

TORAY

Innovation by Chemistry

OUR NEXT MOVE



Annual Report **2014**
April 1, 2013–March 31, 2014



INNOVATION **by Chemistry**

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Profile

Toray Group is an integrated chemical industry group aiming to be a global top company in advanced materials based on the firm belief that, “as the foundation of products, materials have the power to bring about fundamental transformations in society.”

Based on our core technologies of organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology as the sources of value creation, we develop the Core Growth Driving Businesses of Fibers & Textiles and Plastics & Chemicals, Strategically Expanding Businesses of IT-related Products and Carbon Fiber Composite Materials, and Intensively Developing and Expanding Businesses of Environment & Engineering and Life Science in 25 countries and regions around the world.

Toray aims to be a corporate group with high value for all stakeholders and seeks to use the power of chemistry to address social issues worldwide guided by our corporate philosophy of “contributing to society through the creation of new value with innovative ideas, technologies and products.”

Corporate Philosophy

Contributing to society through the creation of new value with innovative ideas, technologies and products

Corporate Missions

For our customers	To provide new value to our customers through high-quality products and superior services
For our employees	To provide our employees with opportunities for self development in a challenging environment
For our stockholders	To provide our stockholders with dependable and trustworthy management
For society	To establish ties and develop mutual trust as a responsible corporate citizen

The Concept of our Corporate Slogan, “Innovation by Chemistry”

The Toray Group adopted “**Innovation by Chemistry**” as its corporate slogan in April 2006 as a declaration of our intention to use chemistry as the driving force in our aim “to become a top global corporation in advanced materials.”

The word “**Chemistry**” has two meanings. The obvious one is the science that forms the basis for the advanced materials which we supply. The other is rapport. For us, that means maintaining a good rapport with everyone who is involved with TORAY—customers, employees, stockholders, business partners, consumers, and people in the local community—and maintaining good rapport among the companies in the TORAY group and strong connections among our business offices throughout the world.

“**Innovation**” is how we will realize our corporate philosophy of “Contributing to society through the creation of new value with innovative ideas, technologies and products.” “Innovation” refers not only to technological innovation but to our intention to pursue innovation in all aspects of our corporate activities.

Cautionary statement with respect to forward-looking statements

Descriptions of predicted business results, projections and business plans contained in this annual report are based on forecasts and assumptions regarding the future business environment made at the present time. This annual report is not a guarantee of the Company’s future business performance.



ADVANCED

Materials generate...







ADVANCED

Materials

generate Future Industry

History shows that advanced materials created in one period become the core drivers of industry in the next period. This means materials, as used for a wide range of products, have the power to potentially bring about a fundamental transformation in society and people's lives.

One example is HEATTECH[®], Toray's collaborative development with UNIQLO, in 2003, integrating the best of our synthetic fiber technologies to create the remarkably comfortable clothing with revolutionary functionality. HEATTECH[®] has achieved combination of various functions such as absorption and heat retention, and the technology is further advancing, while its market is growing worldwide.

HEATTECH[®] is a registered trademark of Fast Retailing Co., Ltd.



Akihiro Nikkaku
President



GREEN technologies lead to...





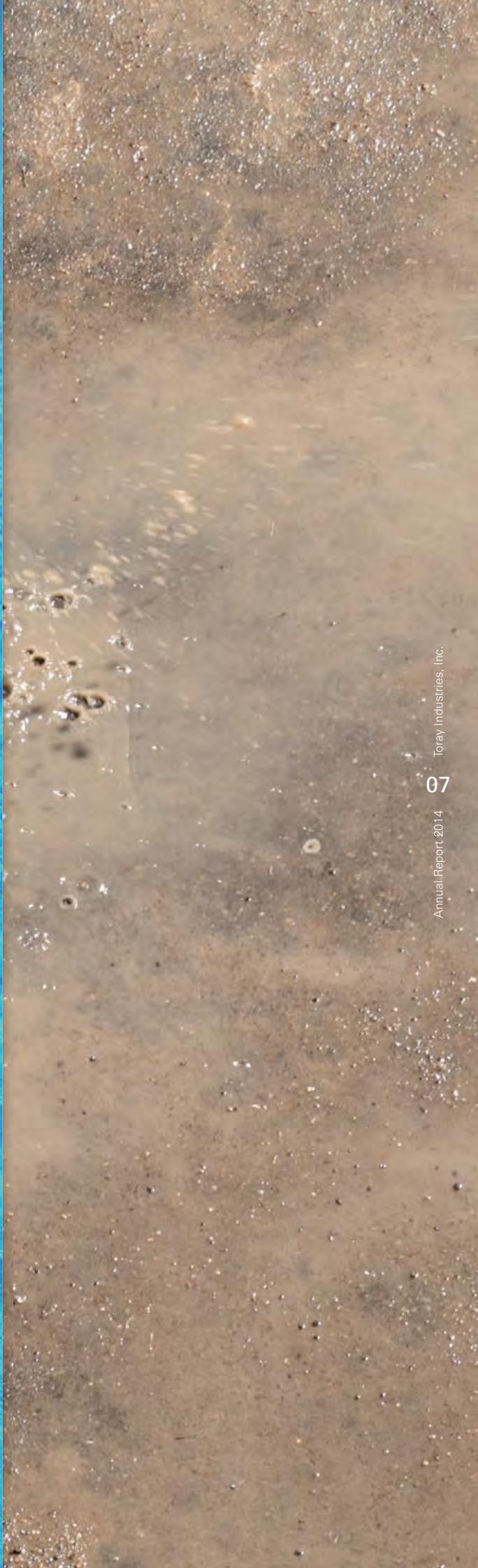
GREEN

Innovation

Toray Group is harnessing the power of chemistry to help solve environmental, natural resource, and energy issues that affect us all.

Toray was one of the world's first manufacturers to begin development of carbon fiber composite materials. Our tenacious drive to advance and commercialize our innovations has created TORAYCA® and led to the Boeing Company using the material as a primary structure material of 787 Dreamliner, Boeing's state-of-the-art passenger plane, for significant reductions in weight and CO₂ emissions. In other fields, the recent shale gas revolution is also generating demand for TORAYCA®, which is used in compressed natural gas (CNG) tanks for automobiles.

Our desalination technology that converts seawater to safe drinking water also helps many water-hungry communities. Toray's reverse osmosis water treatment membranes (RO), which are created from our unique nanotechnology, are used in the world's largest desalination plants such as in Algeria and Singapore. Expanding China's economy is making growth in water demand, thereby increasing construction of such plants. Our technology now provides daily life water to over 100 million people on the planet.





L I F E will be better with...





L I F E

Innovation

We are raising the quality of medical treatment and reducing the burden at healthcare facilities.

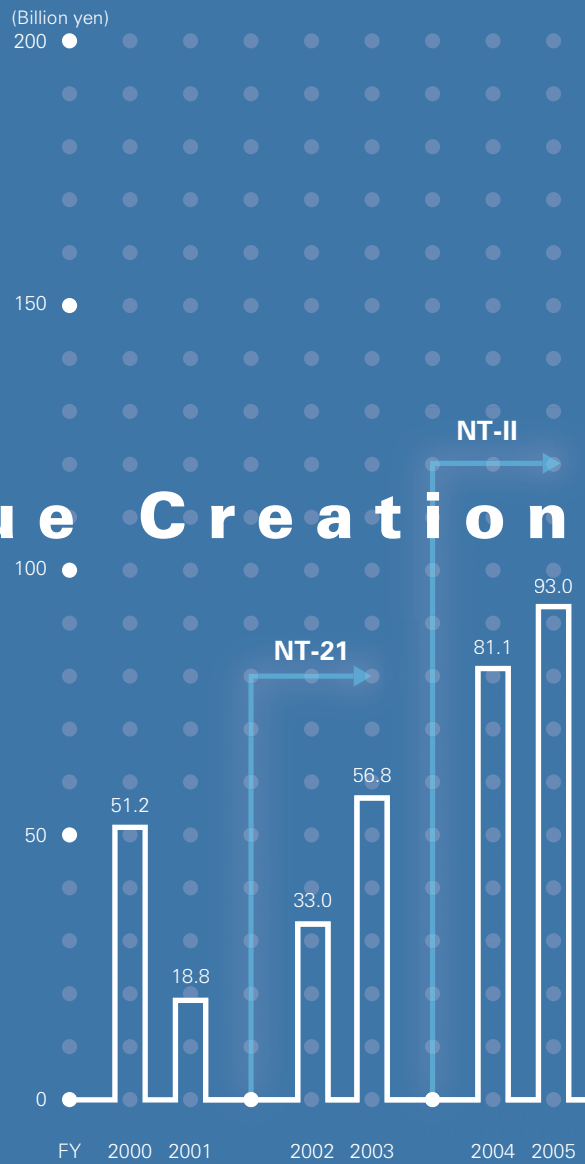
Toray Group has been improving the quality of healthcare since the 1970s when it began full-fledged development of pharmaceuticals and medical devices. We continue to develop new, innovative products, such as the FERON[®] treatment for viral hepatitis and malignant tumor and the FILTRYZER[®] artificial kidney units. These products are playing important roles at healthcare facilities.

In addition, medical uniforms are made from our high-functional fibers and textiles for increased hygiene and comfort, and patients' wear have become much more convenient with our materials. Moreover, carbon fiber composite materials are used as top panels for CT scanners to reduce patient radiation exposure due to their high radiolucency enabling highly accurate X-ray imaging even at low dosage levels.

Toray Group will continue developing pharmaceuticals and medical devices while applying its advanced materials to create new products and contribute to the development in the life innovation field.



INTEGRATED Value Creation



Trends in Operating Income

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Long-term Corporate Vision: AP-Growth TORAY 2020: Toray Group's vision is to be "a corporate group that continually increases revenues and profits," "a corporate group that proactively contributes to social development and environmental stewardship," and "a corporate group that provides high value for all stakeholders." To realize this vision, we are stepping up efforts to expand earnings and broaden our global operations while continuing to develop the green innovation and life innovation businesses. Our performance objective is attaining **consolidated net sales of ¥3 trillion and operating income of ¥300 billion** around the year 2020.

Image of Financial Indicators Around 2020

Net Sales
¥3,000 billion

Core Growth Driving Businesses
¥1,500 billion
 (50%)

Strategically Expanding Businesses and Intensively Developing and Expanding Businesses
¥1,500 billion
 (50%)

Green Innovation Businesses
¥1,000 billion
 (33%)

Life Innovation Businesses
¥300 billion
 (10%)

Asia, America, Emerging countries*
¥1,800 billion
 (60%)

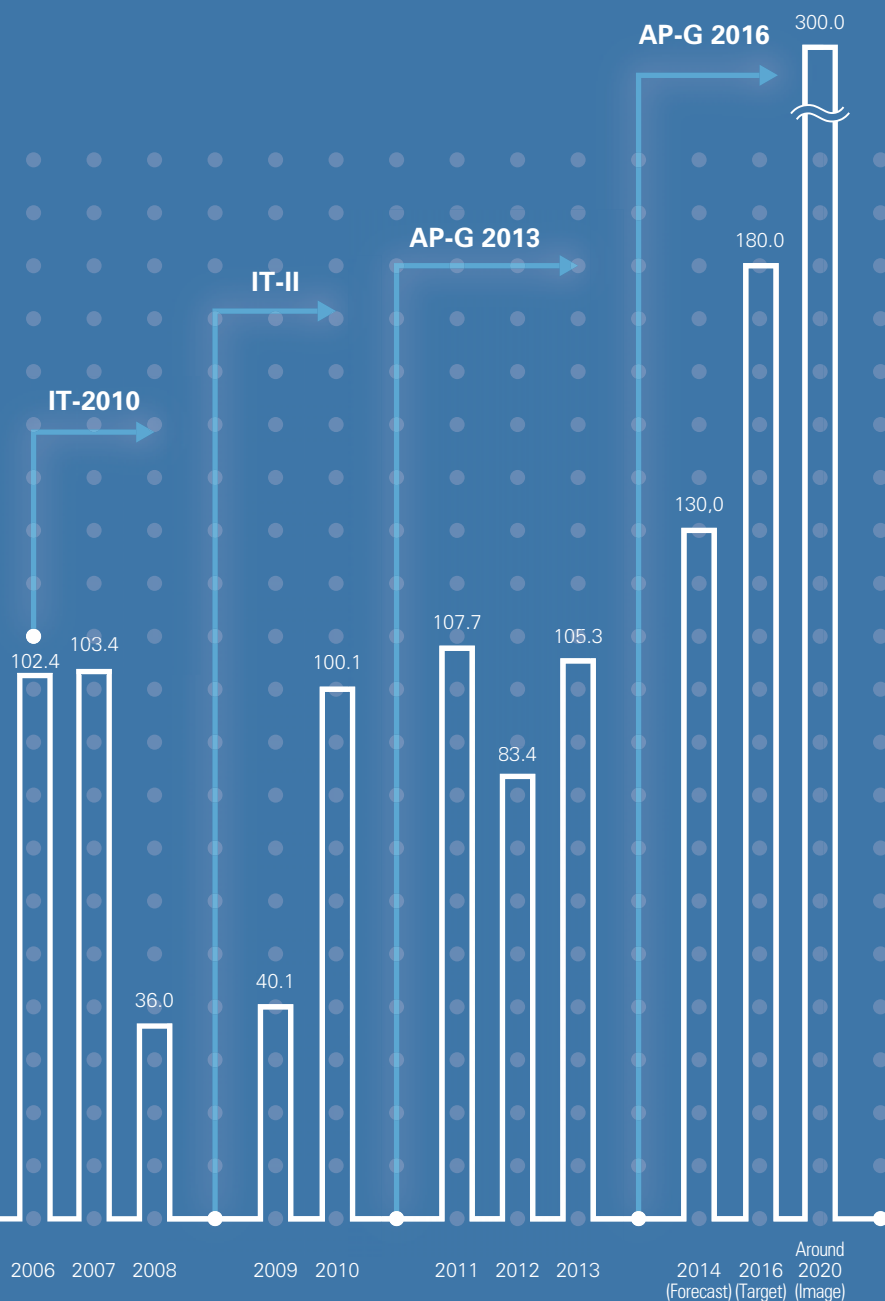
() net sales ratio

Operating Income
¥300 billion

Operating Income to Net Sales ratio
10%

ROA
10%

ROE
13%



Medium-term Management Program: Project AP-G 2016: Project AP-G 2016 is a three-year medium-term management program for implementing our growth strategies and fortifying our corporate structure to put us in a position to achieve our long-term corporate vision. Under the previous Project AP-G 2013, which completed in fiscal 2013, we made substantial progress expanding our businesses in growth business fields and growth regions and set the Group on a new path for growth. We are continuing this proactive management stance with Project AP-G 2016 that launched in fiscal 2014 and sets consolidated performance targets for fiscal 2016 of **¥2.3 trillion in net sales and ¥180 billion in operating income**.

* Under "Project AP-G 2013," sales forecast to Asia and Emerging countries was 1,500 billion yen. Forecast is revised as above in "Project AP-G 2016."

Consolidated Financial & Non-financial Highlights

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

	Millions of yen					Thousands of U.S. dollars*1
	2014	2013	2012	2011	2010	2014
Financial Highlights						
For the year:						
Net sales	¥1,837,778	¥1,592,279	¥1,588,604	¥1,539,693	¥1,359,631	\$17,842,505
Operating income	105,253	83,436	107,721	100,087	40,107	1,021,874
Net income (loss)	59,608	48,477	64,218	57,925	(14,158)	578,718
Cash flows from operating activities	161,455	100,815	104,410	129,214	166,215	1,567,524
Cash flows used in investing activities	(214,826)	(107,525)	(104,002)	(50,734)	(121,723)	(2,085,689)
Free cash flows	(53,371)	(6,710)	408	78,480	44,492	(518,165)
Cash flows from financing activities	41,475	26,167	(23,645)	(33,039)	(43,361)	402,670
Capital expenditures	118,207	99,135	98,384	55,942	57,073	1,147,641
Depreciation and amortization	78,743	67,588	67,443	70,479	74,904	764,495
R&D expenditure	55,500	53,342	51,450	46,566	46,188	538,835
At year-end:						
Total assets	¥2,119,683	¥1,731,933	¥1,581,501	¥1,567,470	¥1,556,796	\$20,579,447
Net assets	944,625	778,626	674,149	640,970	518,216	9,171,117
Per share of common stock (in yen and U.S. dollars):						
Net income (loss):						
Basic	¥ 36.59	¥ 29.75	¥ 39.41	¥ 36.41	¥ (10.12)	\$ 0.36
Diluted	35.70	28.90	37.46	34.43	—	0.35
Cash dividends	10	10	10	7.5	5	0.10
Net assets	527.32	444.45	384.90	363.90	336.65	5.12
Ratios:						
Operating income to net sales	5.7%	5.2%	6.8%	6.5%	2.9%	
Equity ratio	40.5%	41.8%	39.7%	37.8%	30.3%	
ROA	5.5%	5.0%	6.8%	6.4%	2.6%	
ROE	7.5%	7.2%	10.5%	10.9%	(3.0)%	
Debt/equity ratio (times)	0.76	0.73	0.77	0.83	1.34	
Non-financial Highlights						
Number of employees						
Toray	7,123	7,097	6,976	6,797	6,915	
Domestic	10,247	10,177	10,303	10,261	10,339	
Overseas	28,511	25,310	22,948	21,682	20,682	
Percentage of women in management positions (non-consolidated)*2	7.95%	7.49%	7.06%	6.77%	6.36%	
Employment rate for the handicapped (non-consolidated)*3	2.07%	2.03%	1.96%	1.95%	1.93%	
Social contribution activities*4 (billions of yen)	1.1	1.1	1.2	1.3	1.0	

*1: U.S. dollar amounts have been converted from yen at the exchange rate of ¥103=US\$1, the approximate exchange rate prevailing on March 31, 2014.

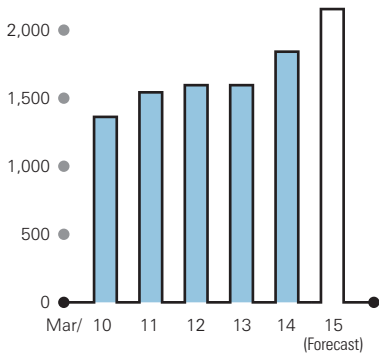
*2: As of end April each year

*3: As of end June each year

*4: See page 13 for more details.

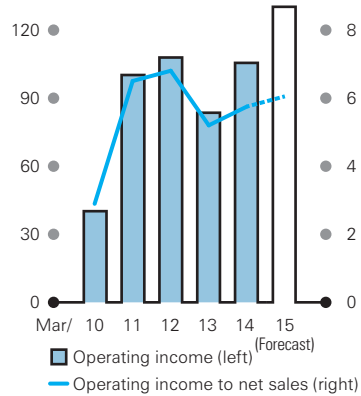
Net Sales

(Billions of yen)
2,500 ●



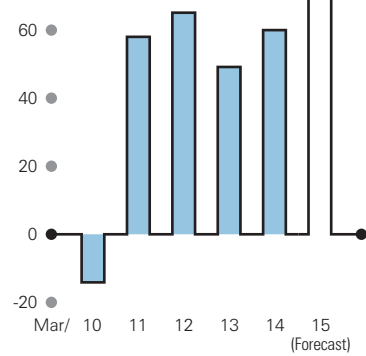
Operating Income and Operating Income to Net Sales

(Billions of yen) (●) (%)



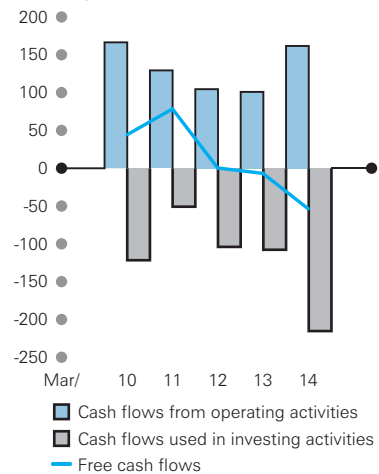
Net Income (Loss)

(Billions of yen)
80 ●



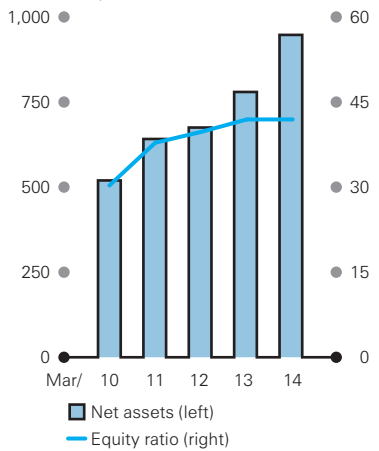
Cash Flows

(Billions of yen)



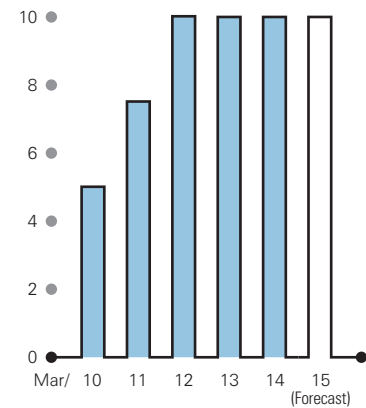
Net Assets and Equity Ratio

(Billions of yen) (●) (%)



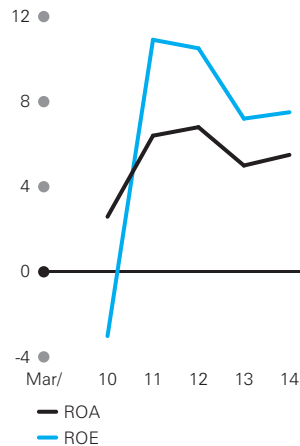
Cash Dividend Per Share

(Yen)

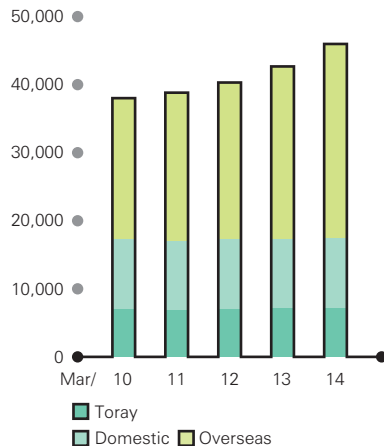


ROA and ROE

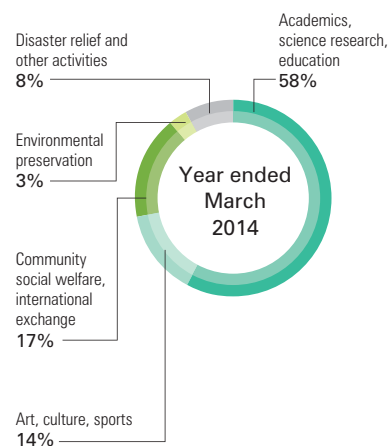
(%)



Number of Employees



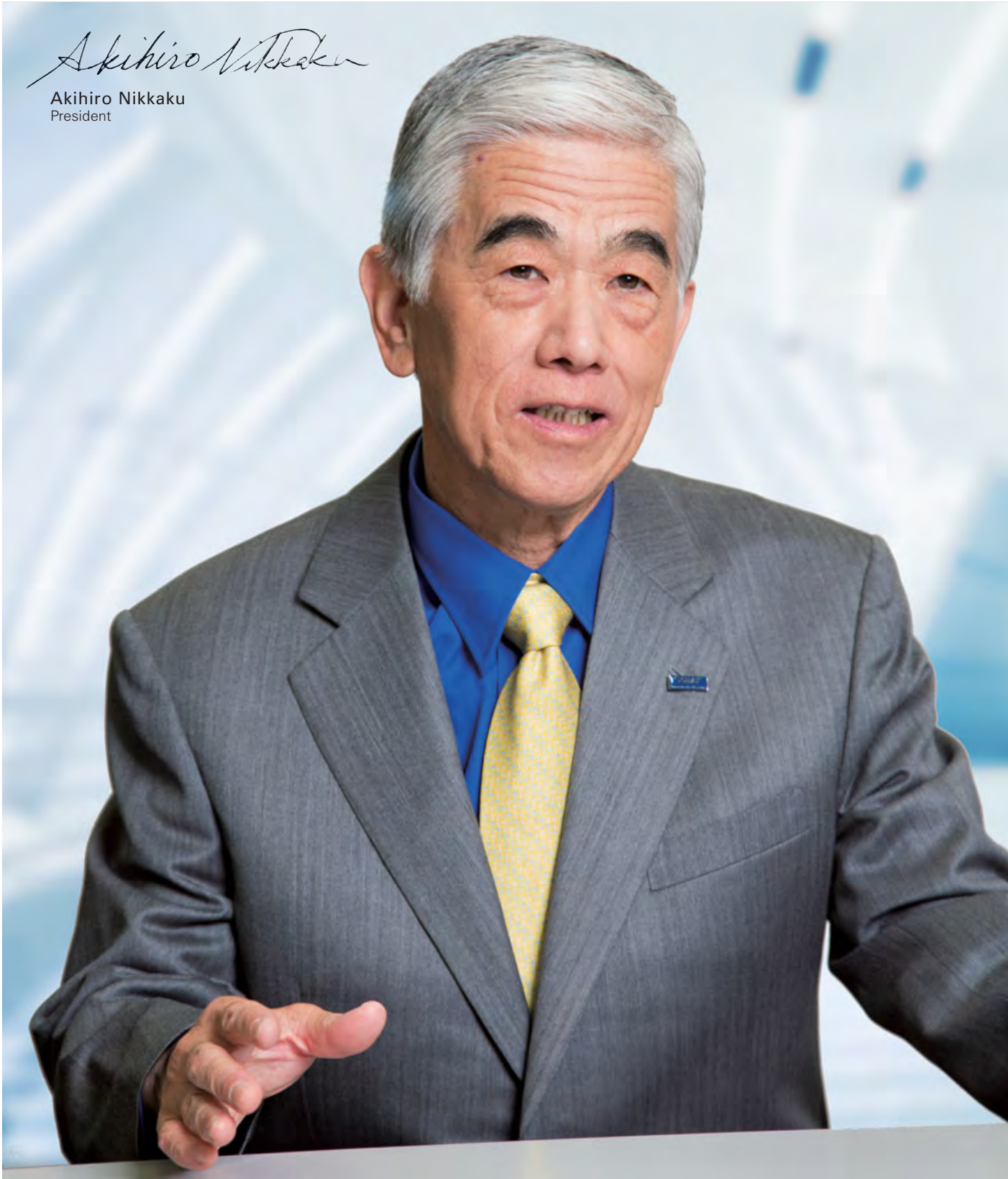
Breakdown of Social Contribution Activities



To Toray Stockholders and Investors

Akihiro Nikkaku

Akihiro Nikkaku
President



The Toray Group is further advancing growth strategies and corporate structure reinforcement measures to realize sustaining earnings growth.

Three Group-wide Projects under the Medium-term Management Program—Project AP-G 2013

Green Innovation Business Expansion (GR) Project	Global development of Green Innovation Businesses based on our strengths in chemistry
Asia and Emerging Country Business Expansion (AE) Project	Proactive development of business in Asia and emerging countries in other regions
Total Cost Reduction (TC-II) Project	Establishment of a robust business footing through initiatives based on group-wide projects

Major Results of “Project AP-G 2013”

(Billion yen)

	FY2010 (Actual)	FY2013 (Initial Target)	FY2013 (Actual)
Net Sales	1,539.7	1,800.0	1,837.8
Net Sales of Green Innovation Businesses	378.0	500.0	575.0
Net Sales in Growth Countries and Regions	540.3	720.0	708.6
Operating Income	100.1	150.0	105.3
Operating Income to Net Sales	6.5%	8.3%	5.7%
ROA	6.4%	8%	5.5%
ROE	10.9%	11%	7.5%

ROA=Operating Income/Total Assets ROE=Net Income/Shareholders' Equity

Record-high Sales in Fiscal 2013

I would like to begin this report by expressing our profound gratitude to our stockholders and investors for their continuing support. In the year ended March 31, 2014 (fiscal 2013), economic conditions improved marginally but remained virtually stagnant in Europe, and economic growth rates slowed in China and other emerging countries. The U.S. economy continued expanding at a moderate pace supported by improving employment and steady personal consumption. The Japanese economy continued its gradual recovery trend supported by a firm undertone in personal consumption and public investment, some movement toward recovery in private-sector capital investment, and steadily improving employment conditions.

In these conditions, the Toray Group generated 15.4% year-on-year growth in all the segments to a record-high ¥1,837.8 billion in consolidated net sales in fiscal 2013: the Fibers & Textiles, Plastics & Chemicals, IT-related Products, Carbon Fiber Composite Materials, Environment & Engineering, Life Science, and Others segments. Operating income also approached record levels, rising 26.1% to ¥105.3 billion, and net income increased 23.0% to ¥59.6 billion. Based on this earnings performance and the business outlook for fiscal 2014, the Company declared an annual dividend of ¥10.00 per share.

Proactive Management Initiatives of Project AP-G 2013

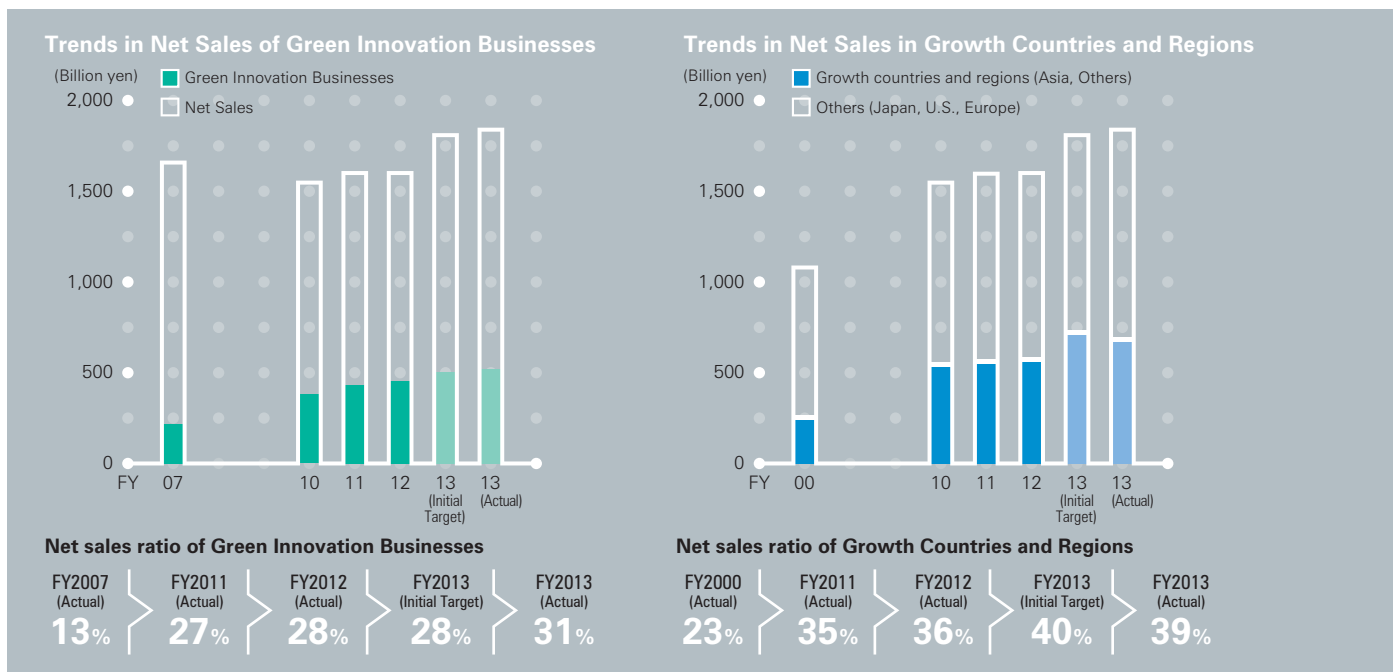
Next, I review Project AP-G 2013 medium-term management program for the fiscal years 2011 to 2013, completed in fiscal 2013.

