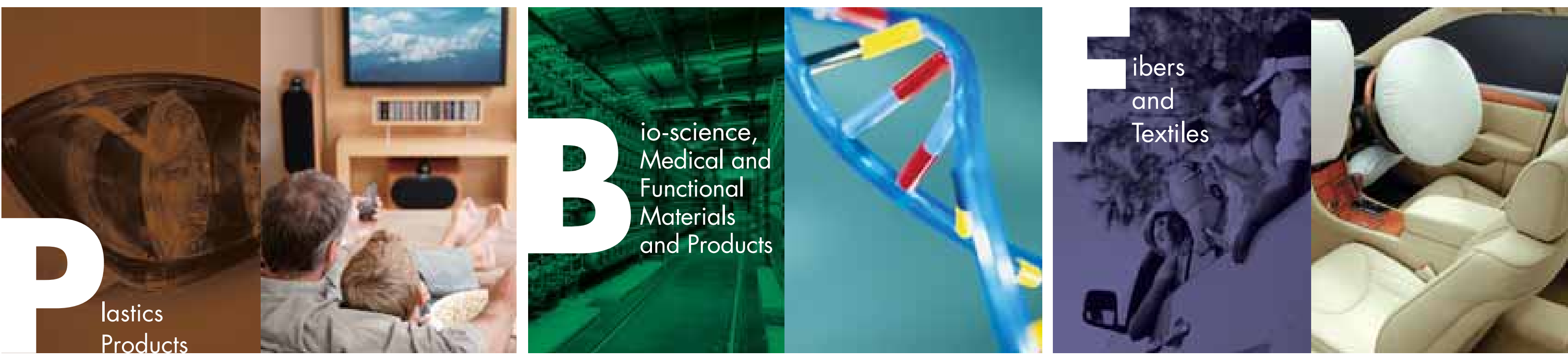
# Annual Report 2006

Year Ended March 31, 2006

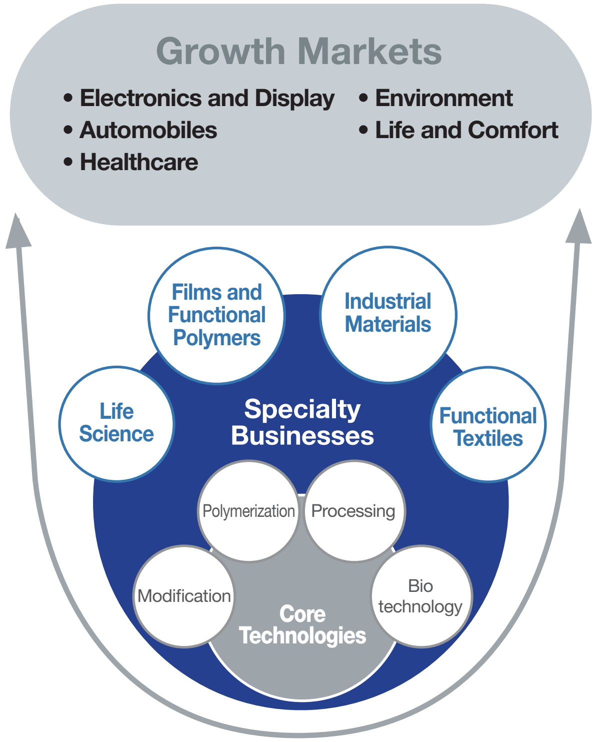


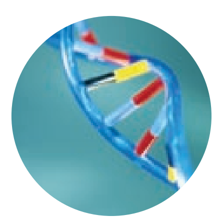

## *Enhancing Technologies, Creating New Value*

TOYOBO

# Accelerating the Transformation of Business Portfolio

Toyobo was founded as a textile company in 1882. Thereafter the company has diversified its business from textiles to synthetic fibers, plastics and bioscience products. Through the developments of business, Toyobo has advanced its original core technologies — polymerization, modification, processing and biotechnology. Toyobo reformed its structure drastically for the past 6 years. While shrinking the commodity textiles, the company has expanded its highly competitive "specialty businesses", such as functional plastics, high performance fibers and seawater desalination membranes. The specialty businesses have now grown into a highly profitable group of businesses and make up about 50% of total sales and about 90% of operating income. Toyobo is now targeting the aggressive growth of specialties and aiming to bring out series of specialty products based on the core technologies.



