>	<b>(12,871)</b>
(1) Notes and accounts payable - trade	245,550	245,550	—
(2) Short-term borrowings	135,936	135,936	—
(3) Commercial paper	46,000	46,000	—
(4) Bonds (*1)	241,493	263,419	21,926
(5) Long-term borrowings (*2)	389,367	386,972	(2,395)
<b>Liabilities</b>	<b>1,058,346</b>	<b>1,077,877</b>	<b>19,531</b>
Derivative transactions (*3)			
(a) Hedge accounting is not applied	(614)	(614)	—
(b) Hedge accounting is applied	(1,479)	(1,479)	—
<b>Derivative transactions</b>	<b>(2,093)</b>	<b>(2,093)</b>	<b>—</b>

\*1: Bonds include bonds due within one year.

\*2: Long-term borrowings include long-term borrowings 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 parenthesis.

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

##### Assets

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

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

##### (3) Investment securities

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

## Liabilities

- (1) Notes and accounts payable - trade, (2) Short-term borrowings, and (3) Commercial paper  
Carrying value is used for fair value since the items will be settled within the short term and the fair value is approximately equal to the carrying value.

(4) Bonds

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

(5) Long-term borrowings

The fair value of long-term borrowings is estimated by discounting the principal amounts and interest based on estimated interest rates if similar new borrowings were entered into in the year ended March 31, 2018. The fair value of long-term borrowings for which the special accounting method for interest rate swaps is applied is estimated by discounting the total principal amount and interest (accounted for together with the interest rate swaps) based on estimated interest rates if similar new borrowings were entered into in the year ended March 31, 2018. For long-term borrowings at floating interest rates, however, the fair value is approximately equal to the carrying value because the interest rates are adjusted periodically. Therefore, the fair value is based on the carrying value.

## Derivative transactions

(a) Hedge accounting is not applied

The fair value of derivative transactions for which hedge accounting is not applied is the forward foreign exchange quotation or the price provided by correspondent financial institutions.

(b) Hedge accounting is applied

The fair value of derivative transactions for which hedge accounting is applied is the forward foreign exchange quotation or the price provided by correspondent financial institutions. However, that the fair value of a derivative transaction subject to the special accounting method for interest rate swaps is included in the fair value of bonds and long-term borrowings because the derivative transactions are accounted for together with the hedged bonds and long-term borrowings. The fair value of forward foreign exchange contracts, etc. to which the allocation method is applied, except for forecasted transactions, is included in the fair value of

receivables, payables, long-term borrowings, etc. because such forward foreign exchange contracts are accounted for together with the corresponding receivables and payables, long-term borrowings, etc.

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

	Carrying value (Millions of yen)
Unlisted equity securities	¥83,414
Unlisted debt securities	2,000

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

## Notes to Per Share Information

1. Net assets per share: ¥681.92
2. Net income per share: ¥59.97

## Other Notes

(Additional information)

Share purchase of TenCate Advanced Composites Holding B.V.

Toray reached an agreement with Koninklijke Ten Cate B.V. to purchase the entire share of its subsidiary TenCate Advanced Composites Holding B.V. (hereinafter referred to as "TCAC") effective on March 14, 2018.

(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 Toray's strengths. Combining the two companies' distribution channels, the Company can offer a wider product lineup to the customers. Toray 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 company from which Toray is purchasing the share

Koninklijke Ten Cate B.V.

- (3) Outline of the company purchased

Name: TenCate Advanced Composites Holding B.V.

Business: Manufacture and distribution of carbon fiber composite materials

- (4) The number shares to be purchased, purchase amount and the ratio of shares Toray holds in TCAC after the purchase

Shares to be purchased: 100 shares

Purchase price: EUR 930 million

Ratio of shares held after the purchase: 100%

(Note) The purchase price includes net debt amount 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

Toray's own funds, borrowings, bonds, etc.

## Nonconsolidated Statement of Changes in Net Assets

Toray Industries, Inc.  
April 1, 2017 - March 31, 2018

Millions of yen							
	Stockholders' equity						
	Common stock	Capital surplus		Legal reserve	Retained earnings		
		Additional paid-in capital	Other capital surplus		Other retained earnings		
					Reserve for advanced depreciation of fixed assets for tax purposes	General reserve	Retained earnings brought forward
Balance at beginning of the fiscal year	¥147,873	¥136,727	¥-	¥24,234	¥10,333	¥112,000	¥89,517
Changes during the fiscal year:							
Cash dividend							(22,402)
Reversal of reserve for advanced depreciation of fixed assets for tax purposes					(283)		283
Net income							78,902
Purchase of treasury stock							
Disposal of treasury stock			2				
Net changes in items other than stockholders' equity during the fiscal year							
Total changes during the fiscal year	-	-	2	-	(283)	-	56,784
Balance at end of the fiscal year	¥147,873	¥136,727	¥2	¥24,234	¥10,050	¥112,000	¥146,301