Under Project AP-G 2013, we implemented growth strategies guided by the core objective to “expand businesses in growth business fields and regions” and took steps to further strengthen our total cost competitiveness with the aim of putting us in a position to fulfill our AP-Growth TORAY 2020 long-term corporate vision for our business structure and achieve the performance targets of consolidated net sales of ¥3 trillion and operating income of ¥300 billion around the year 2020.

Project AP-G 2013 comprised three Group-wide projects: the Green Innovation Business Expansion (GR) Project focused on finding solutions for global environmental, natural resource, and energy issues, the Asia and Emerging Country Business Expansion (AE) Project to develop growth strategies for those regions, and the Total Cost Reduction (TC-II) Project.

Our efforts proved successful, as we steadily advanced our growth strategies and exceeded our project’s sales target. We also made investments for global growth in all of our business segments and advanced R&D for major new products and technologies for the future.

To Toray Stockholders and Investors



Green Innovation Business Expansion Project Targets Exceeded

The Green Innovation Business Expansion (GR) Project is a strategy to establish the Group as the leading player in the global markets for carbon fiber composite materials, water treatment membranes, battery materials, and biomass materials. Green Innovation Business net sales reached ¥575.0 billion in fiscal 2013, substantially exceeding our initial ¥500 billion target for the year.

Key GR Project Developments under Project AP-G 2013 in Fiscal 2013 were as follows.

Carbon Fiber Composite Materials

- Resolved to expand production capacity at the four global bases in Japan, the U.S., France, and South Korea. (Carbon fiber at all bases in March 2012; prepreg in Japan in June 2013 and the U.S. in January 2014)
- Established or invested in automotive parts manufacturing companies in Japan, Asia, the U.S., and Europe. (Europe in March 2011, Japan and Asia in April 2013, the U.S. in July 2013)
- Acquired and made Zoltek Companies, Inc., a large tow carbon fiber manufacturer in the U.S., a wholly owned subsidiary. (February 2014)

Battery Components

- Made Toray Tonen Specialty Separator Godo Kaisha a wholly owned subsidiary and Toray Battery Separator Film Godo Kaisha (currently a company limited) (January 2012)

Water Treatment Membranes

- Concluded a contract to establish a water treatment joint venture, Toray Membrane Middle East LLC, with the Abunayyan Holding Company, a strategic business group partner in the electric power and water desalination field in Saudi Arabia (February 2014)

Printing Plate Materials

- Constructed and started operation of a waterless printing plate manufacturing plant in the Czech Republic (November 2013)

Biomass Materials

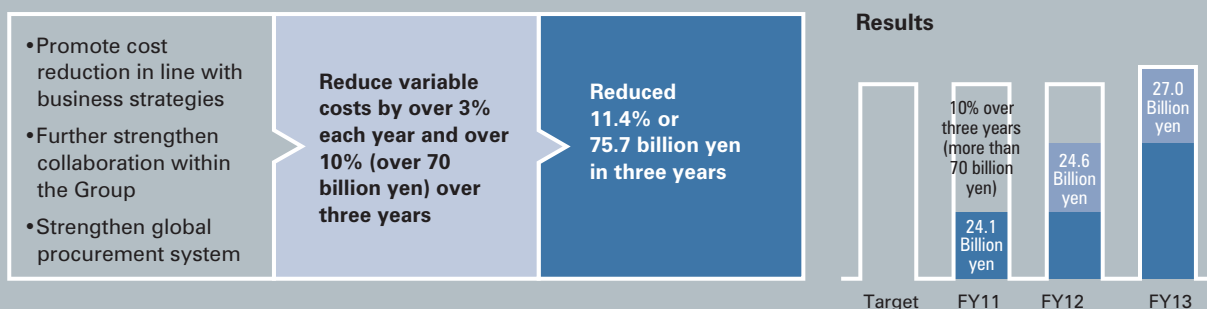
- Successfully test produced the world's first 100% bio-based polyester fiber (November 2011)

Asia and Emerging Country Business Expansion Project Targets at Target Level

The Asia and Emerging Country Business Expansion (AE) Project is a strategy for investing in business growth and establishing and expanding business bases in regions of expected growth around the world. Sales in growth countries and regions grew to ¥708.6 billion in fiscal 2013, which was very close to our target level, and sales to Asian and emerging countries increased to 39% of total sales.

Key AE Project Developments under Project AP-G 2013 in Fiscal 2013 were as follows.

Variable Cost Reduction Implement "Variable cost innovation 10% (Vci-10)" Project



Fixed Cost Reduction

- Appropriately managed fixed costs in this business expansionary phase
- Introduced P-ratio accounting method to secure profit appropriate to incremental fixed costs
- Continued to improve operational effectiveness to keep fixed costs at proper levels in line with profit growth

Reduced 46.3 billion yen in costs budget in three years
P-ratio=1.0

* P (performance)-ratio=fixed cost growth rate/marginal profit growth rate: 1.0 or less, or manage at each division against a budget.

China

- Established a manufacture and sales company for dialysis machines and artificial kidneys (June 2011)
- Started operations at a new manufacturing plant for dialysis machines (April 2012)
- Established and started operation of a plastic resin compound company in Chengdu, Szechuan Province (August 2013)

ASEAN

- Expanded production capacity and started operation at a facility in Thailand for Nylon 66 fiber for automobile air-bags (August 2012)
- Resolved to establish a vapor deposition facility for packaging films in Malaysia (April 2013)
- Launched a business for high-performance polypropylene spunbond nonwoven fabric for disposable diapers in Indonesia (June 2013)
- Established and started operation of a plastic resin compound manufacturing base in Indonesia (November 2013)

South Korea

- Subsidiary Toray Advanced Materials Korea Inc. acquired a 56.2% stake and made a subsidiary of fiber and water treatment membrane manufacturer Woongjin Chemical Co., Ltd. (February 2014)

Emerging Countries

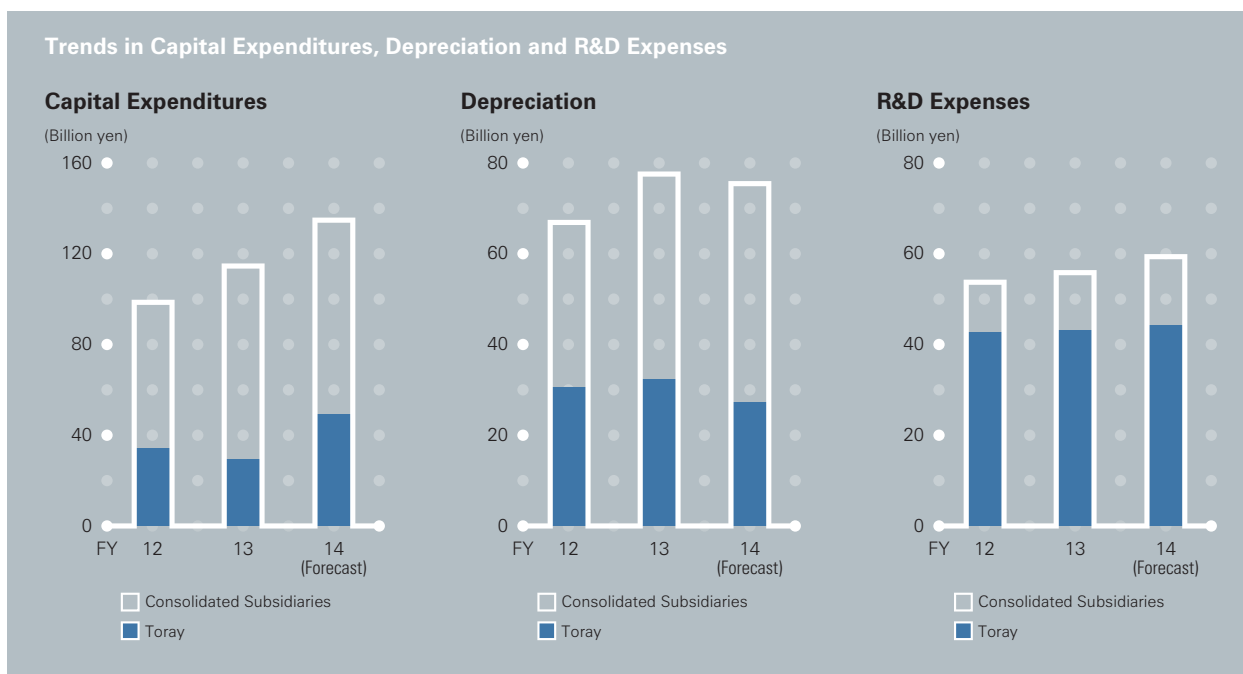
- Enhanced the operating and information-gathering bases in India, Brazil and Turkey

TC-II Project Targets Exceeded, but the Revenue Environment becomes Severer

In the second half period of the AP-G 2013 Project, we confronted the harsh business environment, which included the persisting recession in Europe following the sovereign debt crisis, slowing economic growth in China, and sluggish growth in emerging economies triggered by the tapering of monetary easing policy in the U.S. We also faced unexpectedly strong revenue pressure in the IT-related segment from inert growth for liquid crystal display (LCD) panels for TVs and weakening PDP demand, which led to falling PDP material and component prices, and in the Plastics & Chemicals segment from declining polyester film prices.

In these rapidly changing business conditions, we continued rigorously implementing the Total Cost Reduction (TC-II) Project toward our three-year target to cut variable costs by 10% (3% or more per year) or by over ¥70 billion from the FY2010 level and ultimately reduced variable costs by ¥75.7 billion, marking a 11.4% reduction. We also reduced fixed costs by ¥46.3 billion relative to the three year budget and maintained a performance ratio of 1.0, meeting our objective of holding it at 1.0 or lower. The P-ratio, which is derived by dividing the fixed cost growth rate by the marginal profit growth rate, is a benchmark indicator we introduced for the current business expansion phase to ensure that the rise in fixed costs is proportionate to our profit levels.

To Toray Stockholders and Investors



Forecast for Double-digit Sales and Profit Growth in Fiscal 2014

In fiscal 2014, the first year of the new three-year medium-term management program Project AP-G 2016, we anticipate our investments for growth through plant construction and expansion for polypropylene spunbond, airbag fibers, high-performance films, carbon fiber, high-performance resins, and other products to generate expanding production output and sales around the world. At the same time, we will continue endeavoring to reduce our total costs. Based on this outlook, we forecast double-digit growth in sales and profit in fiscal 2014 with consolidated net sales rising to ¥2,150 billion, operating income to ¥130 billion, and net income to ¥70 billion. Beginning in fiscal 2014, the Company and its consolidated subsidiaries in Japan will change the method for calculating the depreciation costs of tan-

gible fixed assets from the declining-balance method to the straight-line method. We estimate that the effect will be a decrease of about ¥9.0 billion in depreciation costs in fiscal 2014.

We anticipate overall moderately improving global economic conditions during the year despite some lingering areas of concern. We also anticipate gradual recovery in business conditions in Japan, particularly in the second half of the fiscal year after temporary repercussions from the consumption tax increase.

Toray Group will continue constantly seeking to pioneer technological advances in the world and develop and commercialize leading-edge technologies and new materials under the firm belief that materials, as used for a wide range of products, have the power to bring about fundamental transformations in society. We will maintain our business growth track by emphasizing our capabilities in all aspects of our operating activities and by overcoming obstacles through thorough understanding and analysis of actual conditions. Through our products, activities, and innovations, we will continue creating new value that contributes to society.

Business Forecast for the Fiscal Year 2014

	FY2014 (Forecast)	Changes
Net Sales	2,150.0	+17.0%
Operating Income	130.0	+23.5%
Net Income	70.0	+17.4%

(Billions of yen)

Remarks: Estimated exchange rate: 100 yen/US\$

To the Next Stage

Special Feature

MEDIUM-TERM MANAGEMENT PROGRAM

Project AP-G 2016 (FY2014–FY2016)

Innovation and Proactive Management

–Implementation of Growth Strategy–

Financial Targets

	Billions of yen	
	FY2013 (Actual)	FY2016 (Target)
Net Sales	1,837.8	2,300
Operating Income	105.3	180
Operating Income to Net Sales Ratio	5.7%	8%
ROA	5.5%	8%
ROE	7.5%	10%

Remarks: Estimated exchange rate 100 yen/US\$ Estimated oil price 110 US\$/B (DUBAI FOB)

Basic policy of Dividends	Aim for sustainable increase of dividends linked to the business performance
Guide line of D/E ratio	Below 1

Toray Group is following the completion of Project AP-G 2013 with the new medium-term management program Project AP-G 2016 for fiscal years 2014 to 2016 (April 2014 through March 2017).

Project AP-G 2016 launches a new set of growth strategies to continue advancing and building on the previous project's progress expanding businesses in growth fields and regions and establishing a robust business footing by cost reductions. We will also continue stressing "innovation and proactive management" to further advance our growth strategies and corporate structure reinforcement measures. The project also outlines plans for stepping up investment and R&D to broaden our businesses and enhance our future profitability. Management also aims to continue to increase the dividend distribution amount linked to our results performance, while maintaining a healthy financial standing with a debt-to-equity ratio of one or below.

We will advance business expansion into domains where we can fully leverage Toray Group's strengths and implement strategies and programs to become the global leader in each segment

The Key Principles of Project AP-G 2016

Project AP-G 2016 will continue to drive us closer to our AP-Growth TORAY 2020 long-term corporate vision by continuing and deepening the Project AP-G 2013 initiatives for Green Innovation Business Expansion, Asia and Emerging Country Business Expansion, and Variable and Fixed Cost Reduction. Furthermore, we will broaden these three to

add new initiatives of Life Innovation Business Expansion, the Americas Business Expansion, and Production Process Innovation and Total Operational Cost Reduction in Sales and Marketing.

These key principles will guide our efforts to advance business expansion into domains where we can fully leverage Toray Group's strengths and to implement strategies and programs to become the global leader in each segment as we seek to attain fiscal 2016 performance targets of consolidated net sales of ¥2,300 billion and operating income of ¥180 billion.

AP - G 2016

Basic Strategies

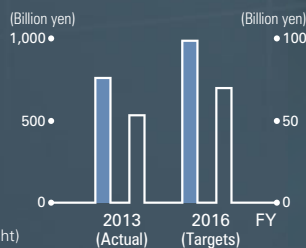


Basic Segment Strategies and Objectives

Each segment will implement basic strategies toward achieving specific objectives for Project AP-G 2016.

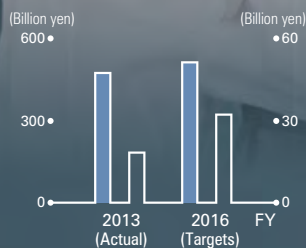
Fibers & Textiles

Bolster earning strength as the Core Growth Driving Businesses and expand global business in growth markets and regions



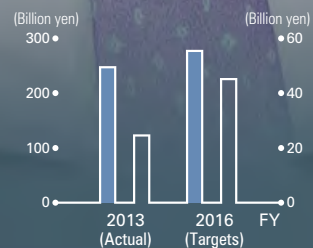
Plastics & Chemicals

Expand business and increase earnings by developing high value-added products for growing applications and market regions



IT-related Products

Expand business by developing and marketing new high value-added products focused on the display and semiconductor fields



■ Net sales (left)
□ Operating income (right)

Capture Business Opportunities in Growth Business Fields

Expansion of Green Innovation Businesses +

Business Expansion in Growth Countries and Regions

Expansion of Asia and Emerging Country Businesses +

Strengthen Total Cost Reduction

Reduction of Variable Costs and Fixed Costs +

Additional New Perspective

Expansion of Life Innovation Businesses

Expansion of Businesses in America

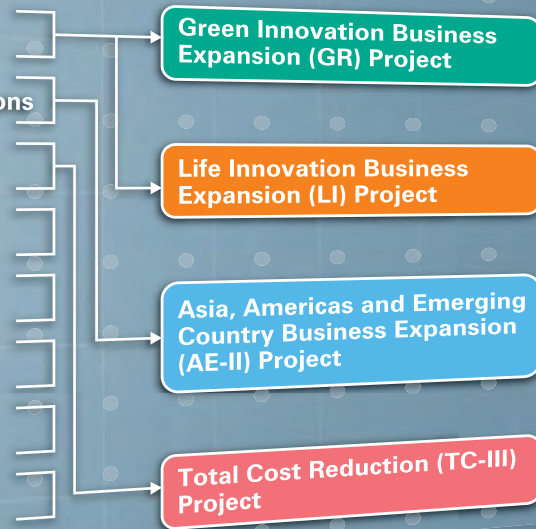
Innovation of Production Process, Total Operational Cost Reduction in Sales and Marketing

Basic Strategies and Group-wide Projects

Basic Strategies

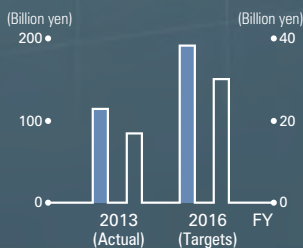
1. Business expansion in growth business fields
2. Business expansion in growth countries and regions
3. Bolstering competitiveness
4. Strengthening sales and marketing
5. R&D strategies/Intellectual property strategies
6. Capital investment strategies
7. M&A and business alliance strategies
8. Human resources strategies

Group-wide Projects



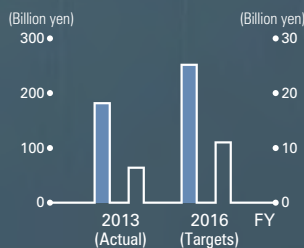
Carbon Fiber Composite Materials

Further expand business as the world's leading carbon fiber manufacturer



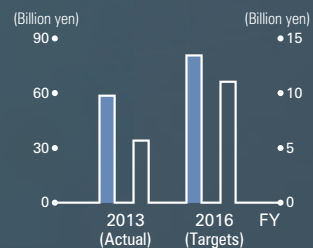
Environment & Engineering

Expand business in the environment and energy fields by applying primarily our expertise in water treatment membranes and facility design



Life Science

Strengthen development globally and seek to contribute to medical advances

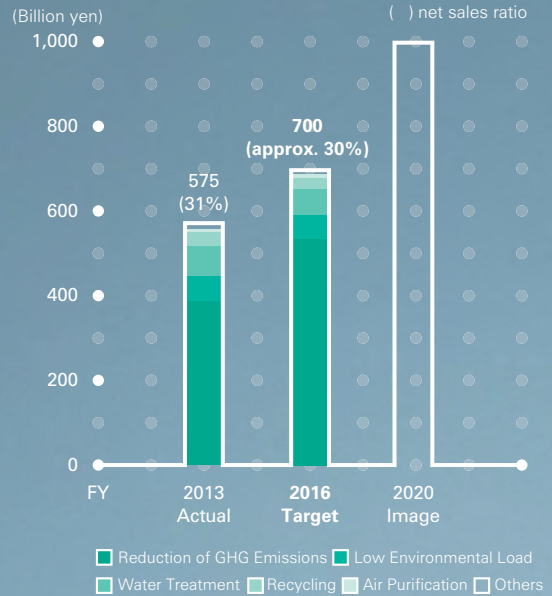


We will use innovation to drive further growth in the Environment & Energy and the Medical & Health fields

The first basic strategy, "business expansion in growth business fields," will be implemented by leveraging our accumulated technological capabilities and strong business foundation to develop advanced materials and create new businesses with a focus on the Environment & Energy and Medical & Health fields.

We will expand businesses that contribute solutions to environmental as well as resource and energy issues

The Green Innovation Business Expansion (GR) Project calls for achieving net sales near ¥700 billion in fiscal 2016 in fields that contribute to resolving environmental as well as resource and energy issues including energy conservation, new energy, biomass derivatives, water treatment, air purification, low environmental burden, recycling, and process innovation with the addition of shale gas development and related industries in priority fields. At the same time, we will implement environmental Life Cycle Management (LCM) practices to reduce the environmental burden over the complete life cycles of products and services from raw materials to production, use, and disposal and promote sustainable growth for Toray Group.



BASIC STRATEGY 1 Business Expansion in Growth Business Fields GREEN INNOVATION BUSINESS EXPANSION (GR) Project

**FY2016
Sales Target
¥700 billion**

Toray Group Green Innovation Businesses

Net Sales in FY2013 ¥575.0 billion

Air Purification

> Dust collecting filter/air filter

Recycling

> Regeneration-type recycling, circulation-type recycling/material, chemical recycling

Water Treatment

> RO, MBR, MF/UF membrane
> TORAYVINO™ home water purifier



Low Environmental Load

> Non-halogen flame-retardant material
> TORAY WATERLESS PLATE®

Reduction of GHG emissions

> TORAYCA® carbon fiber for aircrafts, automobiles, pressure vessels, etc.
> Back sheets for solar cells/lithium-ion battery separators

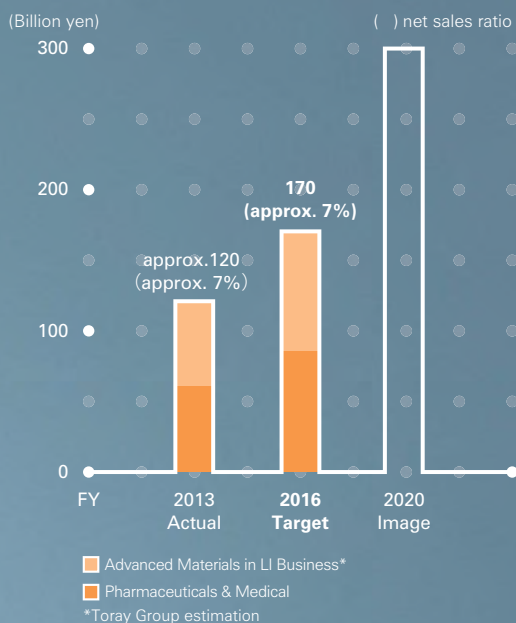


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In the Environment & Energy field, we will pursue business opportunities in the shale gas revolution to further accelerate the growth of the Green Innovation businesses. In the Medical & Health field, the Life Innovation Business Expansion Project is a fundamental strategy as we expand our present pharmaceutical and medical businesses and implement growth strategies engaging Toray Group's advantages such as advanced materials, core and fundamental technologies, and business platforms.

We will expand businesses that improve the quality of healthcare, ease the burden at medical institutions, and contribute to health and longevity

The Life Innovation Business Expansion (LI) Project calls for achieving net sales of ¥170 billion in fiscal 2016. To this end, we will expand business in our present pharmaceutical and medical businesses and apply the Toray Group's advanced materials, core and fundamental technologies, and business platforms to improve the quality of healthcare, ease the burden at medical institutions, and contribute to health and longevity. In the pharmaceutical and medical businesses, we will achieve this by creating new products and cultivating new business fields as well as strengthening development of our competitive advanced materials for medical equipment and healthcare products. We will also collaborate with strategic partners, participate in medical clusters, and take other steps to expand business, accelerate development, and explore new business avenues.



BASIC STRATEGY 1
Business Expansion in Growth Business Fields
LIFE INNOVATION
BUSINESS EXPANSION
(LI) Project

FY2016
Sales Target
¥170 billion

Toray Group Life Innovation Businesses

Net Sales in FY2013 Approx. ¥120.0 billion

Advanced Materials in LI Business*

Approx. **¥62 billion**

- > PP spunbond for sanitary materials
- > TORAYVINO™ home water purifier
- > Hospital-use clothing
- > Air filter
- > X-ray CT cradle, cartridge
- > DNA chip (for research)



Pharmaceuticals and Medical

Approx. **¥58 billion**

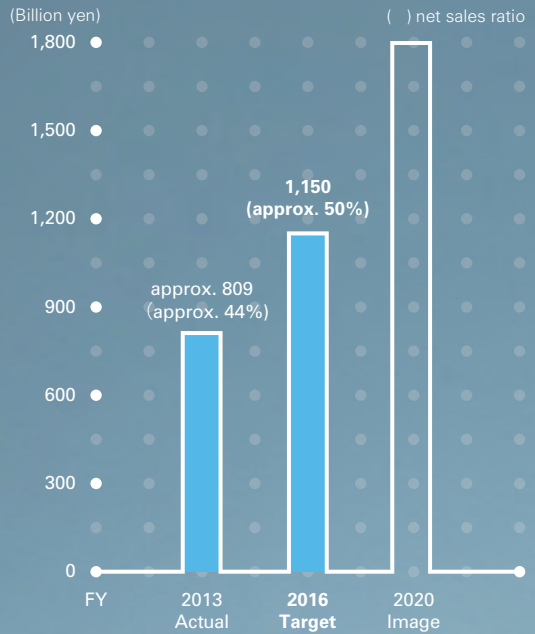
- > Pharmaceuticals
- > Artificial kidney
- > Catheter
- > Dialysis machine
- > Contact lens
- > Extracorporeal circulation therapeutic columns



*Toray Group estimation

We will further strengthen the organic relationships among Toray Group overseas bases to develop new markets and expand business

Implementing the second basic strategy of “business expansion in growth countries and regions” entails accelerating the Asia and Emerging Country Business Expansion (AE) Project of the previous Project AP-G 2013 and ensuring that we fully capture the demand being created by the growing middle- and upper-income populations in those regions. Project AP-G 2016’s Asia, Americas and Emerging Country Business Expansion (AE-II) Project adds the Americas to the target growth regions and a focus on strengthening organic collaboration between the Group’s overseas bases and establishing new business bases. The fiscal 2016 performance objective for the project is for net sales near ¥1,150 billion, representing roughly 50% of total sales.



BASIC STRATEGY 2

Business Expansion in Growth Countries and Regions

ASIA, AMERICAS AND EMERGING COUNTRY BUSINESS EXPANSION

(AE-II) Project

FY2016 Sales Target

¥1,150 billion



Initiatives in Asia and Emerging Countries

We will fully leverage the solid business foundation we have constructed in China to continue expanding business and improving profitability. We will also introduce high-performance products to meet the increasing demand from the growing market for high value-added products and for environmental solutions accompanying the country's industrialization.

In Indonesia, Thailand, and Malaysia, we will accelerate development in our strength area of high value-added products and new business in the light of each country's industrial policy and level of industrial sophistication. In India, we will expand business and establish new production bases. We will also expand our business in other emerging countries and regions, including Central and South America, the Middle East and Turkey, Russia, Central and Eastern Europe, and Africa.

Initiatives in the Americas

Toray Group views the Americas as a new driver of business expansion. The shale gas revolution is spurring the U.S. to regain industrial competitiveness and to rejuvenate the manufacturing industry while the development of

new leading-edge technologies in the aircraft and energy industries in the country is generating growing demand for advanced materials.

The Toray Group purchased approximately 400 acres (1.6 million square meters) of commercial land in South Carolina in February 2014 and plans to concentrate management resources on preparing the site to become a new supply hub for advanced materials.

Our carbon fiber composite materials business is one of our core operations in the U.S., and we have fully integrated production systems carrying out the complete process from raw material fiber spinning to carbonization and production equipment for prepreg intermediate material using high-performance TORAYCA® carbon fiber. We are planning to expand our presence to meet the growing demand from the increasing production of Boeing 787 aircraft and for compressed natural gas tanks and other energy-related applications.

Each of the textile, resin, and carbon fiber composite businesses is considering new manufacturing bases to meet the rising demand in North, Central and South Americas for automotive components. Moreover, we are aggressively seeking to expand operations by entering new business areas and pursuing strategic M&A and alliances.



- Fibers & Textiles
- Plastics & Chemicals
- IT-related Products
- Carbon Fiber Composite Materials
- Environment & Engineering
- Life Science
- Trading Companies
- Overseas Offices/
Regional Supervisory Organization

Constantly strengthening the corporate structure, creating a resilient business structure, and targeting the world's highest level of cost competitiveness

The Total Cost Reduction (TC-III) Project, the third basic strategy, extends and deepens the focus on reducing variable

costs and strict management of fixed costs using the performance ratio (P-ratio) from the TC-II Project of the previous Project AP-G 2013, while adding new initiatives for "production process innovation" and "total operational cost reduction in sales and marketing." The TC-III Project targets cutting costs by a total of ¥200 billion from fiscal 2014 to 2016.

Continuation of TC-II	<ul style="list-style-type: none"> Continuing the activities of variable costs reduction (over 3% each year and over 10% over three years) Controlling fixed costs through P-ratio* accounting method (P-ratio=under 0.96 each fiscal year) Activities involve participation of employees group-wide
Innovation of Production Process	<ul style="list-style-type: none"> Set up innovative production processes to achieve drastic cost reductions based on new perspectives and approaches Collaborate across organizations, between research, technical, production and engineering departments
Total Operational Cost Reduction in Sales and Marketing	<ul style="list-style-type: none"> Establish a highly competitive supply chain, by analyzing and understanding the operational costs and logistics systems

* P (performance)-ratio=fixed cost growth rate/marginal profit growth rate: 1.0 or less, or manage at each division against a budget.

BASIC STRATEGY 3
Bolstering Competitiveness
TOTAL COST REDUCTION
(TC-III) Project

Target to reduce
¥200 billion
from 2014 to 2016

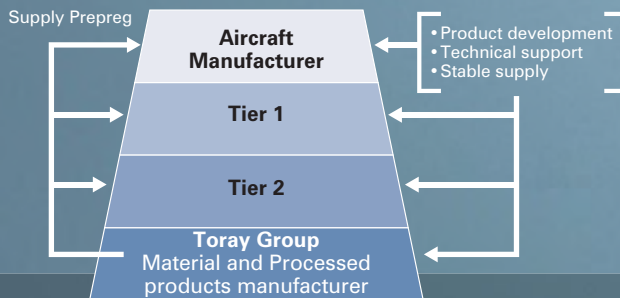
BASIC STRATEGY 4
STRENGTHENING
Sales and
Marketing

We will implement business strategies that encompass the complete supply chain and create profit-generating sales channels to expand global business revenue

The fourth basic strategy is "strengthening sales and marketing." We will bolster our sales capabilities by horizontally developing business operations modeled after the Fibers & Textiles segment and the Carbon Fiber Composite Materials segment's aircraft applications with strategies that encompass the complete supply chain to create profit-generating sales channels to expand global business revenues.

To achieve this, we will develop a full-fledged solutions business and strengthen ties with key customers. Furthermore, we will implement measures aimed at elevating all of our products and businesses to leading positions around the world. We will also expand the businesses and cultivate a core sales staff with global skill sets. In addition, management resources will be focused on advancing the global business development and launching effective PR strategies to raise Toray brand recognition and brand strength overseas.

Toray Group Midstream and Downstream Strategies
[Carbon Fiber Composite Materials, Aircraft Application]

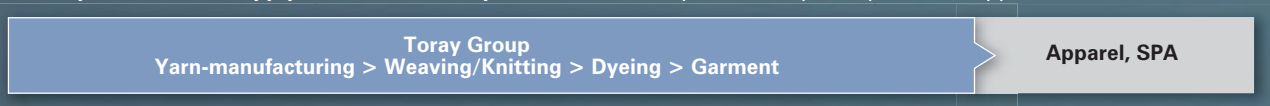


[Fibers & Textiles, Apparel Applications]

General Supply Chain (Numbers of multi-steps in sales channels of each material, applications and items)

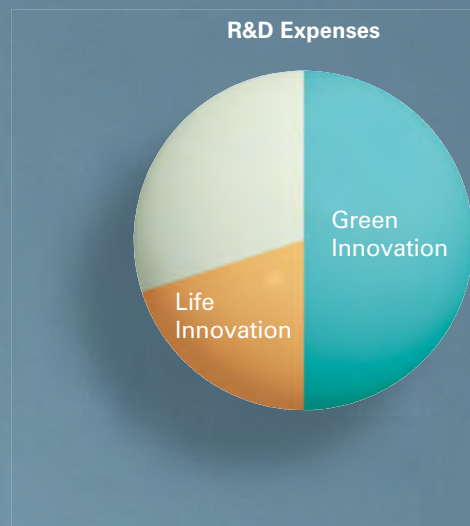


Development of New Supply Chains = One Stop Total Service (Respond directly to any material, application or item)



The fifth basic strategy comprises “R&D strategies” and “intellectual property strategies.” Our R&D strategies will entail activating Toray Group’s core and fundamental technologies, and business platforms to focus on business themes that generate primary, long-term competitive strength. Moreover, we will fortify peripheral areas to our core products and technologies in addition to the cores, work at research leading to advances into new fields and technologies, and pursue production process innovation that will lead to future core technologies. We have set a budget for research and technology development during the three years to 2016 of ¥180 billion with 50% to be applied to Green Innovation and 20% to Life Innovation.