## Contents

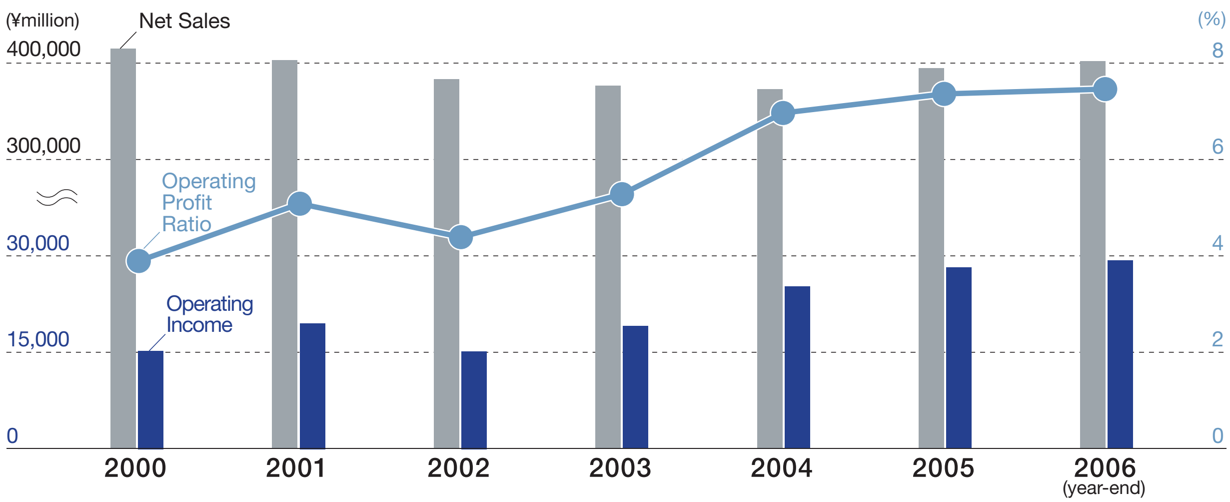


### Disclaimer Regarding Forward-Looking Statements

This report describes not only the past and present facts about Toyo Boseki Co., Ltd. ("Toyobo") and its affiliates ("Toyobo Group"), but also projections of future business performance and a forecast of the future business environment. Such projections of future business performance and forecast of the future business environment are assumptions or evaluations that were developed based on information that Toyobo was able to obtain as of the time this report was printed, and thus contain known and unknown risks and uncertainties. Consequently, there is a possibility that these risks and uncertainties will render the projections and forecast invalid, and cause actual future business performance and the business environment to differ significantly from the projections and forecast presented in this report. Readers are thus advised to exercise caution. The projections of future business performance and forecast of future business environment that are found in this report were developed, based on information that our corporation was able to obtain at the time the descriptions were printed. These projections and forecast therefore contain elements of uncertainty. Moreover, there is a possibility that latent risks that have the potential of invalidating such projections and forecast will materialize. Please be fully advised that in the future the actual business performance and environment could turn out to be different from the projections and forecast presented in this report.

⋆ Trademarks in this report are registered in Japan.

## The current performance




**2001**

**Restructured Textiles Business**
- Reduction of spinning capacity by 40%

**2002-04**

**Improved Balance Sheet**
- Reduction of interest-bearing debt

**2003-06**

**Increased Films and Functional Polymers Business**

**2004**

**Restructured Fibers and Textiles Business**
- Reduction of spinning capacity by 50%
- Further shifting to industrial fibers