Millions of yen							
	Stockholders' equity		Valuation, translation adjustments and other			Stock acquisition rights	Total net assets
	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains on securities	Net deferred gains (losses) on hedges	Total valuation, translation adjustments and other		
Balance at beginning of the fiscal year	¥(20,242)	¥500,442	¥61,843	¥225	¥62,069	¥1,192	¥563,703
Changes during the fiscal year:							
Cash dividend		(22,402)					(22,402)
Reversal of reserve for advanced depreciation of fixed assets for tax purposes		-					-
Net income		78,902					78,902
Purchase of treasury stock	(3)	(3)					(3)
Disposal of treasury stock	194	196					196
Net changes in items other than stockholders' equity during the fiscal year			6,768	(1,008)	5,760	142	5,902
Total changes during the fiscal year	191	56,694	6,768	(1,008)	5,760	142	62,596
Balance at end of the fiscal year	¥(20,051)	¥557,137	¥68,612	¥(783)	¥67,829	¥1,334	¥626,299

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

## Notes to Nonconsolidated Financial Statements

### Notes (Significant Accounting Policies)

1. Valuation of securities:

Equity securities issued by subsidiaries and affiliated companies:

Moving-average cost method

Other securities:

With readily determinable market value:

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

With non-readily determinable market value:

Moving-average cost method

2. Valuation of inventories:

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

3. Depreciation and amortization for fixed assets:

Property, plant and equipment: Straight-line method

Intangible assets: Straight-line method

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

4. Reserves:

*Allowance for doubtful accounts:*

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

*Reserve for employees' bonuses:*

The reserve for employees' bonuses is based on the expected liability for the total bonus amount payable to the employees during the year ended March 31, 2018.

*Reserve for bonuses of members of the Board:*

The reserve for bonuses of members of the Board is based on the expected liability for the total bonus amount payable to directors during the year ended March 31, 2018.

*Reserve for employees' retirement benefits:*

The reserve for employees' retirement benefits is based on the expected retirement benefit obligations payable to employees and the value of pension assets at the end of the year ended March 31, 2018. Past service costs are amortized

using the straight-line method over a certain period within the employees' average remaining years of service (12 years) when the costs are incurred. Actuarial gains and losses are amortized using the straight-line method, over a certain period within the employees' average remaining years of service (12 years), from the following period.

*Reserve for loss on guarantees:*

Reserve for loss on guarantees represents the loss estimated based on the financial conditions, etc. of the guaranteed companies.

*Reserve for loss on business of subsidiaries and affiliated companies:*

Reserve for loss on business of subsidiaries and affiliated companies represents the loss estimated based on consideration of the financial conditions and business results, etc. of the subsidiaries and affiliated companies.

5. Hedge transactions:

The Company applies the deferral accounting method for hedging transactions. For hedging foreign currency exchange rate risk, the Company applies the allocation method whenever the specific requirements for these transactions are met, while the special accounting method is applied for interest rate swap agreements in cases where the specific requirements for this treatment are fulfilled.

6. Retirement benefits:

The accounting method adopted for actuarial gains and losses and unrecognized past service costs in relation to retirement benefits in the nonconsolidated financial statements differs from the accounting method for the same items in the consolidated financial statements.

7. Consumption taxes:

Consumption taxes are not included in sales nor in expense accounts.

8. Consolidated taxation system:

The Company adopts the consolidated taxation system.

### Notes to Changes in Accounting Estimates

Regarding the accounting treatment for retirement benefits, actuarial gains and losses and past service costs have been previously amortized over 13 years. Effective from the current year, however, this period is changed to 12 years because the employees' average remaining years of service have been shortened.

As a result, operating income, ordinary income, and income before income taxes for the current year each increased by ¥2,441 million.

## Notes to Nonconsolidated Balance Sheet

	(Millions of yen)
1. Accumulated depreciation for property, plant and equipment	¥ 1,047,409
2. Guarantees of bank loans, etc. of subsidiaries and affiliated companies (including guarantee obligations)	¥ 55,806
Guarantees of bank loans, etc. of clients and employees (including guarantee obligations)	¥ 42
3. Total committed lines of credit*	¥ 94,880
Loans receivable outstanding	¥ 32,005
Balance	¥ 62,875
* This commitment does not necessarily mean that the Company will extend loans to the maximum limit, since every provision of funds has been made after financial positions and cash flows of the respective subsidiaries and affiliated companies have been taken into consideration by the Company.	
4. Amounts due from and amounts due to subsidiaries and affiliated companies:	
Short-term amounts due from subsidiaries and affiliated companies	¥ 112,222
Long-term receivables from subsidiaries and affiliated companies	¥ 460
Short-term amounts due to subsidiaries and affiliated companies	¥ 99,370
Long-term payable to subsidiaries and affiliated companies	¥ 4,169
5. Disposition of notes matured at the end of the current year	
Notes matured at the end of the current year and cash settlements due on the final date of the current year (settlements in cash on the same terms as notes) are treated as if they were settled on that date, although the final date of the current year was a bank holiday.	
The amounts of notes matured, etc. at the end of the year ended March 31, 2018 are as follows:	
	(Millions of yen)
Notes receivable - trade	¥ 940
Accounts receivable - trade	¥ 13,760
Accounts receivable - other	¥ 441
Notes payable - trade	¥ 122
Accounts payable - trade	¥ 144
Accounts payable - other	¥ 209