Our intellectual property strategies are to construct competitive entry barriers to our business arenas globally and to bolster the Toray Group’s technical advantages.



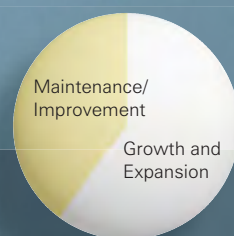
BASIC STRATEGY 5
**R&D STRATEGIES/
 Intellectual
 PROPERTY STRATEGIES**

Invest
¥180 billion
of R&D expenses in 3 years
from FY2014

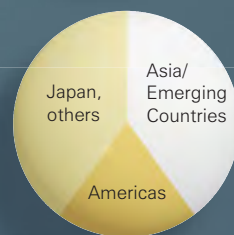
BASIC STRATEGY 6
**Capital
 Investment
 STRATEGIES**

¥400 billion
of capital investment
planned in 3 years
from FY2014

The sixth basic strategy is laid as “capital investment strategies.” We have set a three-year capital investment budget of ¥400 billion, with roughly 60% to be used in growth and expansion business fields as well as 60% to focus on investment in Asia, emerging countries, and the Americas where we expect clear economic growth. This investment program to fiscal 2016 will be designed to promote business expansion and include investment in long-term growth strategies aimed at reaching our objectives for 2020.



Approx. **60%** of total capital expenditures will be allocated to Growth and Expansion fields



Approx. **60%** of total capital expenditures will be allocated to Asia/Emerging Countries and Americas

BASIC STRATEGY 7

M&A and Business Alliance STRATEGIES

The effective application of these strategies will require highly capable human resources in key position in each of the target areas. We will secure and cultivate highly skilled employees capable of driving dramatic growth of our global operations. Based on our business strategies, we actively rotate staff among Toray and affiliated companies in Japan and abroad, securing and cultivating core human resources, and optimally assigning personnel throughout the Group. In overseas businesses, we will also work to secure and cultivate local core staff to carry out business operations.

Furthermore, we aim to secure and cultivate personnel with global skill sets, the ability to make on-site decisions and provide leadership on the front lines, and to formulate effective action plans for new business development, structural reform, and other key strategies. We will continue to employ and cultivate a diverse staff of men and women from around the world and provide a full range of training programs along with on-the-job training to further augment each employee's professional expertise.

The seventh basic strategy is set as "M&A and business alliance strategies." We will pursue M&A and alliances capable of generating advantageous synergy effects with our core technologies as an effective option for advancing our growth strategy and actively invest our management resources in rewarding cases for realizing the business expansion required to become the global business leader. M&A funds will be allocated and used based on strategic decisions and will not utilize funds from the capital investment budget.

BASIC STRATEGY 8

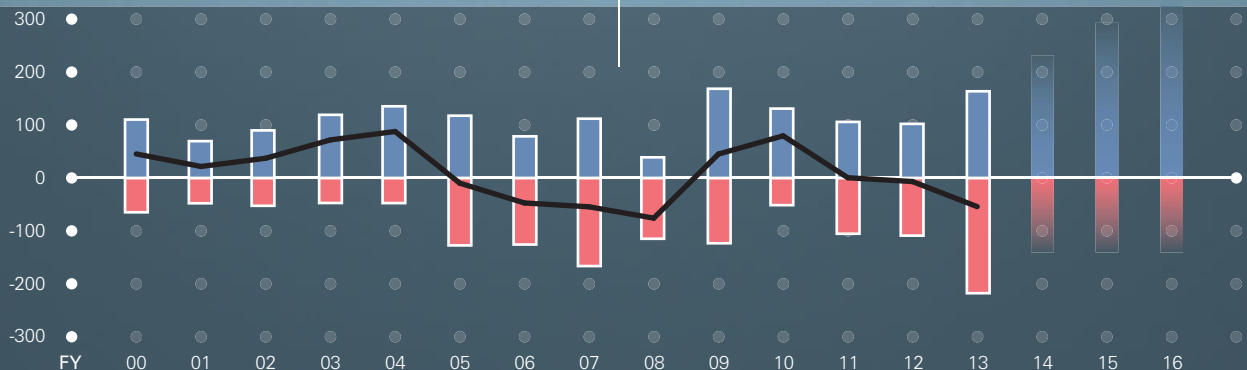
Human Resources STRATEGIES

Implementing the eight basic strategies will put us in a phase of higher cash flow for investing until fiscal 2016. At the same time, we remain committed to providing investment return to stockholders and plan to raise cash flows from operating activities with the goal of generating overall positive free cash flow for the three years of the AP-G 2016 Project.

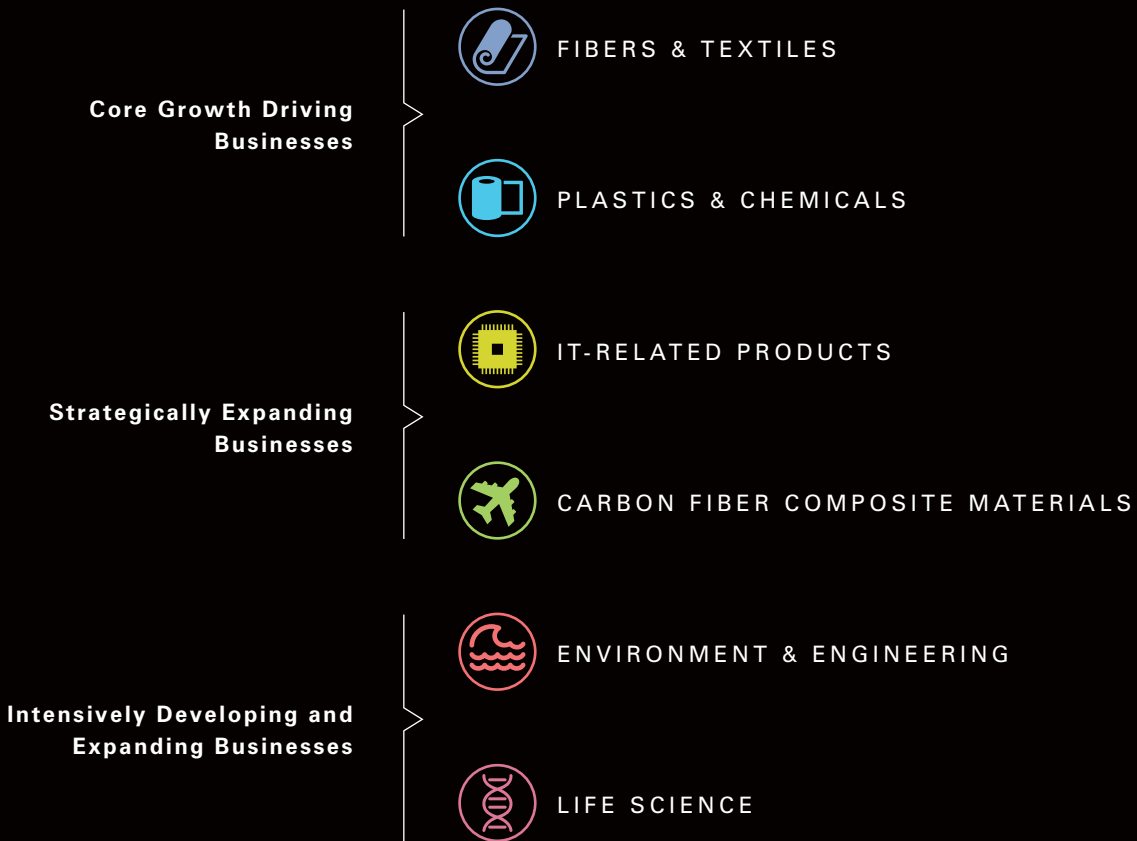
Trends in Cash Flows

Trends in Consolidated Cash Flows

(Billion yen)



Toray Group Segments



Toray Group works to expand earnings via our Strategically Expanding Businesses of IT-related Products and Carbon Fiber Composite Materials, while securing profits from Core Growth Driving Businesses, Fibers & Textiles and Plastics & Chemicals. Simultaneously, Toray Group nurtures primary revenue sources in the future business, such as the life science, water treatment, and environment fields to seek sustainable growth.

Toray Group Segments

Business Categories	Segments
<p>Core Growth Driving Businesses</p> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="text-align: center;">  <p>Net Sales Ratio 66.7%</p> </div> <div style="text-align: center;">  <p>Operating Income Ratio 56.1%</p> </div> </div>	<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>FIBERS & TEXTILES</p> </div>  </div> <hr/> <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>PLASTICS & CHEMICALS</p> </div>  </div>
<p>Strategically Expanding Businesses</p> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="text-align: center;">  <p>Net Sales Ratio 19.6%</p> </div> <div style="text-align: center;">  <p>Operating Income Ratio 32.8%</p> </div> </div>	<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>IT-RELATED PRODUCTS</p> </div>  </div> <hr/> <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>CARBON FIBER COMPOSITE MATERIALS</p> </div>  </div>
<p>Intensively Developing and Expanding Businesses</p> <div style="display: flex; flex-direction: column; align-items: center;"> <div style="text-align: center;">  <p>Net Sales Ratio 13.0%</p> </div> <div style="text-align: center;">  <p>Operating Income Ratio 9.5%</p> </div> </div>	<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>ENVIRONMENT & ENGINEERING</p> </div>  </div> <hr/> <div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: center;">  <p>LIFE SCIENCE</p> </div>  </div>

Notes: 1 Each percentage shows the share of net sales/operating income in the consolidated net sales/consolidated operating income respectively in the segment.
 2 Excludes other businesses, equivalent to ¥14.3 billion (0.8%) in net sales and ¥2.0 billion (1.6%) in operating income, and adjustment of operating income of ¥21.2 billion.

Main Products

Application Examples

Filament yarns, staple fibers, and woven and knitted fabrics of nylon, polyester and acrylic fibers, etc.; non-woven fabrics, man-made suede and apparel products

- Women's and men's clothes (coats: man-made suede, dress shirts: polyester-cotton blended fabric, stockings: nylon fiber, apparel products)
- Automobiles (car seats: polyester fiber, airbags: nylon fiber, seatbelts: polyester fiber)
- Furniture & interior (sofas: man-made suede, carpets: BCF nylon, curtains: halogen-free, flame retardant materials)
- Disposable diapers: polypropylene filament yarn non-woven fabric
- Tents: polyester fiber

Nylon, ABS, PBT, PPS and other resins and molded products, polyolefin foam; polyester, polypropylene, PPS and other films and processed film products; raw materials for synthetic fibers and other plastics; zeolite catalysts; fine chemicals for pharmaceuticals and agrochemicals; veterinary medicine (excludes film and resin covered in IT-related Products segment)

- Automobile components (radiator tanks: nylon resin, intake manifold: nylon resin, connectors: PBT resin, capacitor for hybrid cars: polypropylene film)
- Home appliances (housing for washing machines, vacuum cleaners, air conditioners: ABS resin)
- Power tools (circular tools housing: nylon resin)
- Backsheet of solar panels (PET film)
- Packs for snack (polypropylene film, PET film)
- Veterinary medicine (for dogs and cats)

Films and plastic products for information and telecommunications related products; materials for electronic circuits and semiconductors; color filters for LCDs and related materials; materials for plasma display panels; magnetic recording materials; graphic materials and IT equipment

- Flat panel display televisions (PET film and LCD color filter manufacturing equipment)
- PCs (circuit materials, PET film, polyimide coatings)
- Cellular phones (color filters, LCP resin, circuit materials, PET film)
- Printing (waterless printing plates, relief printing on resins, printing equipment)
- Backup tapes for server (PET film)
- In-vehicle multimedia LANs (optical fiber)
- Semiconductors (semiconductor coating materials)

Carbon fibers, carbon fiber composite materials and their molded products

- Aircraft structure (carbon fiber composite materials)
- Sports gear and goods: golf shafts, tennis rackets
- Bike frames: carbon fiber composite materials
- PC chassis (carbon fiber molded products)
- Wind-power generator blades (carbon fibers)
- Marine vessels (carbon fibers)
- Industrial equipment materials (carbon fiber, carbon fiber composite materials)
- Bridge pier reinforcement (carbon fiber woven fabrics)

Comprehensive engineering; condominiums; industrial equipment and machinery; environment-related equipment; water treatment membranes and related equipment; materials for housing, building and civil engineering

- Seawater desalination facilities (water treatment membranes and equipment)
- Sewage and waste-water treatment facilities (water treatment membranes and equipment)
- Condominiums
- Housing (wall siding for houses, interior materials for buildings)
- Plants and manufacturing facilities (comprehensive engineering services)

Pharmaceuticals and medical products; analysis, physical evaluation and research services

- Pharmaceuticals (natural interferon-beta preparation, prostacyclin, antipruritus drug for suppressing intractable itching accompanying hemodialysis)
- Medical treatment devices (hemodialyzers, dialyzer and equipment)

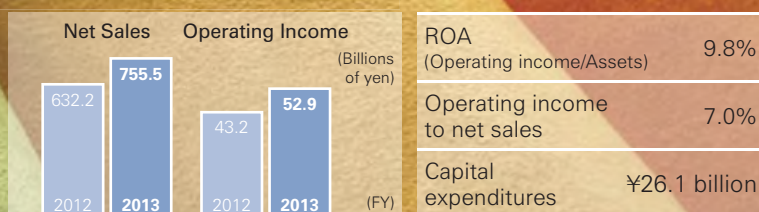
Toray Group Segments

Core Growth Driving Businesses

Fibers & Textiles

Fiscal	2012	2013	Changes	2014 Forecast
Net sales	632.2	755.5	19.5%	870.0
Operating income	43.2	52.9	22.4%	56.0
Assets	456.8	618.5		

Fiscal 2014 forecasts announced on August 7, 2014.



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

Fibers & Textiles segment net sales increased 19.5% year on year to ¥755.5 billion. Operating income increased 22.4% to ¥52.9 billion.

In Japan, while sales of functional apparel applications grew strongly, those of general apparel applications, though showing signs of recovery, remained weak. On the other hand, exports recovered partly due to the correction in the strong yen. Sales for industrial applications, led by automobile-related applications, continued on track to recovery.

Overseas, while the conditions continued to be tough with Europe remaining mired in economic slump and sluggish domestic demand in China, textile subsidiaries in Southeast Asia and China pursued sales expansion and a shift towards high value added products. Also, while the floods in Thailand that occurred in October 2011 had affected the operations in the same period a year earlier, the production and sales recovered since then, contributing to the improved performance.

Outlook for the Year Ending March 2015 (Fiscal 2014)

In Japan, despite continuous signs of recovery in demand for apparel applications, it is forecast that demand will be weak centered in the first half partially due to the fallback from advance demand before the expected consumption tax increase. The impact of rising raw material and fuel prices is also a concern. Overseas, the economic conditions in the U.S. and emerging countries will generally remain steady, while demand will stagnate in Europe and remains weak in China.

In this business environment, the Fibers & Textiles segment will continue fortifying and expanding the integrated operations from fibers and textiles to end products businesses, which are Toray's areas of strong advantage, and seek to expand sales for automobile airbag, disposable diaper, and environmental applications and other growth fields as well as in China, emerging countries, the U.S., and other growth regions. We will also strengthen the segment's corporate structure through cost reduction and other measures and aim to achieve earnings growth and global business expansion as expected of Toray's Core Growth Driving Business.

Topics

High-performance Polypropylene Spunbond Capacity to be Expanded in China

Toray has decided to expand the production facilities of the high-performance polypropylene spunbond (PP spunbond) business of Toray Polytech (Nantong) Co., Ltd. (TPN). The new facility will have an annual production capacity of about 20,000 tons, increasing TPN's annual capacity to about 78,000 tons. Production at the new facility is scheduled to start in December 2014 and will bring the Toray Group's annual production capacity for PP spunbond to about 141,000 tons. The Toray Group currently produces PP spunbond at production facilities in Korea, China, and Indonesia, where the production started in June 2013, for markets in Japan, Korea, China, India, ASEAN countries, and throughout in Asia.

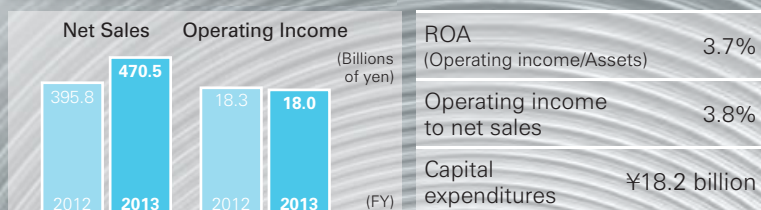
The expanding market for disposable diapers for babies and infants is expected to boost annual demand for PP spunbond in Asia from an estimated 290,000 tons in 2012 to 750,000 tons in 2020. Toray is preparing for the demand growth and developing products to meet the need for high-performance disposable diaper materials.

Core Growth Driving Businesses

Plastics & Chemicals

Fiscal	2012	2013	Changes	2014 Forecast
Net sales	395.8	470.5	18.9%	550.0
Operating income	18.3	18.0	-1.6%	24.0
Assets	456.7	507.1		

Fiscal 2014 forecasts announced on August 7, 2014.



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

Plastics & Chemicals segment net sales increased 18.9% year on year to ¥470.5 billion. Operating income declined 1.6% to ¥18.0 billion.

Though sales for automotive applications in the resin business increased in Japan, those for electronics and general industrial applications remained weak. The business was also affected by the increase in raw material prices resulting from the correction of the strong yen. Overseas, automotive applications in North America, China and Southeast Asia led the sales expansion. Demand for the film business's products remained sluggish on the whole within and outside Japan, with continued price competition, even though domestic sales for capacitors used in hybrid cars remained strong.

Also, trading subsidiaries expanded their business transactions on the back of market recovery and strong overseas business.

Outlook for the Year Ending March 2015 (Fiscal 2014)

Economic conditions in Japan are forecast to improve, supported by brisk demand with particularly strong growth in high value-added fields, amid various unstable elements, including sharply fluctuating raw material and fuel costs. Overseas, demand is expected to recover worldwide, led by emerging countries.

In this business environment, in the plastic resins business, we plan to maximize sales of strong-selling products and expand sales in China, ASEAN, and emerging countries while quickly incorporating material and fuel costs rises into our product prices to maintain and expand the spread between these costs and sales prices. In the films business, although we expect strong pressure from customers to lower prices, we will continue expanding sales of high value-added products for packaging and industrial applications.

Topics

TORELINA® PPS Resin Production Base to be Constructed in South Korea

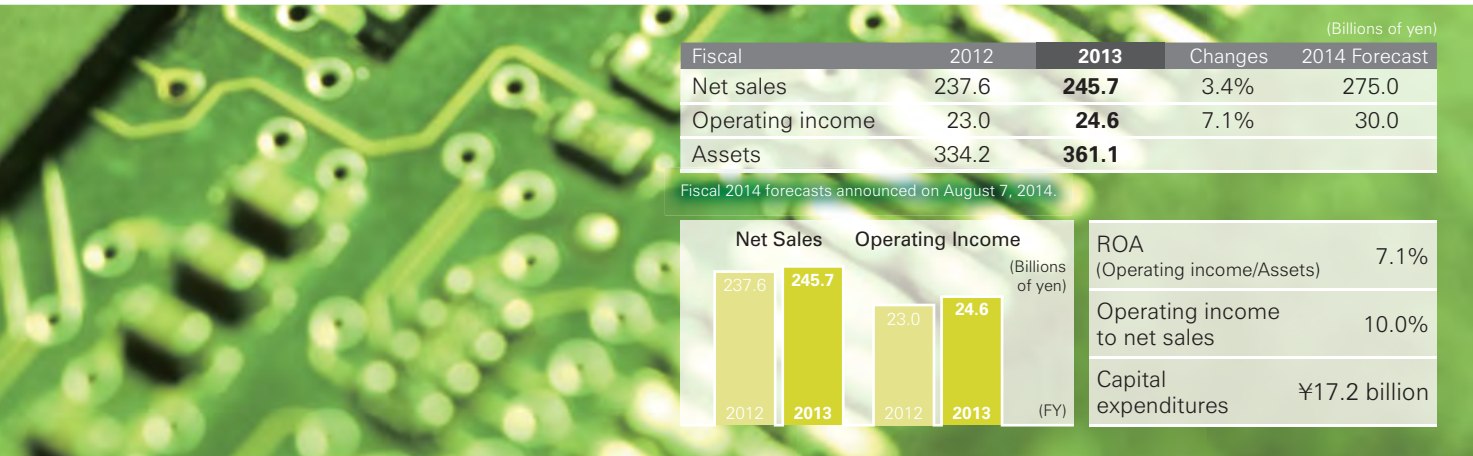
It has been decided to construct a new production plant for the TORELINA® polyphenylene sulfide (PPS) resin at Toray Advanced Materials Korea Inc., a 100% subsidiary. The facility, which will be the Toray's first overseas production base for PPS resin, is scheduled to start operations in April 2016 with an annual production capacity of 8,600 tons, bringing the Group's total annual production capacity for PPS resin to 27,600 tons, combined with the Tokai Plant.

The facility will be a highly cost competitive operation with fully integrated production from main raw materials to resin and will supply products to resin compounds bases mainly in China, excluding portions used in South Korea. The factory will also install resin compound lines for design and functionality processing with an annual capacity of 3,300 tons and is aiming to start precedent shipments in October 2015.

PPS resin is a "super engineering plastic" with superior mechanical strength and resistance to heat, chemicals, and fire and is widely used in automotive electrical components, electrical machinery, electronic devices, office automation equipment, and home appliances. Worldwide demand for compounds was estimated at 70,000 tons in 2012 and is expected to continue growing at an annual pace of 8% or higher.

Strategically Expanding Businesses

 IT-related Products



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

IT-related Products segment net sales increased 3.4% year on year to ¥245.7 billion. Operating income increased 7.1% to ¥24.6 billion.

The sales of products for small and mid-sized displays such as smartphones and tablet terminals in general were strong, although they were partly affected by the production adjustment of end products in the second half. Sales of films and processed film products for large LCD panels, after performing strongly in the first half, were influenced by stagnating demand for flat-screen TV sets in the second half.

Sub-segments

Fiscal	2012	2013	Changes
Display materials	79.0	85.5	8%
Electronic components, semiconductors, electric circuit materials	96.6	106.6	10%
Data storage materials	31.2	30.9	-1%
Equipment, others	30.7	22.7	-26%

Outlook for the Year Ending March 2015 (Fiscal 2014)

It is forecast that large LCD panel makers will continue operating at a firm pace while customers will relentlessly demand for lower prices. A temporary adjustment can be expected but the demand will continuously grow for smartphone and tablet device components. Prices will be also under increasing pressure to be lowered.

In this business environment, we will seek to expand sales and market share for our high value-added films and processed film products for display and electronic component applications. We will also focus on raising sales of other products including organic EL materials, semiconductor materials, printing materials, and battery separator films.

Topics

Capacity Expanded for RAYBRID™ Photosensitive Functional Materials

In September 2013, Toray expanded its annual production capacity six-fold to 120 tons for the RAYBRID™ photosensitive conductive paste for touch panel wiring patterns.

Narrowing frame sections on smartphones and tablet devices for enlarging screen sizes are requiring increasingly finer conductive wiring to convey signals from the touch panel to the computer components. Photolithography is gaining increasing attention as a method for creating cellular micro patterns. The method involves coating a photosensitive paste on a substrate and forming a wiring pattern through the process including exposure, development, and firing.

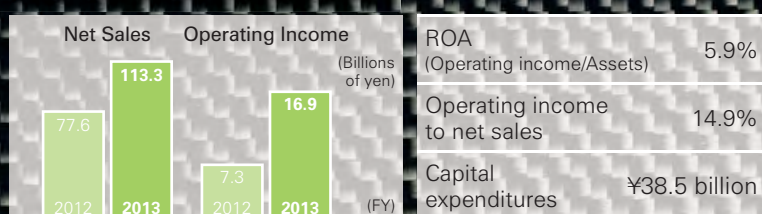
Toray's RAYBRID™ is a photosensitive functional material used as a substrate coating material in the microfabrication photolithographic process and enables microwiring through a photosensitive resin containing inorganic particles with various functions. The Company is fortifying its RAYBRID™ marketing efforts to expand sales in the smartphone and tablet device market, which is projected to grow to annual shipments of 2 billion units in 2017.

Strategically Expanding Businesses

Carbon Fiber Composite Materials

Fiscal	2012	2013	Changes	2014 Forecast
Net sales	77.6	113.3	46.0%	160.0
Operating income	7.3	16.9	131.9%	23.0
Assets	233.1	341.8		

Fiscal 2014 forecasts announced on August 7, 2014.



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

Carbon Fiber Composite Materials segment net sales increased 46.0% year on year to ¥113.3 billion. Operating income increased 131.9% to ¥16.9 billion.

As demand for aircrafts as well as that in the environment and energy fields including compressed natural gas tank applications expanded, sales of carbon fibers and intermediate products (pre-preg) grew strongly for aerospace applications and general industrial applications. In the composite business, sales of carbon fiber reinforced plastic chassis for notebook PCs, which boast high strength and light weight, increased.

Sub-segments

Fiscal	2012	2013	Changes
Aircraft	30.4	57.2	88%
Sporting goods	12.2	14.2	16%
Industrial	35.0	41.9	20%

Outlook for the Year Ending March 2015 (Fiscal 2014)

It is forecast that demand for aircraft and environment and energy-related applications will continue driving steady growth in global demand for carbon fiber in 2014. Simultaneously, pricing competition will remain in Asia for general-purpose and sports applications and the markets will not recover in the immediate future.

In this business environment, we plan to maintain steady shipments of carbon fiber for aircraft applications centered on our Boeing 787 account and to expand sales in line with the growing demand for environment and energy-related product applications. In carbon fiber products for sports applications, we will shift to high value-added products and revise prices on general-purpose products.

Topics

Acquisition of Zoltek, of the U.S., Marks Entry to the Large Tow Carbon Fiber Business

Toray purchased all shares of large tow*¹ carbon fiber manufacturer Zoltek Companies, Inc., of the U.S., and made the company a wholly owned subsidiary.

We expect global demand for carbon fiber to grow by 15% or more annually not only for its energy-saving potential as lightweight material but for its capability as a contributor to broader use of oil and coal alternative energy sources. We expect widening use of regular tow*² carbon fiber materials for applications requiring high performance and high quality, such as in aircrafts, as well as large tow materials, which offer an attractive cost and performance balance for use in wind-power generation equipment and as an automotive structural material.

After entering the large tow carbon fiber business in 1988, Zoltek implemented comprehensive measures to enhance its cost competitiveness and generated substantial business and earnings growth.

Toray had focused management resources on building its strength in regular tow carbon fiber, but did not offer any large tow products and was seeking an entry to the rapidly growing market for general-purpose products. The acquisition of Zoltek provides opportunities for new growth.

*1 Large tow carbon fiber is carbon fiber with 40,000 or more filaments.

*2 Regular tow carbon fiber is carbon fiber with up to 24,000 filaments.

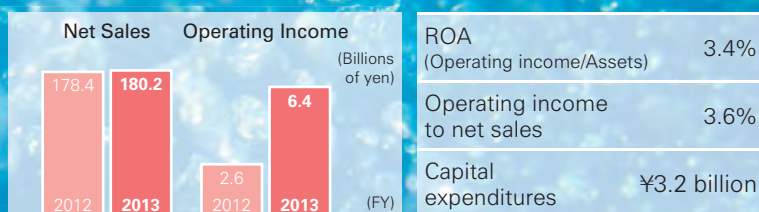
Toray Group Segments

Intensively Developing and Expanding Businesses

Environment & Engineering

Fiscal	2012	2013	Changes	2014 Forecast
Net sales	178.4	180.2	1.0%	220.0
Operating income	2.6	6.4	143.4%	9.5
Assets	176.6	202.1		

Fiscal 2014 forecasts announced on August 7, 2014.



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

Environment & Engineering segment net sales increased 1.0% year on year to ¥180.2 billion. Operating income increased 143.4% to ¥6.4 billion.

While the market for water treatment membranes has not yet fully recovered reflecting continued uncertainties over the global economic outlook, shipment of reverse osmosis membranes to the Middle East was strong at Toray. Among domestic subsidiaries, the progress of plant construction projects remained slow at an engineering subsidiary.

Outlook for the Year Ending March 2015 (Fiscal 2014)

We plan to expand sales while vastly cutting costs in the water treatment membranes business amid expectations of improving business conditions worldwide supported by ongoing strong business in Asia and gradually improving conditions in the U.S. and Europe.

In the engineering business, we aim to increase orders for industrial, solar cell, and lithium-ion battery equipment.

Topics

Joint Venture Agreement with Abunayyan Holding Company of Saudi Arabia

Toray and Abunayyan Holding Company (AHC), of Saudi Arabia, signed an agreement to launch Toray Membrane Middle East LLC (TMME) as a joint venture specializing in water and wastewater treatment technologies in Dammam, Saudi Arabia.

TMME will manufacture and sell water treatment membranes and provide technical services and will be launched with an expected ¥8.2 billion in capital funding from AHC and Toray's water treatment subsidiary Toray Membrane Europe AG (TMEu).

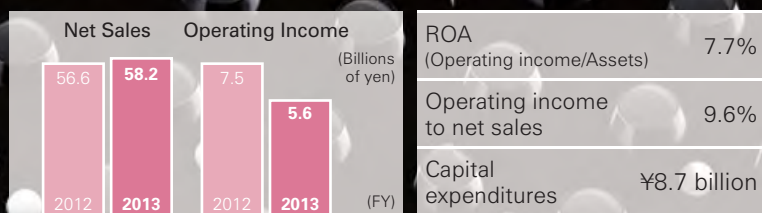
TMME will construct a world-class reverse osmosis (RO) membrane element production plant in Dammam's Third Industrial City with Toray's manufacturing technology and plans to commence operations meeting global quality control standards in 2015. This new plant by TMME will globally make the Toray Group's fifth base of the RO membrane elements manufacturing in addition to the Group's current operational manufacturing bases in Japan, the U.S., China and South Korea.

Intensively Developing and Expanding Businesses

Life Science

Fiscal	2012	2013	Changes	2014 Forecast
Net sales	56.6	58.2	2.8%	60.0
Operating income	7.5	5.6	-24.8%	6.5
Assets	69.1	76.4		

Fiscal 2014 forecasts announced on August 7, 2014.



Summary of Consolidated Financial Results for the Year Ended March 31, 2014 (Fiscal 2013)

Life Science segment net sales increased 2.8% year on year to ¥58.2 billion. Operating income declined 24.8% to ¥5.6 billion.

Sales of REMITCH®, an oral anti-pruritus drug for hemodialysis patients, expanded robustly, though other pharmaceutical products were affected by intensifying competition and royalty income on some products decreased. In medical devices, sales in Japan as well as exports of FILTRYZER®, polymethylmethacrylate (PMMA) dialysis membrane-based hemodialyzer, and TORAYSULFONE®, polysulfone membrane artificial kidneys, grew strongly.

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

Outlook for the Year Ending March 2015 (Fiscal 2014)

The pharmaceutical and medical device markets are expected to grow steadily overall, even as competition continues intensifying from the introduction of a growing number of generic drugs.