**2006**

**Expanded Production Capacity of Films for LCDs and Optics**

## Financial Highlights

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31

| | Million of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2002 | 2003 | 2004 | 2005 | **2006** | **2006** |
| **Operating Results** | | | | | | |
| Net Sales | ¥383,078 | ¥376,377 | ¥373,066 | ¥393,686 | **¥401,948** | **$3,421,707** |
| Operating Income | 16,332 | 19,721 | 25,856 | 28,782 | **29,887** | **254,422** |
| Net Income | (13,361) | (6,965) | 8,762 | 12,207 | **12,596** | **107,227** |
| Depreciation and Amortization | 16,471 | 16,471 | 15,425 | 15,528 | **15,656** | **133,277** |
| Capital Expenditures | 15,856 | 15,856 | 13,330 | 16,395 | **18,131** | **154,346** |
| **Financial Positions at the Year End** | | | | | | |
| Total Assets | ¥589,408 | ¥537,314 | ¥495,969 | ¥511,813 | **¥514,791** | **$4,382,319** |
| Interest-bearing Debt | 299,893 | 299,893 | 240,755 | 220,981 | **206,172** | **1,755,103** |
| Shareholders' Equity | 96,603 | 84,025 | 104,033 | 107,518 | **125,143** | **1,065,319** |
| | Yen | | | | | U.S. dollars |
| **Data per Common Share** | | | | | | |
| Net Income | ¥ (19.34) | ¥ (10.11) | ¥ 12.63 | ¥ 17.58 | **¥ 18.10** | **$ 0.154** |
| Dividends | 5.00 | 5.00 | 5.00 | 5.00 | **5.00** | **0.043** |
| Shareholders' Equity | 139.81 | 121.98 | 149.32 | 154.64 | **179.59** | **1.529** |

Note: The U.S. dollar amounts in this report represent translations of yen, for convenience only, at the rate of ¥ 117.47 to $1.

# We will strive to accelerate the transformation of our business portfolio, actively expand our specialty businesses and improve our corporate value.

Ryuzo Sakamoto
President and
Chief Operating Officer

## Overview of the Year Ended March 2006

### We were affected by soaring raw material and fuel costs, however we continued to achieve increased revenues and profits.

In the year ended March 2006, the world economy continued its moderate growth. In Japan, domestic demand such as capital investment recovered, and our related markets, including automobiles, digital consumer electronics and medical products, continued to grow steadily. However, continuing higher raw material and fuel costs also further increased our product costs.

In such a business environment, the group continued to post higher revenues and higher profits.

Sales and operating income by business were as follows. In the plastics business, overall revenues grew only slightly, due to a slump of the flexible printed circuit boards (FPC) business. However, film and functional polymers grew steadily. In particular, films for liquid crystals and optics contributed strongly to growth facilities with a capacity of 10,000 tons per year of came online.

The bio-science, medical and functional products business also turned firmer. In the area of bio-science, enzymes for diagnostic reagents did well. In medical products, hollow fiber membranes for artificial kidneys grew overseas, thanks to a reputation for high reliability.

The fibers and textiles business experienced higher revenues and higher profits when new consolidation effects were added. While revenues from clothing fibers fell as the business was downscaled, industrial fields such as fabrics for airbags and tire cords expanded.

Classifying businesses as specialty and non-specialty, specialty businesses grew steadily. Their sales came to 213.9 billion yen and operating income to 26.2 billion yen, up by 7.3% and 11.5% respectively from the previous term. On the other hand, sales for non-specialty and non-core businesses came to 188.1 billion yen and operating income to 6.5 billion yen, down by 3.2% and 19.8% respectively from the previous term.

As a result of the above, sales in the year to March 2006 were 401.9 billion yen (up 2.1% from the previous term), operating income was 29.9 billion yen (up 3.8%) and ordinary income was 24.6 billion yen (up 13.9%), so that continuing from last year we once again posted record earnings. In addition, net income for the term was up 3.2% from the previous term to 12.6 billion yen.

## Financial and Profit Appropriation Policies

### We steadily improved our financial structure by reducing interest bearing debt.

Total assets at the end of March 2006 increased slightly by 3.0 billion yen from the previous term to 514.8 billion yen, due to increases in unrealized gains of investment securities and in inventory assets. Interest bearing debt continued to shrink, declining by 14.8 billion yen to 206.2 billion yen, 41% smaller than the peak value of the last 6 years, which was at the end of September 2000. Consequently, the D/E ratio was 1.65 and the shareholders' equity ratio was 24.3%, and thus our financial condition continued to improve steadily.