## Notes to Nonconsolidated Statement of Income

	(Millions of yen)
Transactions with subsidiaries and affiliated companies:	
Sales of goods to subsidiaries and affiliated companies	¥ 287,078
Purchases of goods from subsidiaries and affiliated companies	¥ 184,279
Transactions other than operating transactions with subsidiaries and affiliated companies	¥ 74,246

## Note to Nonconsolidated Statement of Changes in Net Assets

Type and number of shares of treasury stock at March 31, 2018	
Common stock	31,209,834 shares

## Notes to Tax Effect Accounting

Details of recognition of deferred tax assets and liabilities by principal causes		(Millions of yen)
Deferred tax assets:		
Reserve for employees' retirement benefits		¥ 21,479
Investment securities in subsidiaries and affiliated companies		¥ 17,884
Reserve for employees' bonuses		¥ 2,817
Other		<u>¥ 18,114</u>
Gross deferred tax assets		¥ 60,294
Valuation allowance		<u>¥(24,415)</u>
Total deferred tax assets		¥ 35,879
Deferred tax liabilities:		
Unrealized gains on securities		¥(29,269)
Securities returned from retirement benefit trust		¥(5,810)
Prepaid pension cost		¥(5,295)
Reserve for advanced depreciation of fixed assets for tax purposes		¥(4,316)
Other		<u>¥(1,190)</u>
Total deferred tax liabilities		<u>¥(45,880)</u>
Net deferred tax liabilities		<u>¥(10,001)</u>

## Transactions with Related Parties

Type	Name of company, etc.	Ownership percentage of voting rights, etc.	Relationship with related parties	Details of transaction	Transaction amount (Millions of yen)	Account	Balance as of the end of the fiscal year (Millions of yen)
Subsidiary	Toray International, Inc.	Direct 100%	Business transactions, members of the Board or corporate auditors serving concurrently	Sales of goods, etc. (Note 1)	189,905	Accounts receivable - trade	46,196
				Purchases of goods, etc. (Note 1)	104,115	Accounts payable - trade	12,735
Subsidiary	Toray Composite Materials America, Inc.	Indirect 100%	Guarantee liability, members of the Board or corporate auditors serving concurrently	Guarantee liability (Note 2)	20,549	—	—
Subsidiary	Toray Engineering Co., Ltd.	Direct 99.99%	Deposit of surplus funds received, members of the Board or corporate auditors serving concurrently	Deposit of surplus funds received (Note 3)	—	Deposits received	23,700

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

Conditions of transactions and policy for determining conditions of transactions:

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

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

Note 3: The interest rates for the deposits of surplus funds received from Toray Engineering Co., Ltd. are determined based on considerations of the market interest rates.

## Notes to Per Share Information

1. Net assets per share: ¥390.54
2. Net income per share: ¥49.31



## Notes to Business Combination, etc.

Transaction under common control, etc.

### 1. Overview of the transaction

- (1) Name of parties to the business combination and description of their businesses

Company surviving the absorption-type merger

Name: Toray Industries, Inc.

Business: Manufacture and marketing of fibers and textiles as well as performance chemicals, etc.

Company extinguished in the absorption-type merger

Name: Toray Battery Separator Film Co., Ltd.

Business: Manufacture, processing, and marketing of synthetic resin films

- (2) Date of business combination

April 1, 2017

- (3) Legal form of business combination

The business combination is an absorption-type merger in which the Company is the surviving company. Toray BSF was dissolved as a result of the merger.

- (4) Name of the company after the combination

Toray Industries, Inc.

- (5) Other matters related to the summary of the transactions

The business environment in the lithium-ion secondary battery (LIB) market is significantly changing, with rapid growth expected in the quantitative demand for automotive applications in addition to existing consumer electronics applications. In this environment, it will become even more important for the Company to quickly respond to the growth and sophistication of the functions of separators for LIBs. Based on this recognition, Toray absorbed Toray BSF in order to strengthen the foundations of a structure that would enable it to appropriately respond to the expansion of the LIB separator business.

### 2. Overview of the accounting treatment implemented

The business combination was accounted for as a transaction under common control pursuant to the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013). As a result, gain on

extinguishment of tie-in shares of ¥5,902 million associated with the merger was recorded under special gains.

## Other Notes

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