In these conditions, we will seek to further expand sales of REMITCH® as well as of dialyzers, dialysis equipment, and other medical devices. Toray Medical (Qingdao) Co., Ltd. in China started its production of dialyzers in March 2014 and launched sales for the Japanese market in April.

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

Topics

New Life Innovation Facilities Established in Minnesota, USA, and Kobe, Japan

Toray established new life innovation research facilities in the Medical Devices Center of the University of Minnesota in the U.S. and the Kobe Biomedical Innovation Cluster in Japan to strengthen its capabilities in research and technology development for expanding its business in the life innovation field.

Minnesota is a major medical industry cluster area where some of the world's most advanced R&D in medical devices is taking place, and Kobe is rapidly becoming a key medical cluster site in Japan. Toray is actively seeking alliances with world's medical institutions, testing and diagnostic facilities, and medical instrument makers in the cluster regions with the aim of accelerating development of medical devices and expanding applications of Toray's advanced materials for medical devices.

The increasing complexity and sophistication of medical practice is creating a need for more direct and rapid exchange of information. While developing its medical device, pharmaceuticals, and bio tool businesses, Toray is seeking to meet the increasingly sophisticated needs by providing advanced materials to medical device makers and a wide range of materials with advanced functionality for use at medical sites.

INTEGRATED Value Management

Contents

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R&D and Intellectual Property

Since its founding, Toray has carried out R&D on advanced materials based on the firm conviction that “Research and technical development provide the key to building the Toray of tomorrow.”

R & D

Basic Policy, Features, and Strengths



Core Technologies

Polymer Chemistry

Organic Synthetic
Chemistry

Biotechnology

Toray R&D Features

1. Culture of Commitment to Basic Research

We are creating innovative, advanced materials and growing further. Originated as fibers & textile materials, our products, such as leading-edge carbon fiber and water separation membranes for water treatment, are the fruits of many years' diligent R&D. We have the culture of prioritizing basic research unaltered by popular trends with our belief that values the ultimate pursuit as we can make new innovations and discoveries when we continue delving deep into one theme.

2. Specialist Teams in Many Fields

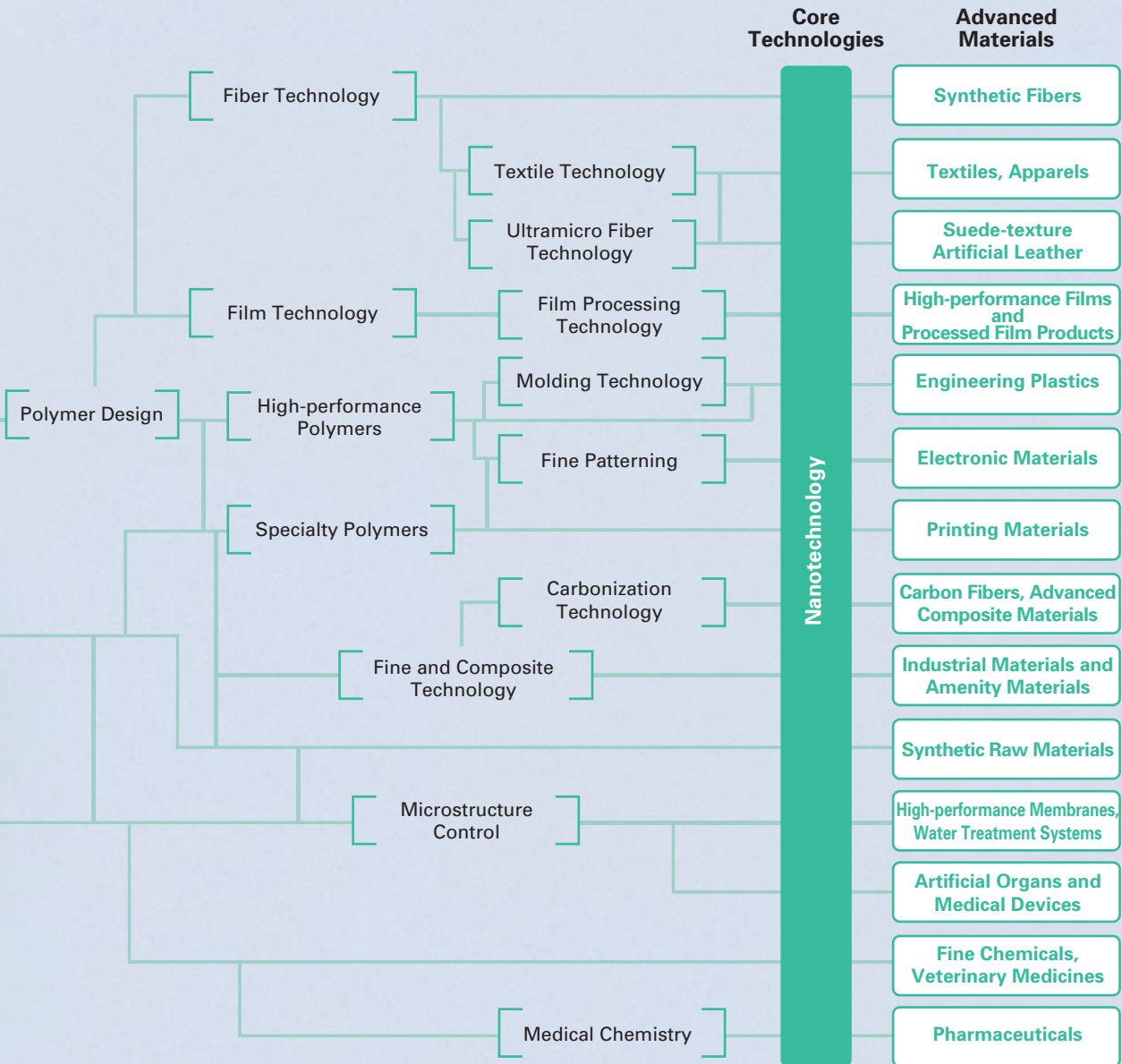
Toray's teams of specialists have abundant knowledge and experience in a wide variety of fields including polymer design, function enhancement technology, and drug discovery, formulation, and pharmacology, which are applications of our core technologies.

3. Undivided R&D Organization

Toray's R&D organization operates as a single, undivided system led by the Technology Center, which formulates company-wide R&D strategies and plans for key projects.

Aiming to be the Global Leader in Advanced Materials

Toray Group aims to be the global leader in advanced materials. Following our motto that “innovative products only come with innovative materials,” we are deepening and integrating our four core technologies of organic synthetic chemistry, polymer chemistry, biotechnology, and nanotechnology to pursue innovation and play an active role developing society as well as conserving and existing in harmony with the environment.



This structure facilitates technology fusion that leads to innovation and enables advanced materials created in one field to be rapidly applied to other fields.

4. Leader in Industry-government-academia Collaborative Research

External collaboration and open innovation activities with industries, governments, and academic institutions in Japan and overseas has made Toray a leader in technology fusion and a producer of first-to-market advanced materials.

5. Advanced Analytical Capabilities

Toray is constantly extending the limits of technology through its close relation with Toray Research Center Inc. (TRC). Created from Toray’s Research and Development Division, TRC maintains state-of-the-art, maximum-performance facilities and provides technical support by applying analytical techniques and physical analysis methods for “cause analysis” and “problem solving” related to R&D and production technology.

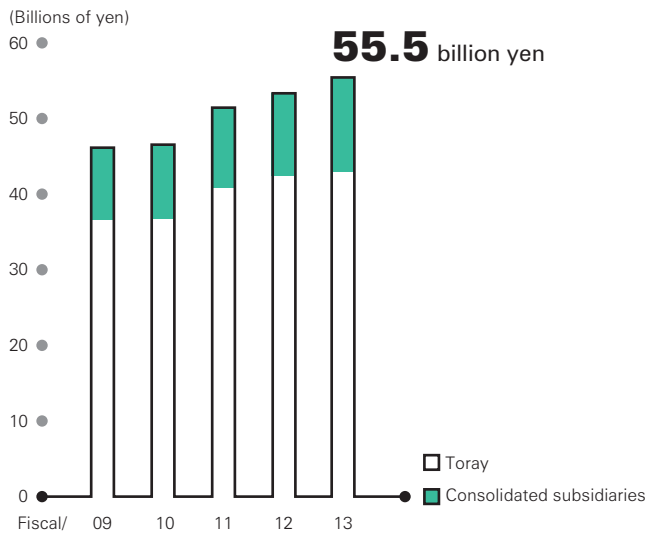
R&D and Intellectual Property

Toray Group's R&D facilitates fortifying the stable revenue bases and enhancing the earnings of the two Core Growth Driving Businesses of Fibers & Textiles and Plastics & Chemicals. R&D also supplies a steady stream of advanced materials in the Group's four priority growth fields of environment, water-related and energy; information, telecommunications and electronics; automobiles and aircraft; and life science.

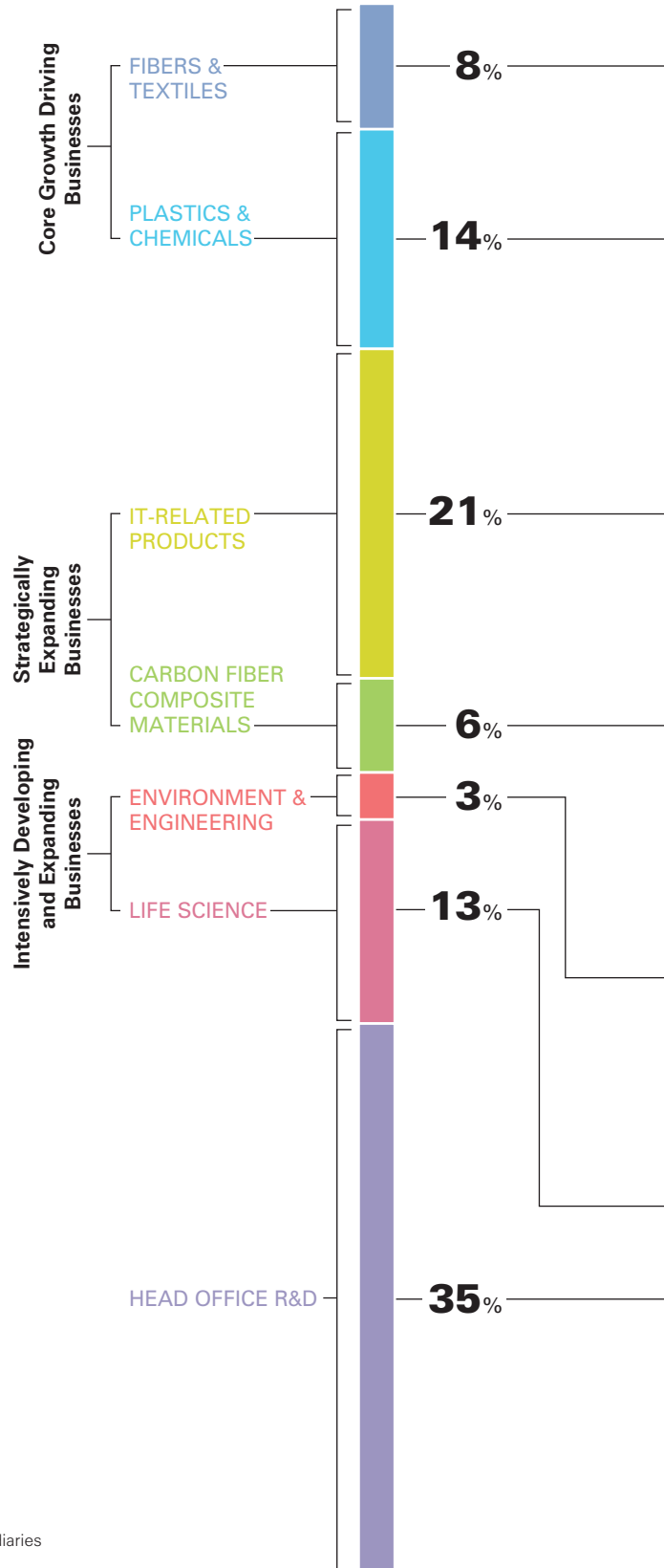
R & D

R&D Expenditure and Achievements

R&D Expenses



Percentages of Total R&D Expenses in Fiscal 2013



Fiscal 2013 R&D Achievements

Toray successfully developed synthetic fiber manufacturing technology capable of freely combining raw resins on the nanometer order and the school uniform industry's first gym wear made from plant-based polyester fiber. Furthermore, it developed the MIRANY™ textile fabric using the finest nylon filament yarn of the world's best quality standards.

Toray successfully developed a carbon fiber-reinforced polyphenylene sulfide (PPS) resin that can be used for injection molding and has comparable tensile strength to aluminum die-cast. It also cooperated with Genomatica, Inc., of the U.S., in successful trial polymerization of a partially biomass-based polybutylene terephthalate (PBT) at a medium-sized facility.

Toray developed a heat-resistant photosensitive resist that vastly simplifies the ion injection processes for silicon carbide semiconductor device manufacturing. The segment also developed a photosensitive polyimide bonding film with applications as a sealant material for miniaturized electronic components and high-density packaging. Moreover, it achieved the world's highest degree of carrier mobility for a single-wall carbon nanotube (CNT) thin-film transistor (TFT) coating. In addition, it developed and marketed a new product using photosensitive conductive paste enabling touch panel wiring with 20 μm particle distribution.

Toray developed high tensile strength and modulus carbon fiber TORAYCA® T1100G and high-performance prepreg using TORAYCA® T1100G.

Toray developed a high permeability, high durability reverse osmosis membrane that operates under ultralow pressure enabling 30% energy saving for water treatment. In amenity products, the segment developed and launched sales of the compact and attractively designed TORAYVINO™ Cassetty 307MX faucet water filter with high particle removal performance.

Following the positive response to its successful development and marketing of the REMITCH®* Capsules 2.5 μg, the world's first oral antipruritus drug with the selective *k*-opioid receptor agonist for hemodialysis-related refractory pruritus, the Life Science segment received the National Invention Prize, "Inventor's Award," for the *k*-opioid receptor agonist nalfurafine hydrochloride.

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

Corporate Research

In the corporate research, Toray achieved the world's highest level of conversion efficiency exceeding 10% of a single-layer element for organic membrane solar cells. In new businesses, the adoption of Toray's high sensitivity DNA microarray 3D-Gene® by the University of Cambridge, in England, prompted accelerating adoption of the biomarker measurement technology in the UK and across Europe.

R&D Topics

TOPICS

1

Carbon fiber composite materials for aircraft earns a 13th Okochi Memorial Prize

Toray was awarded the 60th Annual (Fiscal 2013) Okochi Memorial Grand Production Prize for its accomplishment developing carbon fiber composite materials for aircrafts. The Company was highly lauded for developing the TORAYCA® T800S/3900-2B prepreg, an intermediate composite material and establishing its production systems. This composite was selected as a primary structure material by The Boeing Company for its state-of-the-art Boeing 787 model, making it the world's first commercial aircraft with an all-composite primary structure. The Okochi Memorial Prize is awarded in Japan for outstanding achievements in industrial engineering, R&D of production technologies, and the implementation of advanced manufacturing systems. In the award's 60-year history, Toray has received the Okochi Memorial Prize 13 times, including in the previous fiscal year, and the prestigious Grand Production Prize three times.

TOPICS

2

Ultralow pressure, high durability reverse osmosis membrane achieves 30% energy saving

Toray successfully increased number of fine pores in minute space in separating function layer material for improved water permeability while blocking other molecules, such as sodium ions. It enables separation function layers to be formed with resistance to pore-structural deterioration and superior durability even for chemical cleaning.

These new developments in RO membrane technology maintained the outstanding substance removal performance while improving water permeability by 1.5 times, enabling water treatment with lower pressure and resulting in energy saving of about 30%. The membrane is expected to contribute to reduction of water treatment costs for wastewater treatment and other applications where low water quality requires more frequent treatment.

Toray is aiming to commercially launch the "ultralow pressure, high durability RO membrane" in 2014 and actively introduce it to the rapidly expanding Asian markets including China and India as well as Europe, North America, and other regions.

INTELLECTUAL PROPERTY

Basic Policy and Priority Strategies

Intellectual property strategies must be organically linked to business strategies and R&D strategies. Toray pursues an intellectual property strategy with coordination of these three areas in line with management policies.

While continuing to create innovative new materials and technologies, Toray seeks to firmly maintain its technical advantages by pursuing an intellectual property strategy comprising the following four points, the realization of which would be entry barriers for competitors.

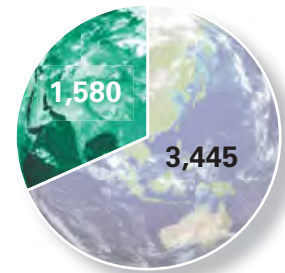
1. Further enhance the quality of patents
2. Construct a globally competitive network of patents
3. Protect the Company's technical advantages with effective measures including strategic patent applications
4. Cultivate personnel with deep knowledge of overseas intellectual property

The Company is currently stepping up patent applications and rights acquisitions and constructing a strong patent portfolio globally with a priority in the growth areas of the Project AP-G 2016 medium-term management program's Green Innovation Business Expansion (GR) Project and Life Innovation Business Expansion (LI) Project.

Under the Asia, America and Emerging Country Business Expansion (AE-II) Project, the Company is formulating and advancing intellectual property strategies correlated with the business strategies and R&D strategies that Toray Group is implementing globally with a focus on growth countries and regions showing promise for future business expansion. While fortifying Toray's patent applications and rights acquisitions overseas, Toray Group companies overseas are also stepping up patent application and rights acquisition activities to properly protect inventions created at Group R&D bases worldwide.

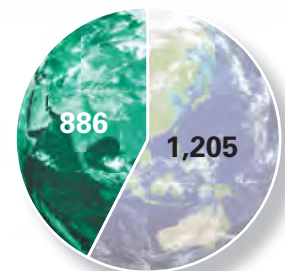
**Toray Patents Filed in
Year Ended March 31, 2014**

Overseas
 Domestic



Total Patents Held to Date

Overseas
 Domestic

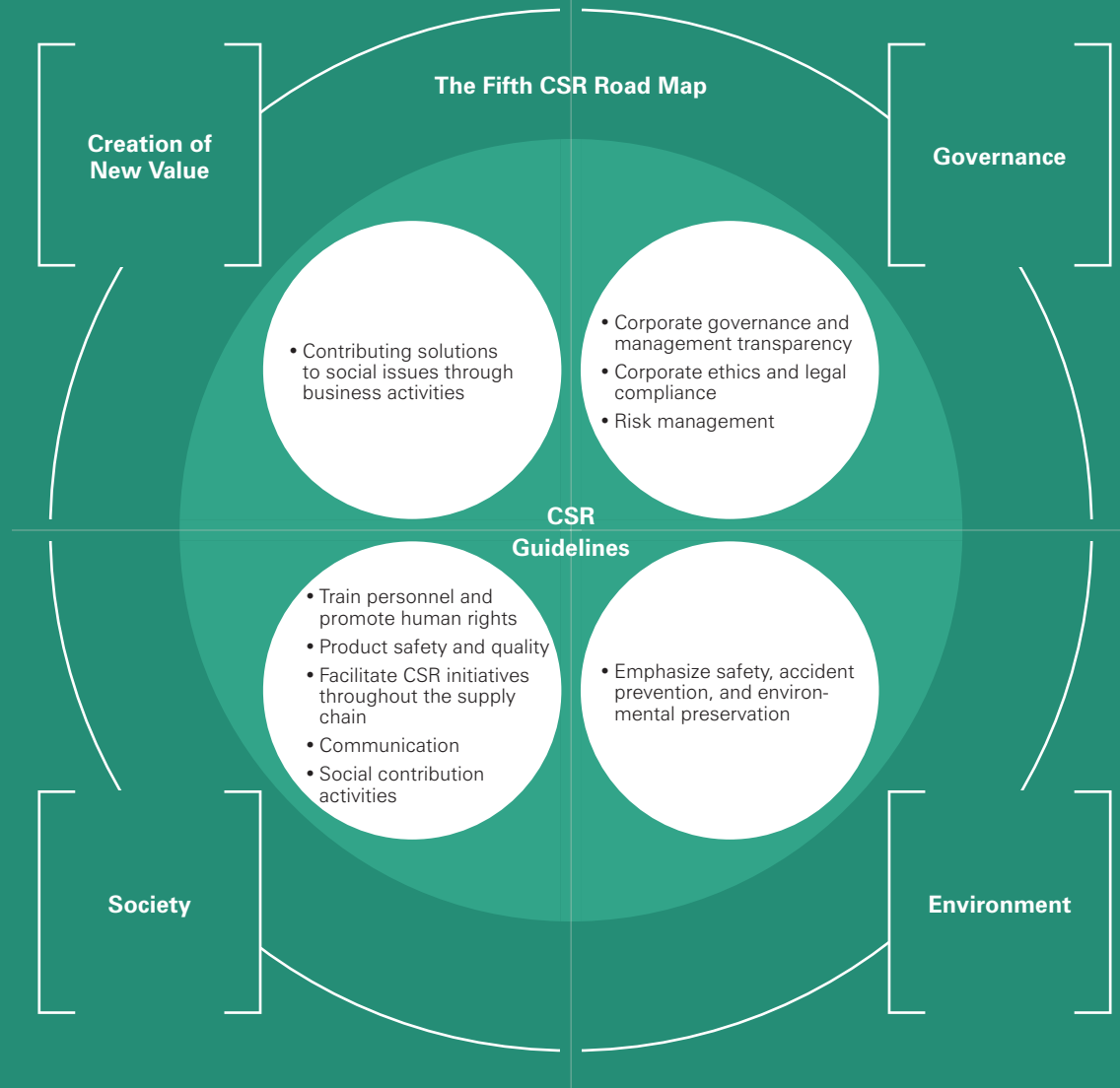


In fiscal 2013, Toray Group filed 1,580 patent applications in Japan and 3,445 overseas, and 886 patents in Japan and 1,205 overseas of them were registered.

Toray publishes an annual Intellectual Property Report describing the intellectual property initiatives by Toray Group. The report is available for download at:

http://www.toray.com/ir/library/lib_005.html

S U S T A I N A B L E Management



We regard safety, accident prevention and environmental preservation as well as corporate ethics and legal compliance as the most important management priorities for Toray Group. Our goal is to earn respect and support in the international community and provide high value for all stakeholders by contributing to society through our core business activities.

Toray Group's Corporate Philosophy and CSR Activities

Toray's Management Philosophy and Code of Conduct



Toray Group views the objective of CSR to be to realize sustainable social and corporate development by applying "Response + Ability" to social issues and changes.

Throughout our history, our mission has been to contribute to society through our core business activities following our Corporate Philosophy of "contributing to society through the creation of new value with innovative ideas, technologies and products," and our Management Philosophy is to realize this mission by fulfilling our CSR.

Our Management Philosophy is also supported by our Corporate Ethics and Legal Compliance Code of Conduct, which provide a reference for specific standards of conduct for all employees.

Progress we have achieved in implementing the Company's Fourth CSR Road Map launched in fiscal 2011 includes life cycle management (LCM) analysis of our core products, the achievement and third-party verification of greenhouse gas (GHG) emissions reduction targets, reorganization of our CSR procurement structure, creation of a business continuity plan (BCP) for earthquakes, and improvement of our priority risk response preparedness.

We also established interdepartmental working groups and improved our response structure to incorporate newly emerging issues, such as conflict minerals.

Environmental Management Initiatives

Promotion of LCM-based Environmental Management

Toray Group's approach to environmental management is based on lifecycle management (LCM). With the LCM concept, all business activities are viewed from the perspective of product and service lifecycles. The aim is to improve economic and social value while reducing environmental loads. Our Green Innovation products all embody this concept. Our LCM initiatives include the introduction of lifecycle assessment and the T-E2A efficiency analysis tool. We are now working to disseminate and consolidate these concepts.

The International Council of Chemical Associations and the World Business Council of Sustainable Development in October 2013 published international guidelines for accounting for and reporting greenhouse gas emissions. Toray and the Japan Chemical Industry Association played a central role in the creation of the publication.

The new guidelines are another step toward international recognition of the Japanese guidelines published in February 2012 and are drawing attention as a Japan-led movement for standardization that will influence the direction of rules governing the measurement of CO₂ emissions while also promoting widespread adoption of the fundamental principles of the Toray LCM-based Environmental Management.

Initiatives to Fight Global Warming

Toray Group was an early adopter of greenhouse gas (GHG) reduction initiatives aimed at realizing a sustainable low-carbon society. Under the Fourth Medium-Term Environmental Plan launched in fiscal 2011, the Group has systematically implemented measures to reduce GHG emissions, including improving its processes to conserve energy and installing gas cogeneration systems.

Voluntary Reduction in Atmospheric Emission of Chemical Substances

Toray Group regards the reduction of environmental loads, including releases of chemical substances into the atmosphere, as one of its most important priorities. We are working to achieve this goal through group-level initiatives.

Under the Fourth Medium-Term Environmental Plan, launched in April 2011, we are systematically implementing voluntary initiatives to resolutely achieve the targets of fiscal 2015 for reducing emissions of substances covered by the PRTR law and volatile organic substances (VOCs).

Initiatives to Prevent Air and Water Pollution

Toray Group's environmental preservation activities include permanent measures to prevent air and water pollution at its production facilities. Efforts in Japan and overseas in recent years include installing desulfurization systems, converting to alternative fuels to reduce sulfur oxide (SO_x) emissions, and expanding our wastewater treatment facilities and other measures to lower chemical oxygen demand (COD) levels.

Water Resource Management Initiatives

Toray Group, through its water treatment business, is addressing water resource issues around the world based on the following principles. The Group also takes steps to ensure the proper management of water resources used in its business activities, including using recycled water to enhance water usage efficiency.

1. Toray Group recognizes that water is one of the most important resources for humanity, and that people are confronting problems related to water resources in many areas of the world.
2. Toray Group is committed to helping to solve global water resources problems through its products, technologies and services.
3. Toray Group continuously monitors the state of regional water resources, and conducts appropriate management of water resources according to the basic principle of sharing precious water resources with the local communities where the Group operates.

Initiatives to Reduce Waste

Toray Group is seeking to achieve zero waste emissions to help create a sustainable, recycling-oriented society. The Group is implementing measures to achieve the Fourth Medium-Term Environmental Plan's fiscal 2015 numerical targets for simply disposed waste, landfill, and recycling ratios set as indicators for measuring progress toward attaining zero emissions.

Biodiversity Conservation Initiatives

Together with the reduction of greenhouse gas emissions, biodiversity conservation is recognized by Toray Group as a key global environmental priority. Our initiatives relating to biodiversity conservation and sustainable use are guided by the Toray Group Biodiversity Basic Policy, which was adopted in 2010.

In line with the policy, the Group is consolidating its biodiversity conservation measures, formulating three-year road maps, and prioritizing the implementation of new initiatives. In 2013, Toray Group launched a new set of measures under the Second Three-year Road Map of environmental measures for the fiscal years 2013 to 2015, which focuses mainly on activities to increase and preserve greenery.

CSR Procurement and Purchasing

CSR Procurement and Purchasing Activities

As a manufacturer of advanced materials, Toray places considerable importance on source control linked to end-user needs in a number of areas, such as raw materials used to make the materials and products that it supplies, and also in relation to its production facilities. This perception, and our commitment to fair trade, are reflected in our Basic Purchasing Policies. We have also formulated CSR Procurement Guidelines, which call for the development of value chains that allow us to fulfill our social responsibilities in partnership with our suppliers, and for

the supply of environmentally and socially responsible materials and products to our customers. Toray has also adopted CSR procurement compliance rules covering all corporate activities to ensure that it is able to provide customers with accurate reports about its CSR initiatives.

Toray has established contact points for CSR procurement, through which we manage and internally share customer and supplier information.

Environmentally Conscious Distribution Policies

Toray's Basic Distribution Policies defines key policies relating to the equity and fairness of business transactions, and to environmental preservation. In addition to our ongoing efforts to reduce logistics-related environmental loads and improve quality, we also hold annual briefings on our Basic Distribution Policies to ensure that our logistics partners are fully conversant with Toray policies on logistics, and to enhance performance.

Training and Human Rights

Promoting Human Rights

Toray Group regards respect for human rights as a vital aspect of its business operations. In addition to our efforts to improve awareness of human rights, we totally prohibit discrimination based on ethnicity, beliefs, gender, educational background, nationality, religion, physical characteristics or other attributes.

This prohibition applies to recruitment activities, deployment, remuneration, education and retirement. In compliance with international rules, including the United Nations Universal Declaration of Human Rights and the ILO Convention, we also prohibit forced labor and child labor. In addition, we are committed to full compliance with the laws and regulations of each country and region.

Retaining and Nurturing Employees who Generate New Value

Toray Group's "commitment to employees" is stipulated in its Corporate Guiding Principles. The Group's basic policy regarding core staff is to provide stable, continuous employment based on a long-term outlook, irrespective of economic trends and corporate performance. In addition, we do not make employment adjustment for short-term purposes.

The Group is actively working to expand its global businesses and is stepping up activities in Japan and overseas to recruit and cultivate strongly motivated and highly skilled employees with global capabilities.

With the aim of cultivating fair-minded individuals with high ethical standards and a sense of responsibility as well as professionals and leaders with foresight and a sense of balance, the Group provides a wide range of training for employees at all levels and in all fields to strengthen management capabilities, augment sales capabilities, production technology skills, and specialized expertise, and develop abilities to adapt to a globalizing environment.

Promoting Diversity

Toray Group promotes diversity to help create thriving workplaces where people from diverse backgrounds can perform to their full potential.

Throughout its history, Toray has actively employed women and sought to provide comfortable work environments for them. The number and percentage of women holding management positions continues to rise each year as a result of ongoing improvements in its promotion structure and revisions to employee programs, including the introduction of a childcare leave program in 1974, almost 20 years before its establishment as law. As in April 2014, 7.95% of unit manager positions or higher, and 4.17% of section manager positions or higher were held by women.



Communication Activities

All of our business activities depend on good dialog with stakeholders. Toray Group is committed to communication in good faith, including the timely disclosure of accurate information, as the basis for mutual understanding with our wide-ranging stakeholders, including stockholders, customers, employees and local communities.

Stakeholder Communication

One way we communicate with stockholders and investors is through quarterly financial presentations. We also hold requisite briefings for individual investors. In addition, we communicate directly with investors and analysts in individual meetings, as required.

We also ensure fair disclosure of information by distributing annual reports and other documents, and by posting information that is useful to stockholders and investors on our website.

Toray lives up to its reputation for putting the customer first by actively communicating with our customers, primarily through our sales and marketing divisions. We also participate in many exhibitions and briefings targeted customers.

The Group communicates with employees through in-house publications, intranet, and other various media presenting messages from the President and other information in Japanese, English, and Chinese to share information and deepen understanding of management and business topics.

Toray Group also highly values dialogue between its Group companies, offices and factories and their local communities in Japan and overseas, and regularly holds social gatherings with local residents. We also seek to maintain good relations with people from the local communities by efforts such as presentation meetings about our business activities and products as well as river and road cleanup activities around our factory sites.

While Toray has presented comprehensive information in English on our corporate websites, we launched web pages for India and Taiwan on the heels of content for the U.S., Malaysia, and Thailand, specifically for local viewers. We are also preparing to open pages for Singapore, Europe, Brazil, and South Korea.

Furthermore, Toray Group has now provided the updated corporate website with responsive web design to enable viewers to browse not only PCs but smartphones, tablets, and other various devices with optimal design.

Principal SRI indexes in which Toray is included

- FTSE KLD Global Climate 100 Index
 - Morningstar Socially Responsible Investment Index
- (as of March 31, 2014)

Social Contribution Activities

Our Social Contribution Policy

Through our core business activities, we fulfill our Corporate Philosophy of “contributing to society through the creation of new value with innovative ideas, technologies and products.” We also contribute to society in various other ways under the Toray Group Social Initiative Policies. Our wide-ranging activities include the provision of funding for the Toray Science Foundation (Public Interest Incorporated Foundation), which was founded in 1960.

In fiscal 2013, Toray Industries contributed approximately ¥800 million in funding and the Toray Group provided a total of approximately ¥1.1 billion for CSR activities.

Contributing to Future Generations

Children will inherit the future. Toray Group supports education by providing products, technology and human resources. Employees act as special instructors for elementary and junior high school programs that teach children to enjoy scientific experiments and understand the role of technology in solving global environmental problems. Toray and Toray Research Center Inc. host science camps, which are science and technology experiment programs for high school students with an interest in science. Front-line researchers and engineers use experiments and other activities to provide direct instruction to high schools students from throughout Japan.

Topic

TORAYSCUE® Used for Disaster Relief in the Philippines

Toray Group, through an intermediary NGO, donated two TORAYSCUE® portable freshwater generators to the Philippines to assist relief operations in areas devastated by Typhoon Haiyan in November 2013.

The TORAYSCUE® freshwater generators incorporate reverse osmosis membranes, which Toray developed and have been used for many seawater desalination projects. The generator leverages pressurization to filter out not only bacteria, viruses, and fine particles, but salts, heavy metals, and organic substances from water and produce

highly pure and safe drinking water. Toray specifically designed the generators to be portable and enable their use to secure drinking water in disaster emergencies.

Toray received a request of TORAYSCUE® from Operation Blessing Japan*, a specified nonprofit corporation that started quickly performing emergency relief efforts in the disaster-stricken area. The NPO had previously expressed interest in the freshwater generators, and Toray donated the TORAYSCUE® units to ensure affected people secured a sufficient supply of safe water following the typhoon disaster.

Operation Blessing Japan team members, who received instructions from Toray, taught local residents on the use of the equipment. In the areas where the two generators were set up, people expressed heartfelt appreciation for the aid and also commented on the good taste of the water.

Toray Group will continue using its technology and products to help resolve social issues, while collaborating with NPOs and NGOs, as it aims to maintain its status as a corporate group with high social value.

* Operation Blessing Japan's parent organization, Operation Blessing International Relief and Development Corporation, is headquartered in Virginia, the U.S., and is one of the world's largest charity groups providing clean water, disaster relief, medical aid, and other assistance programs. Established after the Great East Japan Earthquake, the organization is conducting disaster relief and reconstruction support programs.

**Pagnamitan Village in Guiuan,
Eastern Samar Province, on Samar Island
(Program launched January 21, 2014)**

TORAYSCUE® freshwater generators are providing drinking water, until new wells are dug, for approximately 300 households in Pagnamitan Village and the neighboring area. Pagnamitan Village was where Typhoon Haiyan made landfall.



All photographs are courtesy of Operation Blessing Japan

**Bantigue Village in Panay, Capiz Province,
on Panay Island
(Program launched February 27, 2014)**

The village of Bantigue was particularly devastated by the typhoon, with approximately 90% of the homes destroyed and the wells contaminated with salt-water. A Philippines military ship helped deliver the TORAYSCUE® units, which were used to provide daily drinking water for some 400 households in the village and on nearby islands.

For more information on CSR, please see:

[▶ http://www.toray.com/csr/](http://www.toray.com/csr/)

Toray Group's Basic Policy on Corporate Governance

Toray Group's basic policy on corporate governance is contained in its Corporate Missions, which requires the Group to provide stockholders with dependable and trustworthy management. The Corporate Guiding Principles require the Group to obtain the trust of society and meet its expectations by acting fairly while maintaining high ethical standards and a strong sense of responsibility as well as maintaining transparency in management. Toray's management structure has been designed to facilitate the realization of these objectives.

Outline of Corporate Governance Structure and Reasons for Adoption

Toray's Board of Directors is made up of 26 members. As Toray is a manufacturer that supplies basic materials to a broad range of industries, it needs to make various management and business decisions based on expert knowledge concerning specific businesses. In addition, under Toray's governance structure, members of the Board with extensive knowledge of its business activities who are elected at general stockholders' meetings make decisions and execute business under supervision conducted from diverse viewpoints from the perspective of fulfilling management's responsibilities to stockholders. In order

to further enhance the transparency and objectivity of management by supervising members of the Board from a broader perspective, Toray elected one outside director at the Ordinary General Meeting of Stockholders held on June 25, 2014.

Toray operates under a corporate auditor system. Two members of the four-member Board of Corporate Auditors are outside corporate auditors. The corporate auditors conduct auditing activities based on expertise and abundant experiences concerning corporate legal affairs as well as financial and accounting affairs. Toray operates under a corporate auditor system. To ensure management transparency, as well as objectivity and neutrality in management oversight, the Company has a Board of Corporate Auditors that is fully independent of the Board of Directors.

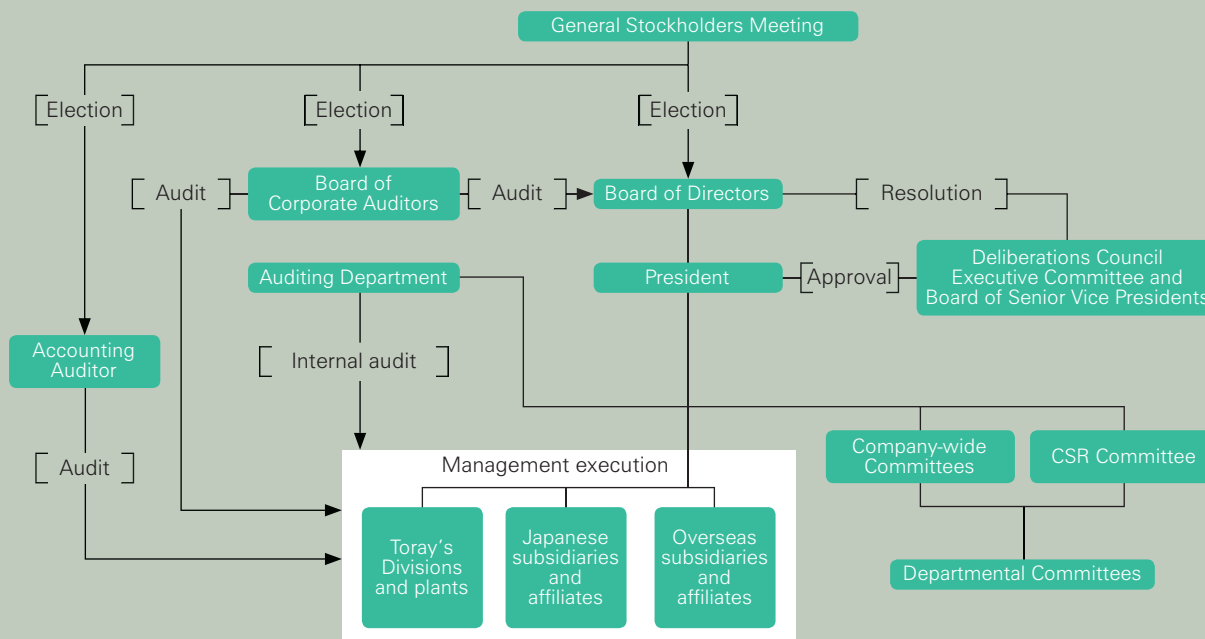
Basic Policy on Internal Control Systems and Their Development

We develop and maintain internal control systems as a framework for the development of appropriate organizational structures, the formulation of rules and regulations, the dissemination of information and the monitoring of business operations. The purpose of these systems is to ensure that all Toray Group executives and employees are able to realize the Corporate Philosophy, Corporate Missions and Corporate Guiding Principles of Toray Group, as expressed in the words "contributing to society through the creation of new value with innovative ideas, technologies and products." We review and improve these systems as required to ensure that our business operations are conducted efficiently and in compliance with the law. The following specific systems have been established.

- System to ensure that the execution of duties by members of the Board and employees comply with laws and regulations and the Company's Articles of Incorporation
- System to ensure the efficient execution of duties by members of the Board execute their duties efficiently
- System for preserving and managing information pertaining to the execution of duties by the members of the Board
- Rules and other systems pertaining to controls over risks of loss
- System of reporting to corporate auditors and other systems for ensuring effective implementation of audits by corporate auditors
- Items pertaining to employees assisting with corporate auditors' duties and items pertaining to the independence of said employees
- System for ensuring appropriate business operations by Toray Group

Governance Structure

Toray Group is determined to justify the trust placed in it by society by working in good faith to maintain highly transparent governance systems.



Auditing by Corporate Auditors, Internal Auditors

The corporate auditors, including the outside corporate auditors, possess considerable expertise concerning financial and accounting affairs. In fiscal 2013, too, they attended meetings of the Board of Directors, and held meeting with all members of the Board, divisional and departmental general managers and conducted periodic audits of Toray offices and plants worldwide, including

subsidiaries and affiliated companies.

The corporate auditors also work closely with internal control organizations. For example, they attend as observers at meetings of the Corporate Ethics Committee, which was established to promote corporate ethics and regulatory compliance as key elements of corporate social responsibility, and the Company-Wide Legal Compliance Committee. The Audit Department, which reports directly to the President, was established as part of our internal control structure. Its task is to conduct internal audits of Toray and its subsidiaries and affiliated companies. Information is continually exchanged. For example, all audit reports submitted to the President by the Audit Department are also submitted to the corporate auditors.

Remuneration

(I) Details of Remuneration

Position	Total remuneration (millions of yen)	Total remuneration by type (millions of yen)				Recipients
		Basic	Bonuses	Provision for the allowance for retirement benefits	Stock options as remuneration	
Members of the Board	1,535	1,124	146	18	248	28
Corporate auditors (excluding outside corporate auditors)	86	79	7	—	—	3
Outside corporate auditors	21	19	2	—	—	2

Notes: 1. Recipients included two directors who retired during fiscal 2013, and one corporate auditor (excluding outside corporate auditors).
2. Total amounts of remuneration do not include ¥84 million paid in salaries to eight employee-directors.

Sustainable Management

Corporate Governance

(II) Total Remuneration Received by Members of the Board and Corporate Auditors

Name	Total consolidated remuneration (millions of yen)	Position	Status of company	Total remuneration by type (millions of yen)			
				Basic	Bonuses	Provision for the allowance for retirement benefits	Stock options as remuneration
Sadayuki Sakakibara	151	Member of the Board	Filing company	115	15	—	21
Akihiro Nikkaku	134	Member of the Board	Filing company	98	15	—	21

Note: Information about consolidated remuneration is shown only for persons receiving more than ¥100 million.

(III) Policy on Remuneration for Members of the Board and Corporate Auditors

Remuneration for members of the Board and corporate auditors consists of monthly remuneration, a bonus and stock acquisition rights in the form of stock options. The purpose of this structure is to ensure management transparency and fairness, and to provide enhanced incentives for the improvement of financial performance and corporate value in the short-, medium- and long-term perspectives. Remuneration for corporate auditors consists of monthly remuneration and a bonus.

Furthermore, the amount of remuneration for members of the Board and corporate auditors is set at sufficient levels to secure capable personnel and provide motivation to enhance business performance while taking into account the results of research conducted by a

third-party organization to ensure objectivity.

The maximum total amount of monthly remuneration is determined by resolution at the Ordinary General Meeting of Stockholders. Resolutions are passed as required to determine whether or not bonuses should be paid and the amount of such bonuses.

Ordinary General Meetings of Stockholders set upper limits for the number of stock options granted to members of the Board as remuneration, and for the total amount of remuneration provided. The Board of Directors determines the number of stock options granted to members of the Board within those limits according to internal regulations established by the Company.

Corporate Ethics and Legal Compliance

All of us at Toray Group are working as one to uphold corporate ethics and ensure legal compliance in accordance with clear guidelines established by and under the leadership of the top management.

Framework for Promoting Corporate Ethics and Legal Compliance

Toray has established a Corporate Ethics Committee under the chairmanship of the President as a framework for cooperative initiatives by labor and management. This committee deliberates on all policies pertaining to corporate ethics.

The Company-Wide Legal Compliance Committee works under the auspices of the Corporate Ethics Committee to promote independent activities, and is specifically tasked with advancing initiatives relating to company-wide priorities. The committee's administration is based on close communication between committee members, who are mainly section managers from each business line, and top management.

All divisions, offices and plants have established CSR/Legal Compliance Committees to carry out activities involving individual employees in their workplaces.

Subsidiaries and affiliated companies in Japan and overseas have also established CSR/Legal Compliance

Committees and are promoting activities in cooperation with Toray's relevant divisions and the CSR Operations Dept.

To ensure that all executives and employees, including contract, part-time and temporary employees, are fully informed about compliance requirements, we distribute copies of the Corporate Ethics and Legal Compliance Handbook, which defines standards of conduct and provides detailed information about matters that require special care. The Handbook is updated as required, such as when laws and regulations are amended.

The subsidiaries and affiliated companies in Japan and overseas that established CSR/Legal Compliance Committees are working to ensure consistent compliance by compiling similar codes of conduct, guidelines, handbooks and other materials.

Framework for Promoting Corporate Ethics and Legal Compliance in Toray



Risk Management

We regard risk management as a fundamental element in the corporate management of Toray Group. Under our corporate risk management policies, which are administered over three-year cycles, we aim to identify and reduce potential risk factors in our business activities and prevent recurrences. We have also formulated Crisis Management Regulations as the basis for the development and administration of an Emergency Quick Response System designed to prevent emergency situations from expanding and ensuring the early restoration of normal operations.

Developing Risk Management System

Toray has established the Group-wide Risk Management Committee under the CSR Committee in order to monitor the status of company-wide risk reduction efforts in normal times and to manage the functions of planning and promotion of company-wide risk management measures in an integrated manner.

Moreover, the Company has established risk management subcommittees at divisions, business offices and plants, and they are engaging in activities to prevent and reduce risks specific thereto.

Group companies are also promoting activities to reduce risks specific to themselves and report the status of activities each fiscal year to the Group-Wide Risk Management Committee.

Under the corporate risk management system introduced in fiscal 2008, we evaluate potential risk factors that could affect the business operations of Toray Group from a group-wide perspective. The system is managed based on the PDCA cycle.

Dealing with Priority Risks

Risk reduction measures relating to priority risks are implemented by the units responsible for each risk category, or by working groups. The Group-Wide Risk Management Committee receives regular reports about priority risks and assesses progress toward the reduction of risks after seeking input from the director in charge of each area. Working groups are established to take action in relation to the following types of priority risks.

1. Information security risks

Toray continued to use e-learning to provide security training. In fiscal 2013, a total of 8,200 employees have completed this program.

2. Supply-chain risks

Toray Group checked the status of use of conflict minerals with regard to all products manufactured by the group and ensured that customer inquiries are answered promptly and efficiently based on central management of data.

Crisis Management System

Toray's Crisis Management Regulations set out basic principles for a group-wide response to serious risks affecting Toray Group. The purpose of the regulations is to ensure a consistent and comprehensive response in a crisis situation.

The regulations are revised as appropriate so as to prepare for new risks that may emerge as a result of change in the social environment.

Security Trade Administration

Toray maintains strict control over exports of all products, equipment, materials and samples and provision of technologies to overseas entities, with particular emphasis placed on control over items which are subject to the list control and whose exports require permission by the Minister of Economy, Trade and Industry, such as TORAYCA[®] resin compounds, carbon fiber composite materials, coatings for semiconductors and water treatment membranes.

Promotion of Business Continuity Plan (BCP)

We have always regarded major earthquakes as a significant risk factor and conducted activities under our Major Earthquake Business Continuity Plan.

In fiscal 2013, we assumed a scenario in which it is impossible to establish a Company-Wide Response Headquarters in Tokyo because the capital has been directly hit by a major earthquake. Under this scenario, we conducted drills for the establishment of an emergency Company-Wide Response Headquarters in Kansai and for the transfer of the response function to a Company-Wide Response Headquarters in Tokyo after the restoration of the Tokyo Head Office.

Toray has introduced a system to check the safety and whereabouts of employees at all of its offices and plants and is also introducing a similar system at affiliated companies in Japan.

In addition, we are continually working to mitigate risk factors that could affect business continuity by systematically implementing earthquake-proofing of plant buildings, reviewing continuity planning for corporate functions and key business operations and identifying potential problems affecting supply chains for each product.

Corporate Information

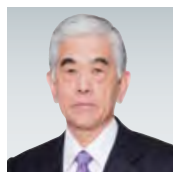
Board of Directors and Corporate Auditors

(As of June 25, 2014)



Chairman of the Board

Sadayuki Sakakibara



President and Representative Member of the Board

Akihiro Nikkaku



Executive Vice President and Representative Member of the Board

Eizo Tanaka



Executive Vice President and Representative Member of the Board

Nobuo Suzuki



Executive Vice President and Representative Member of the Board

Koichi Abe



Senior Vice President
(Member of the Board & Member of the Executive Committee)

Moriyuki Onishi



Senior Vice President
(Member of the Board & Member of the Executive Committee)

Shinichi Okuda



Senior Vice President
(Member of the Board & Member of the Executive Committee)

Kazushi Hashimoto



Senior Vice President
(Member of the Board & Member of the Executive Committee)

Ryo Murayama



Senior Vice President
(Member of the Board & Member of the Executive Committee)

Yukichi Deguchi



Senior Vice President
(Member of the Board)

Akira Uchida



Senior Vice President
(Member of the Board)

Shogo Masuda



Senior Vice President
(Member of the Board)

Akira Umeda



Senior Vice President
(Member of the Board)

Hiroshi Murakami



Senior Vice President
(Member of the Board)

Akio Sato



Senior Vice President
(Member of the Board)

Hiroshi Otani



Senior Vice President
(Member of the Board)

Satoru Hagiwara



Vice President
(Member of the Board)

Minoru Yoshinaga



Vice President
(Member of the Board)

Kunihiko Yoshida



Vice President
(Member of the Board)

Toru Fukasawa



Vice President
(Member of the Board)

Yasuo Suga



Vice President
(Member of the Board)

Hirofumi Kobayashi



Vice President
(Member of the Board)

Masashi Fujita



Vice President
(Member of the Board)

Kazuhiko Shutou



Vice President
(Member of the Board)

Tetsuya Tsunekawa



Vice President
(Member of the Board)

Kunio Ito^{*1}



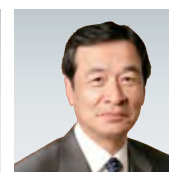
Corporate Auditor

Kiyoshi Fukuchi



Corporate Auditor

Motoyuki Yagita



Corporate Auditor

Mitsuaki Yahagi^{*2}



Corporate Auditor

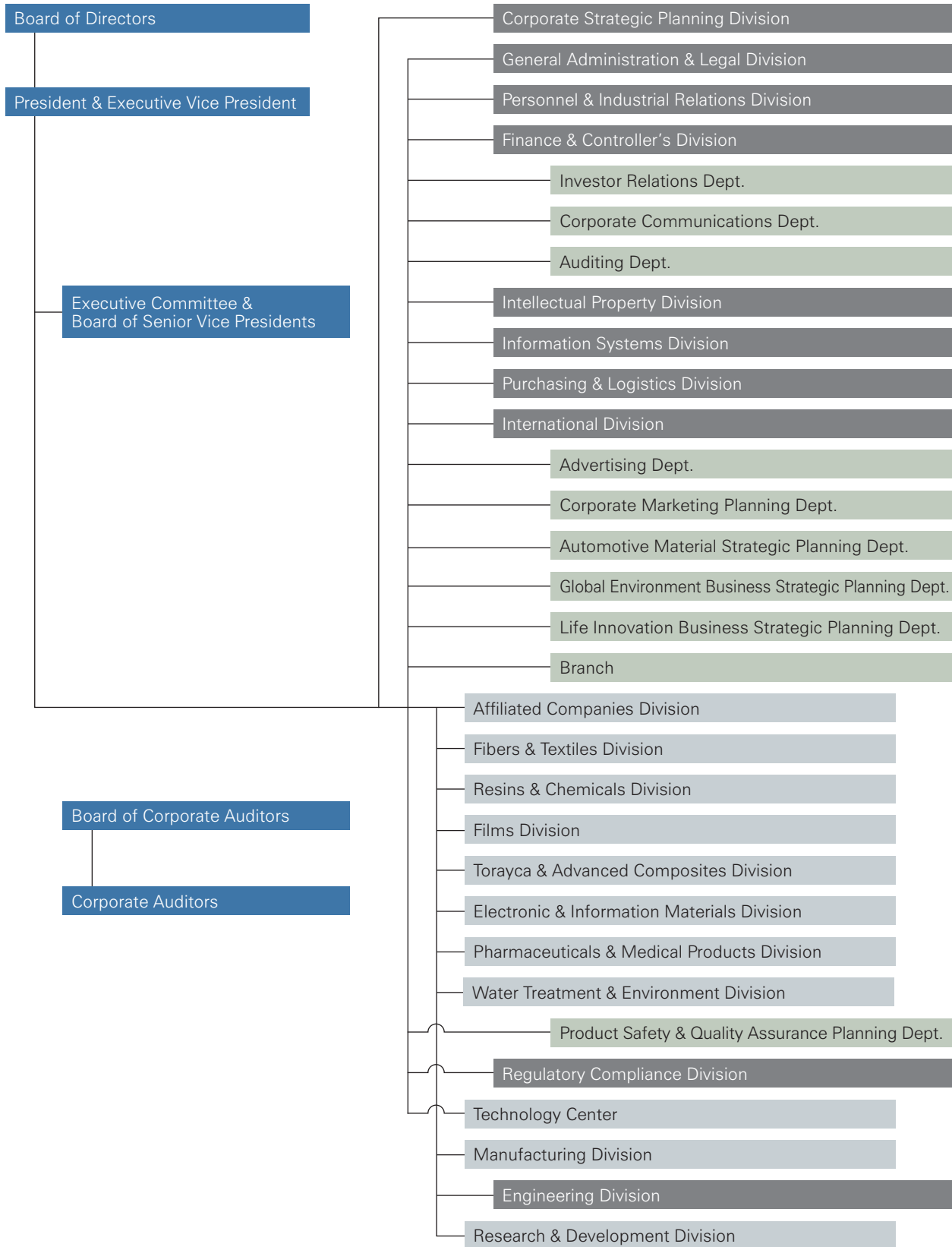
Makoto Matsuo^{*2}

*1 Kunio Ito is outside director.

*2 Mitsuaki Yahagi and Makoto Matsuo are outside corporate auditors.

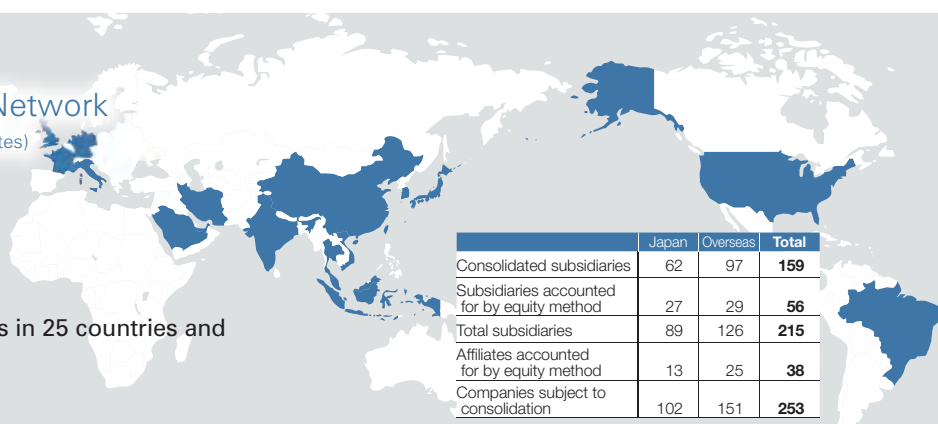
Organization

(As of July 1, 2014)



Toray Group Worldwide Network

(Major consolidated subsidiaries and affiliates)
(As of March 31, 2014)



Toray Group operates businesses in 25 countries and regions including Japan.

	Japan	Overseas	Total
Consolidated subsidiaries	62	97	159
Subsidiaries accounted for by equity method	27	29	56
Total subsidiaries	89	126	215
Affiliates accounted for by equity method	13	25	38
Companies subject to consolidation	102	151	253

EUROPE

United Kingdom

Consolidated Subsidiaries

- Toray Textiles Europe Ltd. (TTEL)
- Toray International U.K. Ltd. (TIUK)

France

Consolidated Subsidiaries

- Toray Films Europe S.A.S. (TFE)
- Toray Carbon Fibers Europe S.A. (CFE)

Switzerland

Subsidiary Accounted for by Equity Method

- Toray Membrane Europe AG (TMEu)

Italy

Consolidated Subsidiary

- Alcantara S.p.A.

Subsidiary Accounted for by Equity Method

- Toray International Italy S.r.l. (TIIT)

Czech Republic

Consolidated Subsidiary

- Toray Textiles Central Europe s.r.o. (TTCE)

Germany

Consolidated Subsidiaries

- Toray International Europe GmbH (TIEu)
- Others

ASIA

China

Consolidated Subsidiaries

- Toray Industries (China) Co., Ltd. (TCH)
- Toray Fibers (Nantong) Co., Ltd. (TFNL)
- Toray Sakai Weaving & Dyeing (Nantong) Co., Ltd. (TSD)
- Toray Polytech (Nantong) Co., Ltd. (TPN)
- Toray Jifa (Qingdao) Textile Co., Ltd. (TJQ)
- Toray Plastics (China) Co., Ltd. (TPCH)
- Toray Plastics (Shenzhen) Ltd. (TPSZ)
- Toray Plastics (Chengdu) Co., Ltd. (TPCD)
- Toray Plastics Precision (Hong Kong) Ltd. (TPPH)
- Toray Plastics Precision (Zhongshan) Ltd. (TPPZ)
- Toray Industries (H.K.) Ltd. (THK)
- Toray International (China) Co., Ltd. (TICH)
- Toray Film Products (Hong Kong) Ltd. (TFH)
- Toray Film Products (Zhongshan) Ltd. (TFZ)
- Toray BlueStar Membrane Co., Ltd. (TBMC)
- Toray Medical (Qingdao) Co., Ltd. (TMQ)
- Others

Affiliate Accounted for by Equity Method

- Yihua Toray Polyester Film Co., Ltd. (YTP)

Taiwan

Consolidated Subsidiary

- Toray Advanced Film Kaohsiung Co., Ltd. (TAFK)

Subsidiary Accounted for by Equity Method

- Toray International Taipei Inc. (TIIP)
- Others

Republic of Korea

Consolidated Subsidiaries

- Toray Advanced Materials Korea Inc. (TAK)
- STEMCO, Ltd. (STEMCO)
- Toray Chemical Korea Inc. (TCK)

Affiliates Accounted for by Equity Method

- STECO, Ltd. (STECO)
- Others

Malaysia

Consolidated Subsidiaries

- Penfabric Sdn. Berhad (PAB)
- Penfibre Sdn. Berhad (PFR)
- Toray Plastics (Malaysia) Sdn. Berhad (TPM)
- Others

Subsidiary Accounted for by Equity Method

- Toray Industries (Malaysia) Sdn. Berhad (TML)

Affiliate Accounted for by Equity Method

- Toray BASF PBT Resin Sdn. Berhad (TBPR)

Singapore

Consolidated Subsidiary

- Toray International Singapore Pte. Ltd. (TISP)

Japan

Consolidated Subsidiaries

- Ichimura Sangyo, Co., Ltd.
- Toray Fine Chemicals Co., Ltd.
- Toyo Plastic Seiko Co., Ltd.
- Toray Advanced Film Co., Ltd.
- Toray KP Films Inc.
- Toray Battery Separator Film Co., Ltd.
- Soda Aromatic Co., Ltd.
- Toray Engineering Co., Ltd.
- Toray Construction Co., Ltd.
- Suido Kiko Kaisha, Ltd.
- Toray Medical Co., Ltd.
- Toray Research Center Inc.
- Toray International, Inc.
- Chori Co., Ltd.
- Others

Subsidiaries Accounted for by Equity Method

- Toray Carbon Magic Co., Ltd.
- Toyo Business Support Inc.
- Others

Affiliates Accounted for by Equity Method

- Du Pont-Toray Co., Ltd.
- Toray Opelontex Co., Ltd.
- Dow Corning Toray Co., Ltd.
- Sanyo Chemical Industries, Ltd.
- Others

Indonesia

Consolidated Subsidiaries

- P.T. Acryl Textile Mills (ACTEM)
- P.T. Century Textile Industry Tbk (CENTEX)
- P.T. Easterntex (ETX)
- P.T. Indonesia Synthetic Textile Mills (ISTEM)
- P.T. Indonesia Toray Synthetics (ITS)
- P.T. Toray Polytech Jakarta (TPJ)

Subsidiaries Accounted for by Equity Method

- P.T. Toray Industries Indonesia (TIN)
- Others

Affiliates Accounted for by Equity Method

- P.T. Petnesia Resindo (PNR)
- Others

Thailand

Consolidated Subsidiaries

- Luckytex (Thailand) Public Co., Ltd. (LTX)
- Thai Toray Textile Mills Public Co., Ltd. (TTTM)
- Thai Toray Synthetics Co., Ltd. (TTS)

Subsidiary Accounted for by Equity Method

- Toray Industries (Thailand) Co., Ltd. (TTH)

Affiliate Accounted for by Equity Method

- Thai PET Resin Co., Ltd. (TPRC)

NORTH AMERICA

U.S.A.

Consolidated Subsidiaries

- Toray Fluorofibers (America), Inc. (TFA)
- Toray International America Inc. (TIAM)
- Toray Plastics (America), Inc. (TPA)
- Toray Resin Co. (TREC)
- Toray Carbon Fibers America, Inc. (CFA)
- Toray Composites (America), Inc. (TCA)
- Zoltek Companies, Inc. (Zoltek)
- Toray Membrane USA, Inc. (TMUS)
- Others

- Regional Supervisory Organization
- Fibers & Textiles
- Plastics & Chemicals
- IT-related Products
- Carbon Fiber Composite Materials
- Environment & Engineering
- Life Science & Other Businesses
- Trading

Major Offices in Japan

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122002, India
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Sao Paulo - SP 01310-100, Brasil
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FINANCIAL Section

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Six-Year Summary of Selected Financial Data

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

	Millions of yen					
	2014	2013* ²	2012	2011	2010	2009
Net sales*¹	¥ 1,837,778	¥ 1,592,279	¥ 1,588,604	¥ 1,539,693	¥ 1,359,631	¥ 1,471,561
Fibers & Textiles	755,474	632,150	638,375	584,115	525,204	568,996
Plastics & Chemicals	470,542	395,835	397,815	382,299	332,735	377,644
IT-related Products	245,741	237,593	243,404	262,027	230,433	229,421
Carbon Fiber Composite Materials	113,342	77,620	69,914	67,018	50,676	70,390
Environment & Engineering	180,197	178,355	170,247	178,183	159,787	160,207
Life Science	58,205	56,599	55,554	52,430	46,656	—
Others	14,277	14,127	13,295	13,621	14,140	—
Life Science & Other Businesses	—	—	—	—	—	64,903
Operating income	105,253	83,436	107,721	100,087	40,107	36,006
Income (loss) before income taxes and minority interests	97,760	77,828	101,091	82,893	(2,415)	(19,751)
Net income (loss)	59,608	48,477	64,218	57,925	(14,158)	(16,326)
Net cash provided by operating activities	161,455	100,815	104,410	129,214	166,215	38,447
Depreciation and amortization	78,743	67,588	67,443	70,479	74,904	83,764
Capital expenditures	118,207	99,135	98,384	55,942	57,073	92,349
Total assets	2,119,683	1,731,933	1,581,501	1,567,470	1,556,796	1,523,603
Property, plant and equipment, net	781,235	627,240	561,923	531,595	580,344	596,261
Interest-bearing liabilities	654,163	532,002	481,906	493,509	632,160	663,945
Net assets	944,625	778,626	674,149	640,970	518,216	512,610

Yen

Per share of common stock:						
Net income (loss):						
Basic	¥ 36.59	¥ 29.75	¥ 39.41	¥ 36.41	¥ (10.12)	¥ (11.66)
Diluted	35.70	28.90	37.46	34.43	—	—
Cash dividends	10.00	10.00	10.00	7.50	5.00	7.50
Net assets	527.32	444.45	384.90	363.90	336.65	335.04
Ratios:						
Operating income to net sales	5.73%	5.24%	6.78%	6.50%	2.95%	2.45%
Net income (loss) to net sales	3.24	3.04	4.04	3.76	(1.04)	(1.11)
Equity ratio	40.5	41.8	39.7	37.8	30.3	30.8
Return on equity	7.5	7.2	10.5	10.9	(3.0)	(3.1)
Debt/equity ratio (times)	0.76	0.73	0.77	0.83	1.34	1.42

Yen

Common stock price range:						
High	¥ 786	¥ 654	¥ 631	¥ 643	¥ 591	¥ 694
Low	584	421	511	420	390	350
Number of employees	45,881	42,584	40,227	38,740	37,936	37,924

*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.

Management's Discussion and Analysis

OVERVIEW

During the period covered by year ended March 31, 2014 (fiscal 2013), the global economy continued to expand gradually, as consumer spending in the U.S. increased on the back of improved employment, while the European economy continued to stagnate despite some signs of recovery and the growth rate of China and other emerging economies slowed down. The Japanese economy has been recovering at a gradual pace with consumer spending and public investment remaining steady, the private sector's capital expenditure also showing signs of recovery and employment situation improving steadily.

Under such circumstances, Toray Group implemented the growth strategy with focus on pursuing business expansion in growth business fields and growth regions and further bolstering its total cost competitiveness in accordance with the medium-term management program "Project AP-G 2013."

As a result of these efforts, Toray Group posted a year-on-year increase in both revenues and earnings.

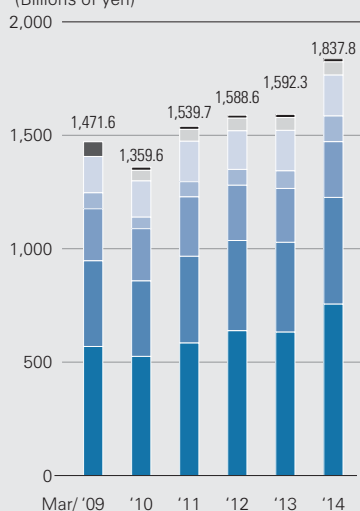
INCOME ANALYSIS

Net Sales

Consolidated net sales in the year ended March 31, 2014 amounted to ¥1,837.8 billion, up 15.4% or ¥245.5 billion from the previous fiscal year. Sales increased in all business segments.

Net Sales by Segment

(Billions of yen)



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

Sales by Segment

Fibers & Textiles

Total sales in this segment increased ¥123.3 billion, or 19.5%, to ¥755.5 billion.

In Japan, while sales of functional apparel applications grew strongly, those of general apparel applications, though showing signs of recovery, remained weak. On the other hand, exports recovered partly due to the correction in the strong yen. Sales for industrial applications, led by automobile-related applications, continued on track to recovery.

Overseas, while the conditions continued to be tough with Europe remaining mired in economic slump and sluggish domestic demand in China, textile subsidiaries in Southeast Asia and China pursued sales expansion and a shift towards high value-added products. Also, while the floods in Thailand that occurred in October 2011 had affected the operations in the same period a year earlier, the production and sales recovered since then, contributing to the improved performance.

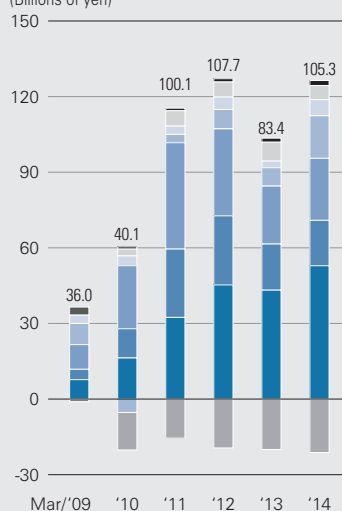
Plastics & Chemicals

Total sales in this segment increased ¥74.7 billion, or 18.9%, to ¥470.5 billion.

Though sales for automotive applications in the resin business increased in Japan, those for electronics and general industrial applications remained weak. Overseas, automotive applications in North America, China and Southeast Asia led the sales expansion.

Operating Income by Segment

(Billions of yen)



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

*1 Effective from the year ended March 31, 2011, "Revised Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Statement No.17 of March 27, 2009) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No.20 of March 21, 2008) are applied. Accordingly, segment Information for the year ended March 31, 2010 is restated.

*2 Operating income by segment that is not attributable to any segment is included in "Elimination & Corporate" for the fiscal year ended March 31, 2009, and included in "Adjustment" for the fiscal years ended March 31, 2010, 2011, 2012, 2013 and 2014 respectively.

Demand for the film business's products remained sluggish on the whole within and outside Japan, with continued price competition, even though domestic sales for capacitors used in hybrid cars remained strong.

Also, trading subsidiaries expanded their business transactions on the back of market recovery and strong overseas business.

IT-related Products

Total sales in this segment increased ¥8.1 billion, or 3.4%, to ¥245.7 billion.

The sales of products for small and mid-sized displays such as smartphones and tablet terminals in general were strong, although they were partly affected by the production adjustment of end products in the second half. Sales of films and processed film products for large LCD panels, after performing strongly in the first half, were influenced by stagnating demand for flat-screen TV sets in the second half.

Carbon Fiber Composite Materials

Total sales in this segment increased ¥35.7 billion, or 46.0%, to ¥113.3 billion.

As demand for aircrafts as well as that in the environment and energy fields including compressed natural gas tank applications expanded, sales of carbon fibers and intermediate products (prepreg) grew strongly for aerospace applications and general industrial applications. In the composite business, sales of carbon fiber reinforced plastic chassis for notebook PCs, which boast high strength and light weight, increased.

Environment & Engineering

Total sales in this segment increased ¥1.8 billion, or 1.0%, to ¥180.2 billion.

While the market for water treatment membranes has not yet fully recovered reflecting continued uncertainties over the global economic outlook, shipment of reverse osmosis membranes to the Middle East was strong at the Company. Among domestic subsidiaries, the progress of plant construction projects remained slow at an engineering subsidiary.

Life Science

Total sales in this segment increased ¥1.6 billion, or 2.8%, to ¥58.2 billion.

Sales of REMITCH^{®*}, an oral anti-pruritus drug for hemodialysis patients, expanded robustly, though other pharmaceutical products were affected by intensifying competition and royalty income on some products decreased. In medical devices, sales in Japan as well as exports of FILTRYZER[®], polymethylmethacrylate (PMMA) dialysis membrane-based hemodialyzer, and TORAYSULFONE[®], polysulfone membrane artificial kidneys, grew strongly.

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

Others

Net sales increased ¥0.2 billion, or 1.1%, to ¥14.3 billion.

Costs and Expenses

The ratio of total costs and expenses to net sales for the year was 94.3%, down 0.5 percentage points from the previous fiscal year.

Consolidated net sales increased 15.4% year on year, and cost of sales increased 16.0%. As a result, the cost of sales ratio increased 0.4 percentage points to 80.8%.

Selling, general and administrative expenses increased ¥19.2 billion, or 8.4%, to ¥247.4 billion. The ratio of selling, general and administrative expenses to net sales decreased 0.9 percentage points to 13.5%.

R&D expenses increased ¥2.2 billion, or 4.0%, to ¥55.5 billion.

Operating Income and Net Income

Consolidated operating income increased ¥21.8 billion or 26.1% from the previous fiscal year, to ¥105.3 billion, and the ratio of operating income to net sales rose 0.5 percentage point to 5.7%.

Operating income rose in all segments but Plastics & Chemicals and Life Science.

Fibers & Textiles segment operating income rose ¥9.7 billion or 22.4% year on year to ¥52.9 billion supported by increased sales and a shift to high value-added products at the textile subsidiaries in Southeast Asia and China as well as the low comparison base due to the impact on last year's performance from the floods in Thailand.

Operating income in the Plastics & Chemicals segment dipped by ¥0.3 billion or 1.6% to ¥18.0 billion. The resin business recorded brisk sales for automotive applications in Japan, but results were tempered by higher materials costs related to the correction of the strong yen. Film business sales struggled against weak overall demand in Japan and overseas along with ongoing price competition.

IT-related Products segment operating income rose ¥1.6 billion or 7.1% to ¥24.6 billion supported by generally solid sales of small and mid-sized display materials for smartphones, tablet computers, and other products.

The Carbon Fiber Composite Materials segment generated a ¥9.6 billion or 131.9% increase in operating income to ¥16.9 billion. Sales of carbon fibers and intermediate products (prepreg) for aircraft, aerospace, and general industrial applications were brisk amid growing demand for aircrafts as well as that in the environment and energy fields including compressed natural gas tank applications.

Operating income in the Environment & Engineering segment rose ¥3.8 billion or 143.4% to ¥6.4 billion supported by strong shipments of reverse osmosis membranes to the Middle East and other products by the water treatment membranes business.

The Life Science segment posted a ¥1.9 billion or 24.8% decline in operating income to ¥5.6 billion due mainly to intensifying competition and decreased license fee revenue in medical products.

Operating income of Others rose ¥0.4 billion or 27.6% to ¥2.0 billion.

In net other income (expenses), Toray Group reported ¥7.5 billion in expenses, a ¥1.9 billion year-on-year increase. Interest and dividend income increased ¥0.5 billion over the previous fiscal year to ¥3.8 billion, while interest expense fell ¥0.6 billion to ¥4.9 billion. This led to a ¥1.1 billion improvement in net financial expenses to ¥1.1 billion. Equity in earnings of unconsolidated subsidiaries and affiliated companies increased ¥0.3 billion to ¥7.7 billion. Loss on impairment of fixed assets increased ¥12.4 billion year on year to ¥14.4 billion. Loss on sales and disposal of property, plant and equipment, net, increased by ¥0.8 billion to ¥5.2 billion.

As a result of the above, income before income taxes and minority interests increased ¥19.9 billion to ¥97.8 billion. After deductions for income taxes and minority interests in earnings of consolidated subsidiaries, net income amounted to ¥59.6 billion, up ¥11.1 billion from the previous fiscal year.

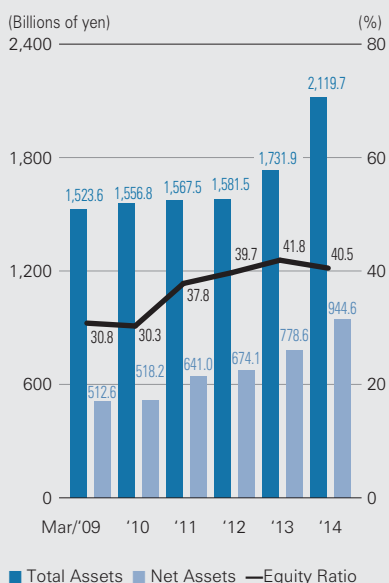
Net income per share was ¥36.59, an increase of ¥6.84. The Company declared a year-end cash dividend of ¥5.00 per share in light of the profit conditions for the year under review and the profit outlook for the next fiscal term. Added to the interim cash dividend, this brought the total annual dividend to ¥10.00 per share.

FINANCIAL POSITION

Assets

Total assets on March 31, 2014, stood at ¥2,119.7 billion, up ¥387.8 billion or 22.4% from the end of the previous fiscal year. This was mainly due to the increases in trade receivables, in inventories and in property, plant and equipment, net of depreciation.

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.

Current Assets

Current assets were up 15.5%, or ¥123.6 billion, to ¥920.4 billion. Trade receivables were up 14.2%, or ¥43.9 billion, to ¥352.1 billion. Inventories rose to ¥370.8 billion, up ¥57.1 billion or 18.2%.

Property, Plant and Equipment

Property, plant and equipment, net of depreciation compared with the end of the previous fiscal year grew 24.6%, or ¥154.0 billion, to ¥781.2 billion. Capital expenditures totaled ¥113.9 billion, up 16.2% or ¥15.9 billion based on our policy of investing selectively in prospective growth areas while streamlining and modernizing production facilities to enhance production efficiency.

In the Fibers & Textiles segment, capital expenditures totaled ¥26.1 billion, which included additional polypropylene spun-bond production facilities at Toray Polytech (Nantong) Co., Ltd. In the Plastics & Chemicals segment, capital expenditures amounted to ¥18.2 billion, which included new PPS resin production facilities at Toray Advanced Materials Korea Inc. Capital expenditures in the IT-related Products segment were ¥17.2 billion, which included additional polyethylene film production facilities at Toray Battery Separator Film Co., Ltd. In the Carbon Fiber Composite Materials segment, capital expenditures amounted to ¥38.5 billion, which included additional carbon fiber production facilities at Toray Carbon Fibers Europe S.A. In the Environment & Engineering segment, capital expenditures amounted to ¥3.2 billion. In the Life Science segment, capital expenditures amounted to ¥8.7 billion, which included new dialyzer production facilities at Toray Medical (Qingdao) Co., Ltd.

Liabilities

Total liabilities increased ¥221.8 billion, or 23.3%, to ¥1,175.1 billion. A major factor was the increase in total interest-bearing liabilities—consisting of short-term bank loans, current portion of long-term debt, commercial paper, long-term debt and lease obligations—up ¥122.2 billion, or 23.0%, to ¥654.2 billion.

Net Assets

Net assets came to ¥944.6 billion and net assets less minority interests in consolidated subsidiaries and stock acquisition rights stood at ¥859.0 billion. As a result, net assets per share increased ¥82.87 to ¥527.32. The equity ratio fell 1.3 percentage points to 40.5%, while the debt/equity ratio worsened by 0.03 point to 0.76.

CASH FLOWS

In the year ended March 31, 2014, net cash used in investing activities exceeded net cash provided by operating activities by ¥53.4 billion. On the other hand, net cash provided by financing activities was ¥41.5 billion due mainly to an increase in interest-bearing liabilities. Including fluctuations in foreign currency exchange rates, cash and cash equivalents at fiscal

year-end stood at ¥113.1 billion, up ¥5.4 billion or 5.1% from the end of the previous fiscal year.

Cash Flows from Operating Activities

Net cash provided by operating activities amounted to ¥161.5 billion, up ¥60.6 billion from the previous fiscal year. Major factors for provision of cash include income before income taxes and minority interests of ¥97.8 billion and depreciation and amortization of ¥78.7 billion, while major factors for use of cash include an increase in inventories of ¥18.9 billion, and income taxes paid of ¥23.2 billion.

Cash Flows from Investing Activities

Net cash used in investing activities totaled ¥214.8 billion, up ¥107.3 billion from the previous fiscal year. Main factors include capital expenditures of ¥112.9 billion.

Cash Flows from Financing Activities

Net cash provided by financing activities was ¥41.5 billion, up ¥15.3 billion from the previous fiscal year. Main factors include proceeds from long-term debt of ¥170.1 billion, which contrasted with repayment of long-term debt of ¥100.3 billion and cash dividends paid of ¥17.4 billion.

BUSINESS RISKS

Operational and other risks faced by Toray Group that could have a major influence on the decisions of investors are described below. Toray Group works constantly to avoid such potential risks, minimize 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.

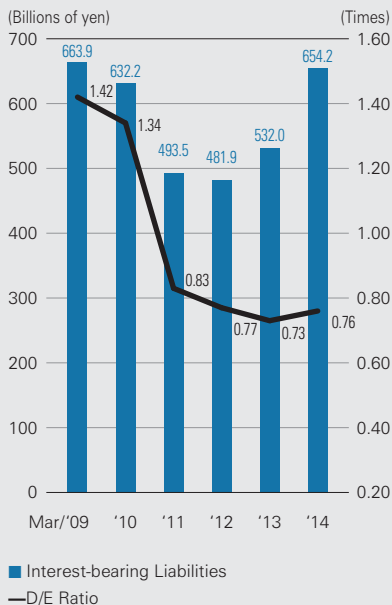
(1) Domestic and overseas demand and market trends

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.

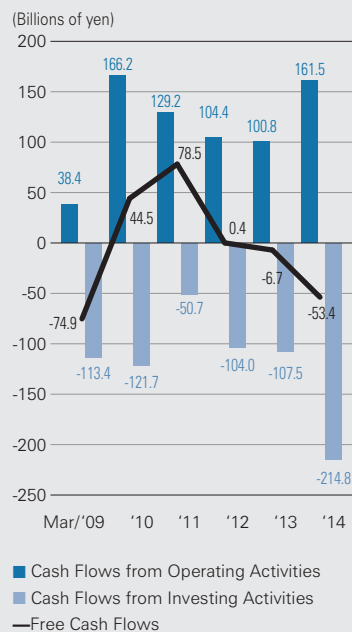
(2) Rising prices of fuel and raw materials

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.

Interest-bearing Liabilities and D/E Ratio



Cash Flows



(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.

Consolidated Balance Sheets

Toray Industries, Inc. and Consolidated Subsidiaries
March 31, 2014 and 2013

Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Current assets:			
Cash (Notes 4 and 5)	¥ 80,582	¥ 87,276	\$ 782,350
Time deposits (Notes 4 and 5)	33,556	21,390	325,786
Trade receivables (Notes 4, 5 and 7):			
Notes receivable	25,685	32,747	249,369
Accounts receivable	326,409	275,483	3,169,019
Inventories (Notes 3 and 4)	370,822	313,707	3,600,214
Deferred tax assets (Note 10)	25,600	21,405	248,544
Prepaid expenses and other current assets (Notes 5 and 6)	60,204	46,852	584,505
Allowance for doubtful accounts	(2,493)	(2,128)	(24,204)
Total current assets	920,365	796,732	8,935,583
Property, plant and equipment (Notes 4 and 13):			
Land	76,403	69,672	741,777
Buildings	547,810	489,399	5,318,544
Machinery and equipment	1,819,635	1,572,900	17,666,359
Construction in progress	97,810	62,998	949,612
	2,541,658	2,194,969	24,676,291
Accumulated depreciation	(1,760,423)	(1,567,729)	(17,091,485)
Property, plant and equipment, net	781,235	627,240	7,584,806
Intangible assets (Note 13):			
Goodwill	72,300	29,767	701,942
Other	27,784	12,853	269,748
Total intangible assets	100,084	42,620	971,689
Investments and other assets:			
Investments in unconsolidated subsidiaries and affiliated companies (Note 5)	100,643	78,031	977,117
Investment securities (Notes 4, 5 and 6)	146,232	120,851	1,419,728
Long-term loans receivable	1,551	929	15,058
Deferred tax assets (Note 10)	21,441	19,502	208,165
Other (Note 8)	50,454	48,144	489,845
Allowance for doubtful accounts	(2,322)	(2,116)	(22,544)
Total investments and other assets	317,999	265,341	3,087,369
Total assets	¥ 2,119,683	¥ 1,731,933	\$ 20,579,447

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Current liabilities:			
Short-term bank loans (Notes 4, 5 and 7)	¥ 131,444	¥ 98,633	\$ 1,276,155
Current portion of long-term debt (Notes 4, 5 and 7)	77,201	98,225	749,524
Commercial paper (Note 5)	10,000	30,000	97,087
Trade payables (Notes 5 and 7):			
Notes payable	33,403	31,077	324,301
Accounts payable	176,062	154,850	1,709,340
Income taxes payable (Note 10)	16,411	9,764	159,330
Accrued liabilities	52,439	45,593	509,117
Other current liabilities (Notes 4 and 10)	99,622	82,136	967,204
Total current liabilities	596,582	550,278	5,792,058
Long-term debt (Notes 4, 5 and 7)	428,932	302,739	4,164,388
Deferred tax liabilities (Note 10)	20,758	9,048	201,534
Accrued employees' retirement benefits (Note 8)	—	69,359	—
Net defined benefit liability (Note 8)	93,172	—	904,583
Customers' guarantee deposits and other liabilities (Note 4)	35,614	21,883	345,767
Total liabilities	1,175,058	953,307	11,408,330
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	1,435,660
Capital surplus	136,735	136,748	1,327,524
Retained earnings	505,834	462,536	4,911,010
Treasury stock, at cost	(1,455)	(1,170)	(14,126)
Total stockholders' equity	788,987	745,987	7,660,068
Accumulated other comprehensive income:			
Net unrealized gains on securities	49,546	35,388	481,029
Net deferred losses on hedges	(508)	(883)	(4,932)
Foreign currency translation adjustments	37,664	(55,515)	365,670
Remeasurements of defined benefit plans	(16,688)	(816)	(162,019)
Total accumulated other comprehensive income	70,014	(21,826)	679,748
Stock acquisition rights (Note 9)	991	566	9,621
Minority interests in consolidated subsidiaries	84,633	53,899	821,680
Total net assets	944,625	778,626	9,171,117
Total liabilities and net assets	¥ 2,119,683	¥ 1,731,933	\$ 20,579,447

Consolidated Statements of Income

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net sales	¥ 1,837,778	¥ 1,592,279	\$ 17,842,505
Costs and expenses:			
Cost of sales (Notes 3, 8, 13 and 14)	1,485,171	1,280,649	14,419,136
Selling, general and administrative expenses (Notes 8, 13 and 14)	247,354	228,194	2,401,495
	1,732,525	1,508,843	16,820,631
Operating income	105,253	83,436	1,021,874
Other income (expenses):			
Interest expense	(4,894)	(5,460)	(47,515)
Interest and dividend income	3,794	3,247	36,835
Equity in earnings of unconsolidated subsidiaries and affiliated companies	7,700	7,431	74,757
Loss on sales and disposal of property, plant and equipment, net	(5,241)	(4,444)	(50,883)
Loss on impairment of fixed assets	(14,390)	(1,972)	(139,709)
Gain on sales and loss on write-down of investment securities, net	360	(1,267)	3,495
Other, net	5,178	(3,143)	50,272
	(7,493)	(5,608)	(72,748)
Income before income taxes and minority interests	97,760	77,828	949,126
Income taxes (Note 10):			
Current	26,558	17,876	257,845
Deferred	5,641	8,870	54,767
	32,199	26,746	312,612
Income before minority interests	65,561	51,082	636,515
Minority interests in earnings of consolidated subsidiaries	(5,953)	(2,605)	(57,796)
Net income	¥ 59,608	¥ 48,477	\$ 578,718

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Income before minority interests	¥ 65,561	¥ 51,082	\$ 636,515
Other comprehensive income (Note 16)			
Net unrealized gains on securities	13,951	14,981	135,447
Net deferred gains (losses) on hedges	332	(807)	3,223
Foreign currency translation adjustments	94,354	52,466	916,058
Remeasurements of defined benefit plans	(82)	(508)	(796)
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	5,212	2,607	50,602
Total other comprehensive income	113,767	68,739	1,104,534
Comprehensive income	¥ 179,328	¥ 119,821	\$ 1,741,049
Total comprehensive income attributable to:			
Owners of the parent	¥ 167,273	¥ 113,675	\$ 1,624,010
Minority interests	12,055	6,146	117,039

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of April 1, 2012	¥147,873	¥136,740	¥430,365	¥(1,194)	¥713,784	¥20,659	¥ (78)	¥(107,254)	¥ —	¥(86,673)	¥287	¥46,751	¥674,149
Cumulative effect of changes in accounting policies									(351)	(351)		(130)	(481)
Restated balance	147,873	136,740	430,365	(1,194)	713,784	20,659	(78)	(107,254)	(351)	(87,024)	287	46,621	673,668
Changes in:													
Dividends			(16,302)		(16,302)								(16,302)
Net income			48,477		48,477								48,477
Acquisition of treasury stock				(36)	(36)								(36)
Disposition of treasury stock		8		60	68								68
Other			(4)		(4)								(4)
Items other than stockholders' equity, net						14,729	(805)	51,739	(465)	65,198	279	7,278	72,755
Total changes	—	8	32,171	24	32,203	14,729	(805)	51,739	(465)	65,198	279	7,278	104,958
Balance as of March 31, 2013	¥147,873	¥136,748	¥462,536	¥(1,170)	¥745,987	¥35,388	¥(883)	¥ (55,515)	¥ (816)	¥(21,826)	¥566	¥53,899	¥778,626
Balance as of April 1, 2013	¥147,873	¥136,748	¥462,536	¥(1,170)	¥745,987	¥35,388	¥(883)	¥ (55,515)	¥ (816)	¥(21,826)	¥566	¥53,899	¥778,626
Changes in:													
Dividends			(16,300)		(16,300)								(16,300)
Net income			59,608		59,608								59,608
Acquisition of treasury stock				(394)	(394)								(394)
Disposition of treasury stock		(13)		109	96								96
Other			(10)		(10)								(10)
Items other than stockholders' equity, net						14,158	375	93,179	(15,872)	91,840	425	30,734	122,999
Total changes	—	(13)	43,298	(285)	43,000	14,158	375	93,179	(15,872)	91,840	425	30,734	165,999
Balance as of March 31, 2014	¥147,873	¥136,735	¥505,834	¥(1,455)	¥788,987	¥49,546	¥(508)	¥ 37,664	¥(16,688)	¥ 70,014	¥991	¥84,633	¥944,625

	Thousands of U.S. dollars (Note 2)												
	Stockholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total stockholders' equity	Net unrealized gains on securities	Net deferred losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests in consolidated subsidiaries	Total net assets
Balance as of April 1, 2013	\$1,435,660	\$1,327,650	\$4,490,641	\$ (11,359)	\$7,242,592	\$343,573	\$ (8,573)	\$ (538,981)	\$ (7,922)	\$ (211,903)	\$5,495	\$ 523,291	\$ 7,559,476
Changes in:													
Dividends			(158,252)		(158,252)								(158,252)
Net income			578,718		578,718								578,718
Acquisition of treasury stock				(3,825)	(3,825)								(3,825)
Disposition of treasury stock		(126)		1,058	932								932
Other			(97)		(97)								(97)
Items other than stockholders' equity, net						137,456	3,641	904,650	(154,097)	891,650	4,126	298,388	1,194,165
Total changes	—	(126)	420,369	(2,767)	417,476	137,456	3,641	904,650	(154,097)	891,650	4,126	298,388	1,611,641
Balance as of March 31, 2014	\$1,435,660	\$1,327,524	\$4,911,010	\$ (14,126)	\$7,660,068	\$481,029	\$ (4,932)	\$ 365,670	\$ (162,019)	\$ 679,748	\$9,621	\$821,680	\$9,171,117

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 97,760	¥ 77,828	\$ 949,126
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	78,743	67,588	764,495
Loss on impairment of fixed assets	14,390	1,972	139,709
Interest and dividend income	(3,794)	(3,247)	(36,835)
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(7,700)	(7,431)	(74,757)
Interest expense	4,894	5,460	47,515
Loss on sales and disposal of property, plant and equipment, net	5,241	4,444	50,883
Gain and loss on sales and loss on write-down of investment securities, net	(343)	1,442	(3,330)
Insurance income	(6,818)	(274)	(66,194)
Increase in accrued employees' retirement benefits	—	1,844	—
Increase in net defined benefit liability	3,066	—	29,767
Increase in trade receivables	(6,330)	(10,223)	(61,456)
Increase in inventories	(18,908)	(4,473)	(183,573)
Decrease in trade payables	(1,582)	(5,170)	(15,359)
Other, net	15,933	(12,364)	154,689
Subtotal	174,552	117,396	1,694,680
Interest and dividends received	8,208	9,647	79,689
Interest paid	(4,962)	(5,565)	(48,175)
Income taxes paid	(23,161)	(20,937)	(224,864)
Proceeds from insurance	6,818	274	66,194
Net cash provided by operating activities	161,455	100,815	1,567,524
Cash flows from investing activities:			
Capital expenditures	(112,905)	(105,093)	(1,096,165)
Purchases of investment securities	(10,513)	(1,951)	(102,068)
Proceeds from sales of property, plant and equipment	2,057	1,635	19,971
Proceeds from sales of investment securities	954	257	9,262
Acquisition of shares of consolidated subsidiaries resulting in change in scope of consolidation	(91,391)	(1,328)	(887,291)
Additional acquisition of shares of consolidated subsidiaries	—	(374)	—
Other, net	(3,028)	(671)	(29,398)
Net cash used in investing activities	(214,826)	(107,525)	(2,085,689)
Cash flows from financing activities:			
Net decrease in short-term debt	(9,716)	(5,788)	(94,330)
Proceeds from long-term debt	170,139	101,565	1,651,835
Repayment of long-term debt	(100,266)	(53,806)	(973,456)
Cash dividends paid	(17,357)	(17,210)	(168,515)
Other, net	(1,325)	1,406	(12,864)
Net cash provided by financing activities	41,475	26,167	402,670
Effect of exchange rate changes on cash and cash equivalents	17,343	6,811	168,379
Net increase in cash and cash equivalents	5,447	26,268	52,883
Cash and cash equivalents at beginning of year	107,690	81,289	1,045,534
Beginning balance of cash and cash equivalents at subsidiaries not previously included in consolidation	—	133	—
Cash and cash equivalents at end of year	¥ 113,137	¥ 107,690	\$ 1,098,417

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toray Industries, Inc. and Consolidated Subsidiaries
Years ended March 31, 2014 and 2013

1. SIGNIFICANT ACCOUNTING POLICIES

a) Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements of Toray Industries, Inc. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

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 majority interest in the subsidiaries is purchased.

Investments in unconsolidated subsidiaries and affiliated companies are accounted for by the equity method.

All intercompany accounts and transactions have been eliminated in consolidation. The difference between the acquisition cost and the underlying net assets of the subsidiaries is recognized as goodwill 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, 2014 and 2013 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
	2014	2013	2014
Cash	¥ 80,582	¥ 87,276	\$ 782,350
Time deposits	33,556	21,390	325,786
Less — Time deposits with maturities of over 3 months	(1,001)	(976)	(9,718)
Cash and cash equivalents	¥113,137	¥107,690	\$1,098,417

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) of the Company and its domestic consolidated subsidiaries is principally computed by the declining balance method, and depreciation for those of its overseas consolidated subsidiaries is principally computed by the straight-line method at rates based on estimated useful lives that are as follows:

Buildings	3–60 years
Machinery and equipment	3–15 years

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

h) Income Taxes

Income taxes of the Company and its domestic consolidated subsidiaries consist of corporate income taxes, local inhabitants taxes and enterprise taxes. Deferred income taxes are determined using the asset and liability approach, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amount in the financial statements. The Company also provides for the anticipated tax effect of future remittances of retained earnings from overseas subsidiaries and affiliated companies.

i) Retirement Benefits

The Company and its domestic consolidated subsidiaries have an unfunded lump-sum benefit plan, a funded contributory pension plan and a defined contribution pension plan covering all eligible employees.

Under the terms of the unfunded lump-sum benefit plan, eligible employees are entitled under most circumstances, upon mandatory retirement or earlier voluntary severance, to indemnities based on compensation at the time of severance and years of service.

The funded contributory pension plan and the defined contribution pension plan provide, in general, pension payments for life commencing from age 60.

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 15 years).

Actuarial gains and losses are amortized from the follow-

ing fiscal year after recognition using the straight-line method over a certain period within the employees' average remaining years of service (primarily 15 years).

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

Allowance for retirement benefits for members of the Board and corporate auditors ("executives") of the Company and certain of its domestic consolidated subsidiaries is provided based on the companies' pertinent rules and is calculated as the estimated amount which would be payable if all executives were to retire at the balance sheet date. Any amounts payable to executives upon retirement are subject to approval at the annual stockholders' meeting. The amount is included in "customers' guarantee deposits and other liabilities" on the consolidated balance sheets.

j) Appropriation of Retained Earnings

Cash dividends are recorded in the fiscal year when the proposed appropriation of retained earnings is approved by the Board of Directors and/or stockholders.

k) Foreign Currency Transactions

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

l) Translation of Foreign Currency Financial Statements

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

m) Application of "Employee Benefits"

In connection with the application of "Employee Benefits" (International Accounting Standards Board, International Accounting Standard No. 19, revised on June 16, 2011) from fiscal periods starting on or after January 1, 2013, effective from the year ended March 31, 2014, certain overseas subsidiaries have adopted accounting standard and thereby changed their methods for recognizing actuarial gains and losses, past service cost, and net interest on the net defined benefit liability, etc.

Changes in the accounting policy have been applied retroactively in the consolidated financial statements for the year ended March 31, 2013. The effect of the retrospective application is insignificant.

n) Application of Accounting Standard for Retirement Benefits

Effective from the end of the year ended March 31, 2014, the Company has adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Statement No. 26, May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance). Accordingly, the Company and its domestic consolidated subsidiaries have adopted a new accounting method under which an amount equal to the expected retirement benefit obligations net of the fair value of pension assets is recorded as net defined benefit asset or liability, and unrecognized actuarial gains and losses and unrecognized past service cost are recorded in net defined benefit asset and liability.

The application of the standard and the guidance is subject to the transitional treatment set forth in Section 37 of the standard, and the effect of the change is added to or deducted from remeasurements of defined benefit plans in accumulated other comprehensive income at March 31, 2014. As a result, the Company and its domestic consolidated subsidiaries recorded net defined benefit asset of ¥24,500 million (\$237,864 thousand) (included in other investments and other assets) and net defined benefit liability of ¥84,579 million (\$821,155 thousand), while accumulated other comprehensive income decreased by ¥15,825 million (\$153,641 thousand). In addition, net assets per share decreased by ¥9.71 (\$0.09).

o) Standards Issued but Not Yet Adopted

Accounting Standards for Business Combinations

On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No.21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No.22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No.7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No.2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No.4).

(1) Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership

interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

(2) Scheduled Date of Adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the year ending March 31, 2016.

(3) Impact of Adopting Revised Accounting Standards and Guidance

The impact of adopting the revised accounting standards and guidance on consolidated financial statements is currently under evaluation.

Accounting Standards for Retirement Benefits

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

(1) Overview

The standard provides guidance for the accounting for unrecognized actuarial gains and losses and unrecognized past service cost, the calculation methods for retirement benefit obligation and service cost, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

(2) Scheduled Date of Adoption

Revisions to the calculation methods for the retirement benefit obligation and service cost are scheduled to be adopted from the beginning of the year ending March 31, 2015.

(3) Impact of Adopting Revised Accounting Standard and Guidance

The impact of adopting the revised accounting standard and guidance on consolidated financial statements is currently under evaluation.

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 ¥103 to \$1.00, the approximate exchange

rate prevailing on March 31, 2014. The inclusion of such U.S. dollar amounts is solely for the convenience of readers outside Japan and is not intended to imply that yen amounts and assets and liabilities that originated in yen have been or could be readily converted, realized or settled in U.S. dollars at this or at any other rate.

3. INVENTORIES

At March 31, 2014 and 2013, inventories consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished goods	¥ 211,837	¥ 175,553	\$ 2,056,670
Work in process	74,546	70,121	723,748
Raw materials and supplies	84,439	68,033	819,796
	¥ 370,822	¥ 313,707	\$ 3,600,214

Losses recognized and charged to cost of sales as a result of valuation at March 31, 2014 and 2013 were ¥2,559 million (\$24,845 thousand) and ¥2,139 million, respectively.

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

Short-term bank loans at March 31, 2014 and 2013 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, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Loans principally from banks and insurance companies with interest rates primarily from 0.16% to 7.05%, maturing serially through 2025:			
Unsecured	¥ 441,883	¥ 320,964	\$ 4,290,126
Secured	20,197	—	196,087
Lease obligations maturing serially through 2028:			
Unsecured	6,586	2,405	63,942
Yen notes with an interest rate of 1.61% due 2013	—	10,000	—
Yen notes with an interest rate of 0.93% due 2022	20,000	20,000	194,175
Yen notes with an interest rate of 1.01% due 2023	20,000	—	194,175
Zero coupon convertible bonds due 2014	—	50,000	—
Korean won notes with an interest rate of 5.7% due 2014	2,998	—	29,107
U.S. dollar notes with an interest rate of 3 month U.S. dollar LIBOR+1.3% due 2014	1,055	—	10,243
	512,719	403,369	4,977,854
Less amounts due within one year	78,959	99,115	766,592
	¥ 433,760	¥ 304,254	\$ 4,211,262

At March 31, 2014, assets pledged as collateral were as follows:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 3,240	\$ 31,456
Trade receivables	1,717	16,670
Inventories	3,511	34,087
Property, plant and equipment, net	42,384	411,495
Investment securities	60	583
Others	2,976	28,893
	¥ 53,888	\$ 523,184

The annual maturities of long-term debt and lease obligations subsequent to March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Years ending March 31:		
2015	¥ 78,959	\$ 766,592
2016	62,603	607,796
2017	57,687	560,068
2018	77,220	749,709
2019	35,943	348,961
2020 and thereafter	200,307	1,944,728
	¥ 512,719	\$ 4,977,854

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 their internal regulations, the Company and its consolidated subsidiaries carefully manage payment periods for receivables and outstanding balances of all customers and regularly monitor the credit standing of major 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 exposed to the risk of market price fluctuations. Most of these securities are the shares of corporations with which the Company and its consolidated subsidiaries have business relationships.

The fair value and financial positions of the issuing entities (clients) are regularly monitored.

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

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

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

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

c) Supplemental Explanation on Fair Value of Financial Instruments

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

Fair Value of Financial Instruments

Carrying value, fair value and unrealized gain (loss) as of March 31, 2014 and 2013 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		
	2014		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 114,138	¥ 114,138	¥ —
Trade receivables	352,094	352,094	—
Investment securities			
Held-to-maturity debt securities	94	94	—
Investment securities in subsidiaries and affiliated companies	17,753	13,665	(4,088)
Other securities	139,491	139,491	—
Assets	¥ 623,570	¥ 619,482	¥ (4,088)
Trade payables	¥ 209,465	¥ 209,465	¥ —
Short-term bank loans	131,444	131,444	—
Commercial paper	10,000	10,000	—
Bonds *1	44,053	44,089	36
Long-term bank loans *2	462,080	468,931	6,851
Liabilities	¥ 857,042	¥ 863,929	¥ 6,887
Derivative transactions *3			
Hedge accounting is not applied	¥ (85)	¥ (85)	¥ —
Hedge accounting is applied	(539)	(539)	—
Derivative transactions	¥ (624)	¥ (624)	¥ —

	Millions of yen		
	2013		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	¥ 108,666	¥ 108,666	¥ —
Trade receivables	308,230	308,230	—
Investment securities			
Held-to-maturity debt securities	92	92	—
Investment securities in subsidiaries and affiliated companies	15,355	9,817	(5,538)
Other securities	115,575	115,575	—
Assets	¥ 547,918	¥ 542,380	¥ (5,538)
Trade payables	¥ 185,927	¥ 185,927	¥ —
Short-term bank loans	98,633	98,633	—
Commercial paper	30,000	30,000	—
Bonds *1	80,000	80,222	222
Long-term bank loans *2	320,964	327,307	6,343
Liabilities	¥ 715,524	¥ 722,089	¥ 6,565
Derivative transactions *3			
Hedge accounting is not applied	¥ 426	¥ 426	¥ —
Hedge accounting is applied	(1,145)	(1,145)	—
Derivative transactions	¥ (719)	¥ (719)	¥ —

Thousands of U.S. dollars

	2014		
	Carrying value	Fair value	Unrealized gain (loss)
Cash and time deposits	\$ 1,108,136	\$ 1,108,136	\$ —
Trade receivables	3,418,388	3,418,388	—
Investment securities			
Held-to-maturity debt securities	913	913	—
Investment securities in subsidiaries and affiliated companies	172,359	132,670	(39,689)
Other securities	1,354,282	1,354,282	—
Assets	\$ 6,054,078	\$ 6,014,388	\$ (39,689)
Trade payables	\$ 2,033,641	\$ 2,033,641	\$ —
Short-term bank loans	1,276,155	1,276,155	—
Commercial paper	97,087	97,087	—
Bonds *1	427,699	428,049	350
Long-term bank loans *2	4,486,214	4,552,728	66,515
Liabilities	\$ 8,320,796	\$ 8,387,660	\$ 66,864
Derivative transactions *3			
Hedge accounting is not applied	\$ (825)	\$ (825)	\$ —
Hedge accounting is applied	(5,233)	(5,233)	—
Derivative transactions	\$ (6,058)	\$ (6,058)	\$ —

*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 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 is based on market price. However, in cases where the interest rate of bonds fluctuates or the special accounting method for interest rate swaps is applied to make the interest rate fluctuating, 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
	2014	2013	2014
Unlisted securities	¥ 72,663	¥ 54,075	\$ 705,466

Unlisted 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, 2014 and 2013

	Millions of yen			
	2014			
	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	¥ 114,138	¥ —	¥ —	¥ —
Trade receivables	352,094	—	—	—
Investment securities				
Held-to-maturity debt securities	3	82	9	—
Other securities	725	—	10	800
	¥ 466,960	¥ 82	¥ 19	¥ 800

	Millions of yen			
	2013			
	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	¥ 108,666	¥ —	¥ —	¥ —
Trade receivables	308,230	—	—	—
Investment securities				
Held-to-maturity debt securities	14	72	6	—
Other securities	—	574	10	800
	¥ 416,910	¥ 646	¥ 16	¥ 800

	Thousands of U.S. dollars			
	2014			
	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	\$ 1,108,136	\$ —	\$ —	\$ —
Trade receivables	3,418,388	—	—	—
Investment securities				
Held-to-maturity debt securities	29	796	87	—
Other securities	7,039	—	97	7,767
	\$ 4,533,592	\$ 796	\$ 184	\$ 7,767

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, 2014 and 2013, information on securities classified as held-to-maturity debt securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2014				2014			
	Carrying value	Fair value	Unrealized gains	Unrealized losses	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥ 94	¥ 94	¥ —	¥ —	\$ 913	\$ 913	\$ —	\$ —

	Millions of yen			
	2013			
	Carrying value	Fair value	Unrealized gains	Unrealized losses
Held-to-maturity debt securities	¥ 92	¥ 92	¥ —	¥ —

At March 31, 2014 and 2013, information on securities classified as other securities was as follows:

	Millions of yen				Thousands of U.S. dollars			
	2014				2014			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥ 139,491	¥ 65,303	¥ 75,558	¥ 1,370	\$ 1,354,282	\$ 634,010	\$ 733,573	\$ 13,301

	Millions of yen			
	2013			
	Carrying value	Acquisition cost	Unrealized gains	Unrealized losses
Other securities	¥ 115,575	¥ 62,341	¥ 56,236	¥ 3,002

7. DERIVATIVES

The Company and its consolidated subsidiaries had the following derivative contracts outstanding at March 31, 2014 and 2013:

Hedge accounting is not applied

	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
		2014			2014	
Forward foreign exchange contracts:						
Buying U.S. dollar	¥4,802	¥ 37	¥ 37	\$ 46,621	\$ 359	\$ 359
Buying euro	44	0	0	427	0	0
Buying British pound	5	0	0	49	0	0
Buying Thai baht	442	(2)	(2)	4,291	(19)	(19)
Buying Australian dollar	1	0	0	10	0	0
Buying New Zealand dollar	3	0	0	29	0	0
Buying Japanese yen	879	(23)	(23)	8,534	(223)	(223)
Selling U.S. dollar	6,891	(4)	(4)	66,903	(39)	(39)
Selling euro	196	1	1	1,903	10	10
Selling British pound	130	0	0	1,262	0	0
Selling Chinese yuan	8	0	0	78	0	0
Selling Japanese yen	1,304	34	34	12,660	330	330
Foreign currency swaps:						
Receiving U.S. dollar, paying Korean won	1,449	(144)	(144)	14,068	(1,398)	(1,398)
Interest rate swaps:						
Floating-rate receipt, fixed-rate payment	1,000	16	16	9,709	155	155
	¥ —	¥ (85)	¥ (85)	\$ —	\$ (825)	\$ (825)

	Millions of yen		
	Contract amount	Fair value	Unrealized gain (loss)
		2013	
Forward foreign exchange contracts:			
Buying U.S. dollar	¥4,468	¥ 292	¥ 292
Buying euro	281	0	0
Buying Thai baht	422	116	116
Buying Japanese yen	362	(9)	(9)
Selling U.S. dollar	5,314	(30)	(30)
Selling euro	218	0	0
Selling British pound	147	0	0
Selling Chinese yuan	50	1	1
Selling Japanese yen	823	16	16
Foreign currency swaps:			
Receiving U.S. dollar, paying Korean won	1,477	(31)	(31)
Foreign currency options:			
Buying Japanese yen (put)	600	76	76
Selling Japanese yen (call)	600	0	0
Interest rate swaps:			
Floating-rate receipt, fixed-rate payment	693	(5)	(5)
	¥ —	¥ 426	¥ 426

Hedge accounting is applied

Millions of yen

		2014		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value	Estimation method for fair value
Deferral hedge method	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	¥ 221	¥ (4)	Forward foreign exchange quotes
	Buying Japanese yen	2,991	(202)	
	Selling U.S. dollar	738	8	
	Selling euro	131	4	
	Foreign currency options:			
	Accounted for as part of trade payables			
	Buying Japanese yen (call)	1,270	(67)	The price provided by correspondent financial institutions
	Selling Japanese yen (put)	875	44	
Foreign currency swaps:				
Accounted for as part of bonds and long-term bank loans			The price provided by correspondent financial institutions	
Receiving U.S. dollar, paying Korean won	4,076	(74)		
Interest rate swaps:				
Accounted for as part of long-term bank loans			The price provided by correspondent financial institutions	
Floating-rate receipt, fixed-rate payment	5,011	(92)		
Special accounting method for interest rate swaps	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	58,200 ^{*1}		
	Floating-rate receipt, floating-rate payment	57,600		—
Fixed-rate receipt, floating-rate payment	68,000			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	26,027	36	Forward foreign exchange quotes
	Buying euro	1,186	17	
	Buying Chinese yuan	1,259	(23)	
	Buying Korean won	4,185	(57)	
	Selling U.S. dollar	15,848	(74)	
	Selling euro	2,199	(55)	
	Selling British pound	1	0	
	Selling Chinese yuan	43	0	
	Selling Japanese yen	40	0	
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	18,528 ^{*2}		
	Buying euro	64		
	Buying Chinese yuan	15		
	Buying Japanese yen	4		
	Selling U.S. dollar	35,901		—
	Selling euro	4,703		
	Selling British pound	30		
Selling Chinese yuan	189			
Selling Thai baht	108			
Foreign currency swaps:				
Accounted for as part of long-term bank loans			—	
Receiving U.S. dollar, paying Japanese yen	152,156 ^{*2}			
Receiving Australian dollar, paying Japanese yen	3,129			
		¥ —	¥ (539)	

		Millions of yen		
		2013		
Hedge accounting method	Type of derivative and principal hedged items	Contract amount	Fair value	Estimation method for fair value
Deferral hedge method	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	¥ 26	¥ 2	Forward foreign exchange quotes
	Buying euro	199	7	
	Buying Japanese yen	5,818	(463)	
	Selling U.S. dollar	402	8	
	Selling euro	107	2	
	Selling Japanese yen	783	86	
	Foreign currency options:			
	Accounted for as part of trade payables			
Buying Japanese yen (call)	5,787	(520)	The price provided by	
Selling Japanese yen (put)	2,974	269	correspondent financial institutions	
Interest rate swaps:				
Accounted for as part of long-term bank loans			The price provided by	
Floating-rate receipt, fixed-rate payment	8,386	(224)	correspondent financial institutions	
Special accounting method for interest rate swaps	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	72,500*1		
	Floating-rate receipt, floating-rate payment	49,400		—
Fixed-rate receipt, floating-rate payment	48,000			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	20,183	501	Forward foreign exchange quotes
	Buying euro	1,232	18	
	Buying Canadian dollar	467	(5)	
	Buying Czech koruna	1,800	(33)	
	Buying Chinese yuan	510	100	
	Selling U.S. dollar	14,639	(639)	
	Selling euro	2,070	(61)	
	Selling British pound	3	0	
	Selling Chinese yuan	1	0	
	Foreign currency swaps:			
	Accounted for as part of long-term bank loans (Forecasted transactions)			The price provided by
	Receiving U.S. dollar, paying Japanese yen	20,000	(193)	correspondent financial institutions
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	15,161*2		
	Buying euro	44		
	Buying Canadian dollar	3		
	Buying Thai baht	4		
Selling U.S. dollar	30,361		—	
Selling euro	4,258			
Selling British pound	15			
Selling Canadian dollar	21			
Selling Thai baht	75			
Foreign currency swaps:				
Accounted for as part of long-term bank loans				
Receiving U.S. dollar, paying Japanese yen	44,417*2		—	
Receiving Australian dollar, paying Japanese yen	3,129			
		¥ —	¥ (1,145)	

Thousands of U.S. dollars

Hedge accounting method	Type of derivative and principal hedged items	2014		
		Contract amount	Fair value	Estimation method for fair value
Deferral hedge method	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	\$ 2,146	\$ (39)	Forward foreign exchange quotes
	Buying Japanese yen	29,039	(1,961)	
	Selling U.S. dollar	7,165	78	
	Selling euro	1,272	39	
	Foreign currency options:			
	Accounted for as part of trade payables			
	Buying Japanese yen (call)	12,330	(650)	The price provided by correspondent financial institutions
	Selling Japanese yen (put)	8,495	427	
Foreign currency swaps:				
Accounted for as part of bonds and long-term bank loans				
Receiving U.S. dollar, paying Korean won	39,573	(718)	The price provided by correspondent financial institutions	
Interest rate swaps:				
Accounted for as part of long-term bank loans				
Floating-rate receipt, fixed-rate payment	48,650	(893)	The price provided by correspondent financial institutions	
Special accounting method for interest rate swaps	Interest rate swaps:			
	Accounted for as part of bonds and long-term bank loans			
	Floating-rate receipt, fixed-rate payment	565,049 ^{*1}		
	Floating-rate receipt, floating-rate payment	559,223		—
Fixed-rate receipt, floating-rate payment	660,194			
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables (Forecasted transactions)			
	Buying U.S. dollar	252,689	350	Forward foreign exchange quotes
	Buying euro	11,515	165	
	Buying Chinese yuan	12,223	(223)	
	Buying Korean won	40,631	(553)	
	Selling U.S. dollar	153,864	(718)	
	Selling euro	21,350	(534)	
	Selling British pound	10	0	
	Selling Chinese yuan	417	0	
	Selling Japanese yen	388	0	
	Forward foreign exchange contracts:			
	Accounted for as part of trade receivables and trade payables			
	Buying U.S. dollar	179,883 ^{*2}		
	Buying euro	621		
	Buying Chinese yuan	146		
	Buying Japanese yen	39		
	Selling U.S. dollar	348,553		—
	Selling euro	45,660		
	Selling British pound	291		
	Selling Chinese yuan	1,835		
	Selling Thai baht	1,049		
Foreign currency swaps:				
Accounted for as part of long-term bank loans				
Receiving U.S. dollar, paying Japanese yen	1,477,243 ^{*2}		—	
Receiving Australian dollar, paying Japanese yen	30,379			
	\$ —	\$ (5,233)		

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

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

8. RETIREMENT BENEFIT PLAN

For the year ended March 31, 2014

The changes in the retirement benefit obligation during the year ended March 31, 2014 were as follows:

	Thousands of U.S. dollars	
	Millions of yen	2014
Retirement benefit obligation at April 1, 2013	¥ 181,735	\$ 1,764,417
Service cost	5,927	57,544
Interest cost	3,590	34,854
Actuarial gains and losses	12,106	117,534
Retirement benefit paid	(15,650)	(151,942)
Past service cost	(33)	(320)
Effect of significant business combinations	3,115	30,243
Other	1,726	16,757
Retirement benefit obligation at March 31, 2014	¥ 192,516	\$ 1,869,087

The changes in the plan assets at fair value during the year ended March 31, 2014 were as follows:

	Thousands of U.S. dollars	
	Millions of yen	2014
Plan assets at April 1, 2013	¥ 117,661	\$ 1,142,340
Expected return on plan assets	2,408	23,379
Actuarial gains and losses	8,516	82,680
Contributions	4,724	45,864
Retirement benefit paid	(12,000)	(116,505)
Effect of significant business combinations	1,710	16,602
Other	825	8,010
Plan assets at March 31, 2014	¥ 123,844	\$ 1,202,369

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and its consolidated subsidiaries' defined benefit plans:

	Thousands of U.S. dollars	
	Millions of yen	2014
Funded retirement benefit obligation	¥ 112,024	\$ 1,087,612
Plan assets at fair value	(123,844)	(1,202,369)
	(11,820)	(114,757)
Unfunded retirement benefit obligation	80,492	781,476
Net liability for retirement benefits in the balance sheet	68,672	666,718
Net defined benefit liability	93,172	904,583
Net defined benefit asset	(24,500)	(237,864)
Net liability for retirement benefits in the balance sheet	¥ 68,672	\$ 666,718

The components of retirement benefit expense for the year ended March 31, 2014 were as follows:

	Thousands of U.S. dollars	
	Millions of yen	2014
Service cost	¥ 5,927	\$ 57,544
Interest cost	3,590	34,854
Expected return on plan assets	(2,408)	(23,379)
Amortization of actuarial gains and losses	6,522	63,320
Amortization of past service cost	(2,866)	(27,825)
Retirement benefit expense	¥ 10,765	\$ 104,515

In addition to the above, special severance payments of ¥733 million (\$7,117 thousand) and contributions to the defined contribution pension plan of ¥5,224 million (\$50,718 thousand) were recognized for the year ended March 31, 2014.

Actuarial gains and losses included in other comprehensive income (before tax effect) for the year ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Actuarial gains and losses	¥ (105)	\$ (1,019)
Total	¥ (105)	\$ (1,019)

Unrecognized past service cost and unrecognized actuarial gains and losses included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized past service cost	¥ (16,378)	\$ (159,010)
Unrecognized actuarial gains and losses	41,396	401,903
Total	¥ 25,018	\$ 242,893

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 was as follows:

	2014
Bonds	13%
Stocks	53%
Cash and time deposits	6%
Other	28%
Total	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:

	2014
Discount rate	primarily 2.0%
Expected rate of return on plan assets	primarily 2.0%

For the year ended March 31, 2013

Accrued employees' retirement benefits as of March 31, 2013 were analyzed as follows:

	Millions of yen
	2013
Retirement benefit obligations	¥ (181,735)
Plan assets	117,661
	(64,074)
Unrecognized actuarial gains and losses	42,946
Unrecognized past service cost	(19,222)
	(40,350)
Prepaid pension cost (included in other assets)	29,009
Accrued employees' retirement benefits	¥ (69,359)

The components of net periodic benefit cost related to the employees' retirement benefits for the year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥ 5,552
Interest cost	3,782
Expected return on plan assets	(3,359)
Amortization of actuarial gains and losses	6,976
Amortization of past service cost	(2,871)
Net periodic benefit cost	10,080
Contribution to defined contribution pension plan and other	4,706
	¥ 14,786

In addition to the above, special severance payments of ¥752 million were recognized for the year ended March 31, 2013.

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

	2013
Method of attributing the projected benefits to periods of services	straight-line basis
Discount rate	primarily 2.0%
Expected rate of return on plan assets	primarily 3.0%
Amortization period of past service cost	primarily 15 years
Amortization period of actuarial gains and losses	primarily 15 years

9. STOCK OPTION PLANS

1. Stock option expense included in selling, general and administrative expenses amounted to ¥322 million (\$3,126 thousand) and ¥345 million for the years ended March 31, 2014 and 2013, respectively.

2. Information on stock options issued

The following table summarizes the stock options outstanding as of March 31, 2014.

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 Chemical Korea Inc.		
		No.1 Stock Option Plan	No.2 Stock Option Plan	No.3 Stock Option Plan
Position and number of grantees	Executives of the Company	15	1	5
Type and number of shares to be issued upon exercise	Common stock	526,816 shares	18,815 shares	108,160 shares
Grant date		March 21, 2008	July 22, 2008	March 20, 2009
Vesting conditions		Holders must be in continuous employment from the grant date to the vesting date of March 20, 2011	Holders must be in continuous employment from the grant date to the vesting date of July 21, 2011	Holders must be in continuous employment from the grant date to the vesting date of March 19, 2012
Vesting period		March 21, 2008–March 20, 2011	July 22, 2008–July 21, 2011	March 20, 2009–March 19, 2012
Exercise period		March 21, 2011–March 20, 2018	July 22, 2011–July 21, 2018	March 20, 2012–March 19, 2019

Company name		Toray Chemical Korea Inc.		
		No.4 Stock Option Plan	No.5 Stock Option Plan	No.6 Stock Option Plan
Position and number of grantees	Executives of the Company	2	4	5
Type and number of shares to be issued upon exercise	Common stock	20,000 shares	38,468 shares	41,120 shares
Grant date		March 19, 2010	March 18, 2011	March 23, 2012
Vesting conditions		Holders must be in continuous employment from the grant date to the vesting date of March 18, 2013	Holders must be in continuous employment from the grant date to the vesting date of March 17, 2014	Holders must be in continuous employment from the grant date to the vesting date of March 22, 2015
Vesting period		March 19, 2010–March 18, 2013	March 18, 2011–March 17, 2014	March 23, 2012–March 22, 2015
Exercise period		March 19, 2013–March 18, 2020	March 18, 2014–March 17, 2021	March 23, 2015–March 22, 2022

The following table summarizes movements of stock options during the year and price information on stock options as of March 31, 2014. 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, 2013		—	237,000	—
Granted		—	—	583,000
Forfeited		—	—	—
Vested		—	237,000	412,000
As of March 31, 2014		—	—	171,000
Stock acquisition rights already vested				
As of March 31, 2013		618,000	607,000	—
Vested		—	237,000	412,000
Exercised		100,000	107,000	—
Forfeited		—	—	—
As of March 31, 2014		518,000	737,000	412,000

Company name	Toray Chemical Korea Inc.		
	No.1 Stock Option Plan	No.2 Stock Option Plan	No.3 Stock Option Plan
Stock acquisition rights not yet vested			
As of December 31, 2012	—	—	—
Granted	—	—	—
Increase due to consolidation	—	—	—
Forfeited	—	—	—
Vested	—	—	—
As of December 31, 2013	—	—	—
Stock acquisition rights already vested			
As of December 31, 2012	—	—	—
Vested	—	—	—
Increase due to consolidation	202,260	18,815	75,240
Exercised	—	—	—
Forfeited	—	—	—
As of December 31, 2013	202,260	18,815	75,240

Company name	Toray Chemical Korea Inc.		
	No.4 Stock Option Plan	No.5 Stock Option Plan	No.6 Stock Option Plan
Stock acquisition rights not yet vested			
As of December 31, 2012	—	—	—
Granted	—	—	—
Increase due to consolidation	—	28,468	41,120
Forfeited	—	—	—
Vested	—	—	—
As of December 31, 2013	—	28,468	41,120
Stock acquisition rights already vested			
As of December 31, 2012	—	—	—
Vested	—	—	—
Increase due to consolidation	20,000	—	—
Exercised	—	—	—
Forfeited	—	—	—
As of December 31, 2013	20,000	—	—

(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	621	621	—
Fair value per share at the grant date	513	394	546

Won

Company name	Toray Chemical Korea Inc.		
	No.1 Stock Option Plan	No.2 Stock Option Plan	No.3 Stock Option Plan
Exercise price	₩ 6,030	₩ 8,480	₩ 6,900
Weighted average price at exercise	—	—	—
Fair value per share at the grant date	5,006	7,067	5,597

Won			
Company name	Toray Chemical Korea Inc.		
	No.4 Stock Option Plan	No.5 Stock Option Plan	No.6 Stock Option Plan
Exercise price	₩ 10,800	₩ 11,900	₩ 9,980
Weighted average price at exercise	—	—	—
Fair value per share at the grant date	8,120	9,310	5,360

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	6.03	6.03	—
Fair value per share at the grant date	4.98	3.83	5.30

U.S. dollars			
Company name	Toray Chemical Korea Inc.		
	No.1 Stock Option Plan	No.2 Stock Option Plan	No.3 Stock Option Plan
Exercise price	\$ 5.67	\$ 7.97	\$ 6.48
Weighted average price at exercise	—	—	—
Fair value per share at the grant date	4.70	6.64	5.26

U.S. dollars			
Company name	Toray Chemical Korea Inc.		
	No.4 Stock Option Plan	No.5 Stock Option Plan	No.6 Stock Option Plan
Exercise price	\$ 10.15	\$ 11.18	\$ 9.38
Weighted average price at exercise	—	—	—
Fair value per share at the grant date	7.63	8.75	5.04

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.3 Stock Option Plan
Expected volatility*1	34.057%
Expected holding period*2	8 years
Expected dividend*3	¥10 per share (\$0.10)
Risk-free rate*4	0.623%

*1 The expected volatility is based on actual share prices during 8 years from August 11, 2005 to August 9, 2013.

*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, 2013.

*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 used for calculating deferred tax assets and liabilities for the years ended March 31, 2014 and 2013 was 38.0%.

At March 31, 2014 and 2013, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonuses	¥ 6,154	¥ 5,975	\$ 59,748
Accrued employees' retirement benefits	—	27,501	—
Net defined benefit liability	35,001	—	339,816
Tax loss carryforwards	39,172	35,273	380,311
Unrealized intercompany profits	13,736	11,464	133,359
Investments in subsidiaries and affiliated companies	23,047	22,631	223,757
Other	36,559	34,602	354,942
	153,669	137,446	1,491,932
Valuation allowance	(48,394)	(41,467)	(469,845)
Total deferred tax assets	105,275	95,979	1,022,087
Deferred tax liabilities:			
Reserve for advanced depreciation	6,653	10,220	64,592
Depreciation	20,948	14,711	203,379
Undistributed earnings of overseas subsidiaries and affiliated companies	11,287	7,926	109,583
Unrealized gains on securities	25,706	19,181	249,573
Other	14,419	12,091	139,990
Total deferred tax liabilities	79,013	64,129	767,117
Net deferred tax assets	¥ 26,262	¥ 31,850	\$ 254,971

At March 31, 2014 and 2013, deferred tax assets and liabilities were classified as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets - current	¥ 25,600	¥ 21,405	\$ 248,544
Deferred tax assets - non-current	21,441	19,502	208,165
Deferred tax liabilities - current (included in other current liabilities)	21	9	204
Deferred tax liabilities - non-current	20,758	9,048	201,534

The reconciliation of the statutory tax rate and the effective income tax rates for the years ended March 31, 2014 and 2013 was as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Increase (decrease) in taxes resulting from:		
Permanent differences	(1.3)	0.7
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(3.0)	(3.6)
Differences of tax rates for overseas consolidated subsidiaries	(5.8)	(7.2)
Undistributed earnings of overseas subsidiaries and affiliated companies	3.4	2.4
Change in statutory tax rate	1.6	—
Amortization of goodwill	1.4	1.5
Other	(1.4)	2.6
Effective income tax rates	32.9%	34.4%

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and its domestic subsidiaries are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled in the fiscal year beginning April 1,

2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥1,627 million (\$15,796 thousand), net deferred losses on hedges by ¥6 million (\$58 thousand) and remeasurements of defined benefit plans by ¥74 million (\$718 thousand) and increase deferred income taxes by ¥1,547 million (\$15,019 thousand) as of and for the year ended March 31, 2014.

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 2014 annual stockholders' meeting, stockholders approved the payment of cash dividends of ¥5.00 per share, aggregating to ¥8,149 million (\$79,117 thousand) which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014.

12. COMMITMENTS AND CONTINGENT LIABILITIES

At March 31, 2014, 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	¥3,400	\$ 33,010
Loans receivable outstanding	196	1,903
Balance	¥3,204	\$ 31,107

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

At March 31, 2014 and 2013, contingent liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
As guarantors of loans to:			
Unconsolidated subsidiaries and affiliated companies	¥ 3,324	¥ 1,432	\$ 32,272
Other	8,052	6,959	78,175
	¥ 11,376	¥ 8,391	\$ 110,447
Notes discounted	¥ 1,060	¥ —	\$ 10,291
Export bills discounted	627	541	6,087
Notes endorsed	892	640	8,660
Contingent liabilities associated with securitization of receivables	¥ 11,531	¥ 10,361	\$ 111,951

13. LEASES

Finance leases

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

Finance lease transactions which do not transfer ownership of the leased assets whose lease inceptions are on or before March 31, 2008 are accounted for by a method similar to the method applicable to ordinary operating lease transactions. Total lease payments under these leases were ¥209 million (\$2,029

thousand) and ¥383 million for the years ended March 31, 2014 and 2013, respectively. Pro forma information relating to acquisition costs, accumulated depreciation/amortization and accumulated loss on impairment and net book value for property held under finance lease transactions which do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis at March 31, 2014 and 2013 was as follows:

Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Net book value
March 31, 2014:			
Machinery and equipment	¥ 1,727	¥ 1,581	¥ 146
	¥ 1,727	¥ 1,581	¥ 146

Millions of yen			
	Acquisition costs	Accumulated depreciation/amortization	Net book value
March 31, 2013:			
Machinery and equipment	¥2,160	¥ 1,793	¥ 367
	¥2,160	¥ 1,793	¥ 367

Thousands of U.S. dollars			
	Acquisition costs	Accumulated depreciation/amortization	Net book value
March 31, 2014:			
Machinery and equipment	\$ 16,767	\$ 15,350	\$ 1,417
	\$ 16,767	\$ 15,350	\$ 1,417

Future minimum lease payments under finance leases subsequent to March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 134	¥ 220	\$ 1,301
Due after one year	12	147	117
Total	¥ 146	¥ 367	\$ 1,417

The acquisition costs and future minimum lease payments under finance leases include the imputed interest expense portion.

Operating leases

Future minimum lease payments under noncancellable operating leases subsequent to March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	¥ 420	¥ 247	\$ 4,078
Due after one year	1,755	586	17,039
Total	¥2,175	¥ 833	\$ 21,117

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, 2014 and 2013 were ¥55,500 million (\$538,835 thousand) and ¥53,342 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, 2014, the carrying value of certain business-use assets for which profitability declined and assets to be disposed were written down to the recoverable amount. As a result, the Company and its consolidated subsidiaries recognized a loss on impairment of fixed assets in the amount of ¥14,390 million (\$139,709 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	
Urayasu, Chiba, Japan	Second Head Office Bldg.	Buildings	¥1,131	\$ 10,981
		Land	7,060	68,544
		Other	3	29
St-Maurice de Beynost, France	Films production facilities	Machinery and equipment	¥3,385	\$ 32,864
		Other	506	4,913

The recoverable amount of the above assets was measured at their value in use or the net selling value. The value in use was calculated by discounting future cash flows at a discount rate of 8%, and the net selling value was calculated based on the real estate appraisal value.

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, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized gains on securities:			
Amount arising during the year	¥ 21,039	¥ 21,611	\$ 204,262
Reclassification adjustments for gains and losses included in net income	(8)	1,467	(78)
Before tax effect	21,031	23,078	204,184
Tax effect	(7,080)	(8,097)	(68,738)
Net unrealized gains on securities	13,951	14,981	135,447
Net deferred gains (losses) on hedges:			
Amount arising during the year	(432)	(955)	(4,194)
Reclassification adjustments for gains and losses included in net income	72	(17)	699
Assets acquisition cost adjustment	896	(385)	8,699
Before tax effect	536	(1,357)	5,204
Tax effect	(204)	550	(1,981)
Net deferred gains (losses) on hedges	332	(807)	3,223
Foreign currency translation adjustments:			
Amount arising during the year	94,366	51,585	916,175
Reclassification adjustments for gains and losses included in net income	(12)	881	(117)
Foreign currency translation adjustments	94,354	52,466	916,058
Remeasurements of defined benefit plans:			
Amount arising during the year	(199)	(661)	(1,932)
Reclassification adjustments for gains and losses included in net income	94	—	913
Before tax effect	(105)	(661)	(1,019)
Tax effect	23	153	223
Remeasurements of defined benefit plans	(82)	(508)	(796)
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method:			
Amount arising during the year	5,225	2,614	50,728
Reclassification adjustments for gains and losses included in net income	(13)	(7)	(126)
Share of other comprehensive income of unconsolidated subsidiaries and affiliated companies accounted for by the equity method	5,212	2,607	50,602
Total other comprehensive income	¥ 113,767	¥ 68,739	\$ 1,104,534

17. Business Combinations

Acquisition of Zoltek Companies, Inc.

1. Summary of business combination

The Company purchased the entire stake in Zoltek Companies, Inc. on February 28, 2014.

(1) Name and business of the acquired company

Name of the acquired company: Zoltek Companies, Inc.

Business: Manufacture and distribution of large tow carbon fiber composite materials

(2) Major reason for business combination

The Company has showed its presence in the field of advanced applications such as aerospace and natural gas pressure vessels by concentrating its business resources on high-performance / high-quality regular tow carbon fiber. Through entering into the large tow carbon fiber business, the Company aims to address promising growth in commodity industrial field such as wind energy-related applications, which show rapid demand growth in recent years, and automobile structural parts applications.

(3) Date of business combination

February 28, 2014

(4) Legal form of business combination

Acquisition of shares for cash consideration

(5) Company name after business combination

Zoltek Companies, Inc.

(6) Percentage of acquired voting rights

100%

(7) Basis for determining the acquiring company

The Company acquired 100% of the voting rights in exchange for cash.

2. Period of operating results of the acquired company included in the consolidated financial statements

The acquired company's balance sheet date is September 30, 2013. For consolidation purposes, the financial statements as of December 31, 2013 were used. However, as the Company deemed the acquisition date as January 1, 2014, operating results were not included in the consolidated financial statements.

3. Acquisition cost

Acquisition cost: \$584,000 thousand

Cost directly related to acquisition: ¥859 million (\$8,340 thousand)

4. Amount of goodwill, reason for recognition, and amortization method and period

Amount of goodwill: \$275,000 thousand

Reason for recognition: Goodwill was recognized as the excess of the acquisition cost over the net fair value of assets acquired and liabilities assumed.

Amortization method and period: Straight-line method over 10 years

5. Details on assets acquired and liabilities assumed on the date of business combination

Current assets	\$154,000 thousand
Non-current assets	\$209,000 thousand
Total assets	\$363,000 thousand

Current liabilities	\$22,000 thousand
Non-current liabilities	\$24,000 thousand
Total liabilities	\$46,000 thousand

6. Allocation of acquisition cost

As the allocation of the acquisition cost is incomplete as of March 31, 2014, provisional accounting treatment is applied based on reasonable information available as of that date.

7. Effect on the consolidated statement of income assuming the business combination had been carried out on April 1, 2013

The effect on operating results for the year ended March 31, 2014 was immaterial. This information has not been audited by the independent auditors of the Company.

Purchase of Shares in Woongjin Chemical Co., Ltd.

1. Summary of business combination

Toray Advanced Materials Korea Inc., a consolidated subsidiary of the Company, purchased a 56.35% stake in Korea's Woongjin Chemical Co., Ltd. on February 28, 2014.

(1) Name and business of the acquired company

Name of the acquired company: Woongjin Chemical Co., Ltd.

Business: Manufacture and distribution of fibers, water treatment filters, A-PET sheets (cast film), etc.

(2) Major reason for business combination

By acquiring the acquired company's main business of fibers and textiles as well as its water treatment filters business, which has grown in recent years and has been improving profitability, the Company expects it would enhance the business foundation of Toray Advanced Materials Korea Inc. and generate synergies in the overall business development of the Toray Group.

(3) Date of business combination

February 28, 2014

(4) Legal form of business combination

Acquisition of shares for cash consideration

(5) Company name after business combination

Woongjin Chemical Co., Ltd. (The name has been changed to Toray Chemical Korea Inc. effective March 31, 2014.)

(6) Percentage of acquired voting rights

Percentage of voting rights before the acquisition: 0.52%

Percentage of additional acquisition of voting rights: 56.35%

Percentage of voting rights after the acquisition: 56.88%

(7) Basis for determining the acquiring company

The Company and Toray Advanced Materials Korea Inc. acquired more than half of the voting rights in exchange for cash.

2. Period of operating results of the acquired company included in the consolidated financial statements

The acquired company's balance sheet date is December 31, 2013. However, as the Company deemed the acquisition date as January 1, 2014, operating results were not included in the consolidated financial statements.

3. Acquisition cost

Acquisition cost: ~~₩~~432.7 billion (\$406,673 thousand)

4. Amount of goodwill, reason for recognition, and amortization method and period

Amount of goodwill: ~~₩~~168.5 billion (\$158,365 thousand)

Reason for recognition: Goodwill was recognized as the excess of the acquisition cost over the net fair value of assets acquired and liabilities assumed.

Amortization method and period: Straight-line method over 10 years

5. Details on assets acquired and liabilities assumed on the date of business combination

Current assets ~~₩~~251.8 billion (\$236,654 thousand)

Non-current assets ~~₩~~703.1 billion (\$660,808 thousand)

Total assets ~~₩~~954.9 billion (\$897,462 thousand)

Current liabilities ~~₩~~273.0 billion (\$256,579 thousand)

Non-current liabilities ~~₩~~215.5 billion (\$202,538 thousand)

Total liabilities ~~₩~~488.6 billion (\$459,117 thousand)

6. Effect on the consolidated statement of income assuming the business combination had been carried out on April 1, 2013

The effect on operating results for the year ended March 31, 2014 was immaterial. This information has not been audited by the independent auditors of the Company.

18. Supplementary Cash Flow Information

The following is the summary of assets acquired and liabilities assumed through the acquisition of shares of Zoltek Companies, Inc., its subsidiaries and Woongjin Chemical Co., Ltd. (renamed Toray Chemical Korea Inc.), related acquisition costs and net disbursement during the year ended March 31, 2014:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Current assets	¥ 41,405	\$ 401,990
Non-current assets	92,356	896,660
Goodwill	41,438	402,311
Current liabilities	(29,662)	(287,981)
Non-current liabilities	(24,056)	(233,553)
Minority interests in consolidated subsidiaries	(20,024)	(194,408)
Other	(460)	(4,466)
Acquisition costs of shares	100,997	980,553
Cash and cash equivalents	(9,606)	(93,262)
Net disbursement due to share acquisition	¥ 91,391	\$ 887,291

19. Segment Information

(Segment information)

1. Outline of reportable segments

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

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

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

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

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

The figures of segment income are based on operating income.

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

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

Millions of yen										
Year ended	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
March 31, 2014:										
Sales to outside customers	¥ 755,474	¥ 470,542	¥ 245,741	¥ 113,342	¥ 180,197	¥ 58,205	¥ 14,277	¥ 1,837,778	¥ —	¥ 1,837,778
Intersegment sales	1,213	32,751	7,139	308	60,907	1	16,199	118,518	(118,518)	—
Total sales	¥ 756,687	¥ 503,293	¥ 252,880	¥ 113,650	¥ 241,104	¥ 58,206	¥ 30,476	¥ 1,956,296	¥ (118,518)	¥ 1,837,778
Segment income	¥ 52,919	¥ 18,010	¥ 24,586	¥ 16,927	¥ 6,397	¥ 5,605	¥ 1,987	¥ 126,431	¥ (21,178)	¥ 105,253
Segment assets	¥ 618,469	¥ 507,133	¥ 361,102	¥ 341,762	¥ 202,146	¥ 76,440	¥ 57,717	¥ 2,164,769	¥ (45,086)	¥ 2,119,683
Depreciation and amortization	19,368	19,688	18,331	14,339	2,843	2,134	1,235	77,938	805	78,743
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	24,148	41,252	4,006	3,432	9,996	2,853	5,422	91,109	(587)	90,522
Capital expenditures	26,842	19,386	20,059	40,290	3,333	8,632	1,069	119,611	(1,404)	118,207

Millions of yen										
Year ended	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
March 31, 2013:										
Sales to outside customers	¥ 632,150	¥ 395,835	¥ 237,593	¥ 77,620	¥ 178,355	¥ 56,599	¥ 14,127	¥ 1,592,279	¥ —	¥ 1,592,279
Intersegment sales	839	27,946	7,403	652	64,485	1	16,301	117,627	(117,627)	—
Total sales	¥ 632,989	¥ 423,781	¥ 244,996	¥ 78,272	¥ 242,840	¥ 56,600	¥ 30,428	¥ 1,709,906	¥ (117,627)	¥ 1,592,279
Segment income	¥ 43,222	¥ 18,302	¥ 22,959	¥ 7,299	¥ 2,628	¥ 7,456	¥ 1,557	¥ 103,423	¥ (19,987)	¥ 83,436
Segment assets	¥ 456,766	¥ 456,685	¥ 334,165	¥ 233,085	¥ 176,568	¥ 69,087	¥ 47,238	¥ 1,773,594	¥ (41,661)	¥ 1,731,933
Depreciation and amortization	15,572	17,704	15,850	11,760	2,626	1,905	1,257	66,674	914	67,588
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	16,308	36,386	3,205	224	6,938	2,933	5,075	71,069	(631)	70,438
Capital expenditures	27,297	24,521	23,393	15,561	4,251	4,488	889	100,400	(1,265)	99,135

Thousands of U.S. dollars										
Year ended	Fibers & Textiles	Plastics & Chemicals	IT-related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Total	Adjustments	Consolidated Total
March 31, 2014:										
Sales to outside customers	\$ 7,334,699	\$ 4,568,369	\$ 2,385,835	\$ 1,100,408	\$ 1,749,485	\$ 565,097	\$ 138,612	\$ 17,842,505	\$ —	\$ 17,842,505
Intersegment sales	11,777	317,971	69,311	2,990	591,330	10	157,272	1,150,660	(1,150,660)	—
Total sales	\$ 7,346,476	\$ 4,886,340	\$ 2,455,146	\$ 1,103,398	\$ 2,340,816	\$ 565,107	\$ 295,883	\$ 18,993,165	\$ (1,150,660)	\$ 17,842,505
Segment income	\$ 513,777	\$ 174,854	\$ 238,699	\$ 164,340	\$ 62,107	\$ 54,417	\$ 19,291	\$ 1,227,485	\$ (205,612)	\$ 1,021,874
Segment assets	\$ 6,004,553	\$ 4,923,621	\$ 3,505,845	\$ 3,318,078	\$ 1,962,583	\$ 742,136	\$ 560,359	\$ 21,017,175	\$ (437,728)	\$ 20,579,447
Depreciation and amortization	188,039	191,146	177,971	139,214	27,602	20,718	11,990	756,680	7,816	764,495
Investment in unconsolidated subsidiaries and affiliated companies accounted for by the equity method	234,447	400,505	38,893	33,320	97,049	27,699	52,641	884,553	(5,699)	878,854
Capital expenditures	260,602	188,214	194,748	391,165	32,359	83,806	10,379	1,161,272	(13,631)	1,147,641

Notes:

- 1) "Others" represents service-related businesses such as analysis, survey and research.
- 2) a) "Adjustments" of segment income for the year ended March 31, 2014 of ¥(21,178) million (\$ (205,612) thousand) includes intersegment eliminations of ¥(934) million (\$ (9,068) thousand) and corporate expenses of ¥(20,244) million (\$ (196,544) thousand). "Adjustments" of segment income for the year ended March 31, 2013 of ¥(19,987) million includes intersegment eliminations of ¥(27) million and corporate expenses of ¥(19,960) 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, 2014 of ¥(45,086) million (\$ (437,728) thousand) includes intersegment eliminations of ¥(63,419) million (\$ (615,718) thousand) and corporate assets of ¥18,333 million (\$ (177,990) thousand). "Adjustments" of segment assets for the year ended March 31, 2013 of ¥(41,661) million includes intersegment eliminations of ¥(61,374) million and corporate assets of ¥19,713 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

	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Year ended March 31, 2014:					
Sales to outside customers	¥ 925,867	¥ 305,742	¥ 323,151	¥ 283,018	¥ 1,837,778

Millions of yen

	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Year ended March 31, 2013:					
Sales to outside customers	¥ 870,315	¥ 222,514	¥ 268,291	¥ 231,159	¥ 1,592,279

Thousands of U.S. dollars

	Japan	Asia		North America, Europe and other areas	Total
		China	Others		
Year ended March 31, 2014:					
Sales to outside customers	\$ 8,989,000	\$ 2,968,369	\$ 3,137,388	\$ 2,747,748	\$ 17,842,505

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		
March 31, 2014:					
Property, plant and equipment, net	¥305,161	¥152,570	¥154,781	¥168,723	¥781,235

Millions of yen

	Japan	Asia		North America, Europe and other areas	Total
		Republic of Korea	Others		
March 31, 2013:					
Property, plant and equipment, net	¥317,658	¥84,534	¥124,686	¥100,362	¥627,240

Thousands of U.S. dollars

	Japan	Asia		North America, Europe and other areas	Total
		Republic of Korea	Others		
March 31, 2014:					
Property, plant and equipment, net	\$ 2,962,728	\$ 1,481,262	\$ 1,502,728	\$ 1,638,087	\$ 7,584,806

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

Millions of yen

Year ended March 31, 2014:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
	Loss on impairment	¥ 1,687	¥ 6,826	¥ 2,425	¥ 2,512	¥ 259	¥ 681	¥ —	¥ —

Millions of yen

Year ended March 31, 2013:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
	Loss on impairment	¥ 150	¥ 280	¥ 225	¥ 264	¥ 990	¥ 63	¥ —	¥ —

Thousands of U.S. dollars

Year ended March 31, 2014:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
	Loss on impairment	\$ 16,379	\$ 66,272	\$ 23,544	\$ 24,388	\$ 2,515	\$ 6,612	\$ —	\$ —

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

Millions of yen

Year ended March 31, 2014:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
Amortization of goodwill	¥ (25)	¥ 191	¥ 3,070	¥ 300	¥ —	¥ —	¥ —	¥ —	¥ 3,536
Balance of goodwill	12,724	1,384	24,801	29,976	3,414	—	1	—	72,300

Millions of yen

Year ended March 31, 2013:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
Amortization of goodwill	¥(248)	¥ 16	¥ 3,132	¥ 238	¥ (16)	¥ —	¥ 1	¥ —	¥ 3,123
Balance of goodwill	(72)	907	27,871	1,060	—	—	1	—	29,767

Thousands of U.S. dollars

Year ended March 31, 2014:	Fibers & Textiles	Plastics & Chemicals	IT- related Products	Carbon Fiber Composite Materials	Environment & Engineering	Life Science	Others	Elimination & corporate	Total
Amortization of goodwill	\$ (243)	\$ 1,854	\$ 29,806	\$ 2,913	\$ —	\$ —	\$ —	\$ —	\$ 34,330
Balance of goodwill	123,534	13,437	240,786	291,029	33,146	—	10	—	701,942

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

20. AMOUNTS PER SHARE

Basic net income per share is computed based on the net income attributable to stockholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share is computed based on the net income available for distribution to the stockholders and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive

potential of shares of common stock to be issued upon the exercise of warrants and stock 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
	2014	2013	2014
Net income:			
Basic	¥ 36.59	¥ 29.75	\$ 0.36
Diluted	35.70	28.90	0.35
Cash dividends applicable to the year	10.00	10.00	0.10
Net assets	527.32	444.45	5.12

21. SUBSEQUENT EVENTS

Year ended March 31, 2014

Issuance of Zero Coupon Convertible Bonds

The Board of Directors of the Company resolved the issuance of zero coupon convertible bonds due 2019 and zero coupon convertible bonds due 2021(hereinafter, the "Bonds") on May 22, 2014. The payments for the Bonds were completed on June 9, 2014 (London time; unless otherwise indicated, hereinafter the same shall apply).

The outline of the issuance is as follows:

1. Outline of Zero Coupon Convertible Bonds due 2019

(1) Issue Price (amount to be paid)

100.0% of the principal amount of the Bonds (The Bonds are issued in the denomination of ¥10 million (\$97 thousand) each.)

(2) Offer Price

102.5% of the principal amount of the Bonds

- (3) Aggregate Principal Amount of the Bonds
¥50 billion (\$485 million) plus an aggregate principal amount of the Bonds in respect of replacement certificates (for lost, stolen, destroyed, mutilated or defaced certificates, if issued in accordance with the terms and conditions of the Bonds)
- (4) Coupon
Zero
- (5) Closing Date and Issuing Date of the Bonds
June 9, 2014
- (6) Redemption
The Bonds shall be redeemed at 100% of their principal amount on August 30, 2019 (maturity date). In addition to this, the Bonds may be redeemed if certain events occur as set forth in the terms and conditions of the Bonds.
- (7) Matters regarding Stock Acquisition Rights
- [1] Class and number of shares issued upon exercise of stock acquisition rights
The class of shares to be acquired by a bondholder exercising its stock acquisition rights shall be the shares of common stock of the Company, and the number of the shares shall be determined by dividing the aggregate principal amount of the Bonds with respect to the exercised stock acquisition rights by the conversion price as set forth in [3] (ii). Fractions of a share shall not be issued upon the exercise and no adjustment or cash payment shall be made.
- [2] Number of stock acquisition rights
5,000 plus the number of stock acquisition rights determined by dividing an aggregate principal amount of the Bonds in respect of replacement certificates by ¥10 million (\$97 thousand)
- [3] Amounts to be paid upon exercise of stock acquisition rights
- (i) Upon exercise of each stock acquisition right, the relevant Bond shall be deemed to be acquired by the Company as a capital contribution in kind by the relevant bondholder at the price equal to the principal amount of the Bond.
- (ii) Conversion price
¥891 (\$9) per share (initial conversion price)
- [4] Exercise period of stock acquisition rights
At any time during the period from, and including, June 23, 2014 to, and including, August 16, 2019 (at the local time of the place where the stock acquisition right is to be exercised), but subject to certain provisions in the terms and conditions of the Bonds
- [5] Capital stock and capital surplus increased by the exercise of stock acquisition rights
The amount of capital stock increased by the exercise of stock acquisition rights shall be 50% of the maximum capital increase amount calculated in accordance with Article 17 of the Ordinance on Company Accounting, rounding up the fraction. The amount of capital surplus increased shall be the difference between the maximum capital increase amount and the amount of capital stock increased.
- [6] Grant of stock acquisition rights by the succeeding company in case of organizational restructuring, etc.
Certain provisions in the terms and conditions of the Bonds
- (8) Acquisition at the Option of the Company
Certain provisions in the terms and conditions of the Bonds
- (9) Collateral and Guarantee
No collateral or guarantee
- (10) Use of Proceeds
The net proceeds from the issuance of zero coupon convertible bonds due 2019 and 2021 are expected to be used primarily as follows:
- [1] approximately ¥50 billion (\$485 million) by the end of March 2015 for Toray Group's capital expenditures including in respect of carbon fiber and prepreg (sheet consisting of resin-impregnated carbon fiber) facilities in Japan and the United States, facilities for films for IT-related products in Japan, and PPS (polyphenylene sulphide) resin facilities in South Korea;
- [2] approximately ¥30 billion (\$291 million) by the end of March 2015 for R&D expenses, principally in respect of Green Innovation Businesses and Life Innovation Businesses, which Toray Group considers to be its growth business fields; and
- [3] approximately ¥20 billion (\$194 million) by the end of July 2014 as funding for the repurchase of its own shares by the Company with a view to enabling the Company to implement flexible capital policies that respond to changes in the business environment. As the number of its own shares the Company is able to repurchase is dependent on, among other things, market conditions, to the extent not all of the amount referred to above in respect of the proceeds of the offering of the Bonds is applied towards such repurchase, any balance will be applied towards repayment of interest-bearing liabilities.

2. Outline of Zero Coupon Convertible Bonds due 2021

- (1) Issue Price (amount to be paid)
100.0% of the principal amount of the Bonds (The Bonds are issued in the denomination of ¥10 million (\$97 thousand) each.)
- (2) Offer Price
102.5% of the principal amount of the Bonds

- (3) Aggregate Principal Amount of the Bonds
¥50 billion (\$485 million) plus an aggregate principal amount of the Bonds in respect of replacement certificates (for lost, stolen, destroyed, mutilated or defaced certificates, if issued in accordance with the terms and conditions of the Bonds)
- (4) Coupon
Zero
- (5) Closing Date and Issuing Date of the Bonds
June 9, 2014
- (6) Redemption
The Bonds shall be redeemed at 100% of their principal amount on August 31, 2021 (maturity date). In addition to this, the Bonds may be redeemed if certain events occur as set forth in the terms and conditions of the Bonds.
- (7) Matters regarding Stock Acquisition Rights
- [1] Class and number of shares issued upon exercise of stock acquisition rights
The class of shares to be acquired by a bondholder exercising its stock acquisition rights shall be the shares of common stock of the Company, and the number of the shares shall be determined by dividing the aggregate principal amount of the Bonds with respect to the exercised stock acquisition rights by the conversion price as set forth in [3] (ii). Fractions of a share shall not be issued upon the exercise and no adjustment or cash payment shall be made.
- [2] Number of stock acquisition rights
5,000 plus the number of stock acquisition rights determined by dividing an aggregate principal amount of the Bonds in respect of replacement certificates by ¥10 million (\$97 thousand)
- [3] Amounts to be paid upon exercise of stock acquisition rights
- (i) Upon exercise of each stock acquisition right, the relevant Bond shall be deemed to be acquired by the Company as a capital contribution in kind by the relevant bondholder at the price equal to the principal amount of the Bond.
- (ii) Conversion price
¥827 (\$8) per share (initial conversion price)
- [4] Exercise period of stock acquisition rights
At any time during the period from, and including, June 23, 2014 to, and including, August 17, 2021 (at the local time of the place where the stock acquisition right is to be exercised), but subject to certain provisions in the terms and conditions of the Bonds
- [5] Capital stock and capital surplus increased by the exercise of stock acquisition rights
The amount of capital stock increased by the exercise of stock acquisition rights shall be 50% of the maximum capital increase amount calculated in accordance with Article 17 of the Ordinance on Company Accounting, rounding up the fraction. The amount of capital surplus increased shall be the difference between the maximum capital increase amount and the amount of capital stock increased.
- [6] Grant of stock acquisition rights by the succeeding company in case of organizational restructuring, etc.
Certain provisions in the terms and conditions of the Bonds
- (8) Acquisition at the Option of the Company
Certain provisions in the terms and conditions of the Bonds
- (9) Collateral and Guarantee
No collateral or guarantee
- (10) Use of Proceeds
Please refer to 1(10) above.

Repurchase of Shares

The Board of Directors of the Company resolved at the meeting held on May 22, 2014 to repurchase the Company's shares, pursuant to the provision of Article 156 of the Companies Act, as applied pursuant to the provision of Article 165, Paragraph 3 thereof.

1. Reason for Repurchase

The Company intends to repurchase its own shares in order to implement flexible capital policies that respond to changes in the business environment.

2. Matters regarding Repurchase

- | | |
|--|------------------------------------|
| (1) Class of Shares to be Repurchased | Common stock |
| (2) Total Number of Shares to be Repurchased | Up to 36,000,000 shares |
| (3) Total Amount of Shares to be Repurchased | Up to ¥20 billion (\$194 million) |
| (4) Repurchase Period | From May 23, 2014 to July 31, 2014 |
| (5) Repurchase Method | Market purchase |



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Fax: +81 3 3503 1197
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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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

As described in Note 21, on June 9, 2014, the Company issued Zero Coupon Convertible Bonds due 2019 and Zero Coupon Convertible Bonds due 2021 pursuant to resolutions adopted by the Board of Directors on May 22, 2014. Our opinion is not qualified in respect of this matter.

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 25, 2014
Tokyo, Japan

Investor Information

(As of March 31, 2014)

Common Stock:

Issued: 1,629,814,175 shares
(excluding treasury stock)
Number of Stockholders: 172,709

Annual General Meeting:

The annual general meeting of stockholders is normally held in June in Tokyo.

Listings:

Common stock is listed on the Tokyo Stock Exchange.

Independent Auditors:

Ernst & Young ShinNihon LLC

Transfer Agent:

Sumitomo Mitsui Trust Bank, Limited
1-4-1, Marunouchi Chiyoda-ku, Tokyo
100-0005, Japan

Cash Dividends Per Share

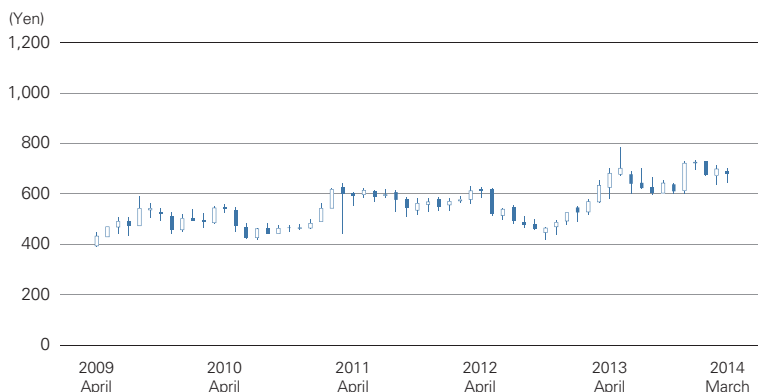
	2014	2013
Total for the year	¥10.00	¥10.00
Interim	5.00	5.00

Principal Stockholders

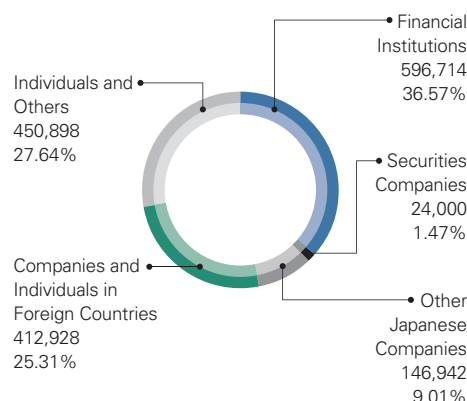
	Thousands of shares	Percentage of shares held
The Master Trust Bank of Japan, Ltd. (Trust account)	116,556	7.15
Nippon Life Insurance Co.	71,212	4.37
Japan Trustee Services Bank, Ltd. (Trust account)	70,393	4.32
Mitsui Life Insurance Co., Ltd.	35,961	2.21
Sumitomo Mitsui Banking Corporation	30,022	1.84
Japan Trustee Services Bank, Ltd. (Trust 4 account)	21,447	1.32
Mitsui Fudosan Co., Ltd.	19,460	1.19
State Street Bank West Client-Treaty	19,057	1.17
Mitsui Sumitomo Insurance Co., Ltd.	17,638	1.08
The Chase Manhattan Bank, N.A. London S.L. Omnibus Account	16,924	1.04

* Percentage of shares held is calculated excluding 1,667,228 shares of treasury stock.

Stock Price Range



Composition of Stockholders (Thousands of shares)



Corporate Data

(As of March 31, 2014)

Toray Industries, Inc.

Head Office

Nihonbashi Mitsui Tower, 1-1,
Nihonbashi-Muromachi 2-chome,
Chuo-ku, Tokyo 103-8666, Japan
Telephone: 81 (3) 3245-5111
Facsimile: 81 (3) 3245-5054
URL: <http://www.toray.com>

Established:

January 1926

Paid-in Capital:

¥147,873,030,771

Number of Employees:

45,881
Parent company: 7,123
Japanese subsidiaries: 10,247
Overseas subsidiaries: 28,511

Toray Industries, Inc.

1-1, Nihonbashi-Muromachi 2-chome,
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Telephone: 81(3)3245-5111
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