Our financial objectives are to achieve an ordinary income return on assets ratio (ROA) of greater than 5%, a D/E ratio of less than 1.5 and interest bearing debt of less than 200.0 billion yen by the year ending March 2008. We are aiming for a healthier financial structure by improving the efficiency of total assets, while seeking aggressive expansion of our specialty businesses.

Furthermore, we recognize that distributing profits to our shareholders is one of our most important issues. While placing importance on investing capital in our specialty businesses and strengthening our financial structure, we will continue to pay a stable dividend of 5 yen per share.

## Future Issues

As our mid-term goals, we are targeting sales of 430.0 billion yen, operating income of 35.0 billion yen, ordinary income of 30.0 billion yen and ordinary income ROA of 5% or more by March 2008.
To achieve these goals, we will prioritize the following measures.

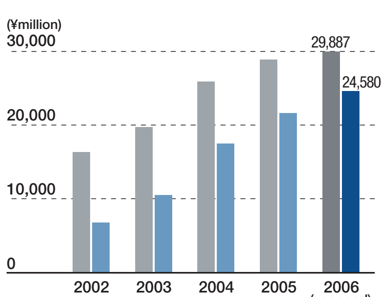
### 1) Accelerate the growth of specialty businesses, centering on "priority growth businesses"

We have designated 9 specialty businesses as "priority growth businesses," in which we are concentrating our management resources. The 9 businesses are functional films, functional polymers, airbag fabrics, high performance fibers, functional filters, bioscience, pharmaceuticals, hollow fiber membranes for artificial kidneys and desalination membranes.

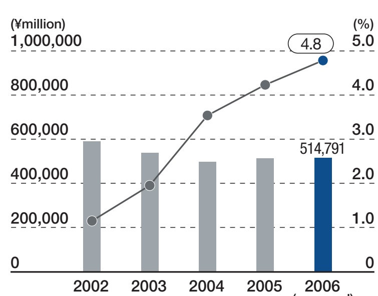
Over the 3 years to March 2008, we plan to invest capital of about 60.0 billion yen mainly in priority growth businesses over the 3 years to the year ending March 2008, and also about 35.0 billion yen in R&D. In particular, our capital investment will be at a higher level than our depreciation expense over the same period.

We believe the foundation of our growth is our technological advantage, and it is vital that we exercise it fully. That is why in April 2006 we revised our organization into a business department structure based on technology clusters. (Please see the next page.)

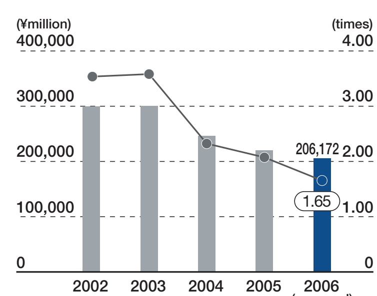
● Operating Income and Ordinary Income




● Total Assets and ROA




● Interest-bearing Debt and D/E Ratio



### 2) Develop new specialty businesses

We are striving to create new businesses in the growing markets by combining our core technologies and marketing. In order to speed up R&D and its commercialization, it is necessary that we actively consider taking in technology from outside including the group via alliances and M&A.

For that purpose, we organized 10 projects last year under the direct control of the President to examine growth measures outside the framework of the business divisions. In addition, we established the business development planning office in April 2006 to plan and promote businesses from the research stage to commercialization.

### 3) Global development of specialty businesses

Our plan is that 15 to 20% of all future growth in our specialty businesses will be generated in global markets. We have already established international businesses for airbag fabrics, and have an ongoing engine filter business in the US. In the future, we plan to set up organizations to provide local supplies of engineering plastics and other products to the globally expanding automobile industry.

### 4) Improve the efficiency of total assets

At the end of March 2006, our total assets were 515 billion yen. While about half were allocated to specialty businesses, a further one third were allocated to non-specialty businesses and non-core businesses. In order to improve the efficiency, we plan to slash the assets for non-specialty and non-core businesses in the mid-term.

## Outlook for the Next Year

For the next term, we are projecting sales of 415.0 billion yen, operating income of 31.0 billion yen, ordinary income of 26.0 billion yen and net profit of 13.0 billion yen.

We look forward to the continued understanding and support of our shareholders.

June 2006

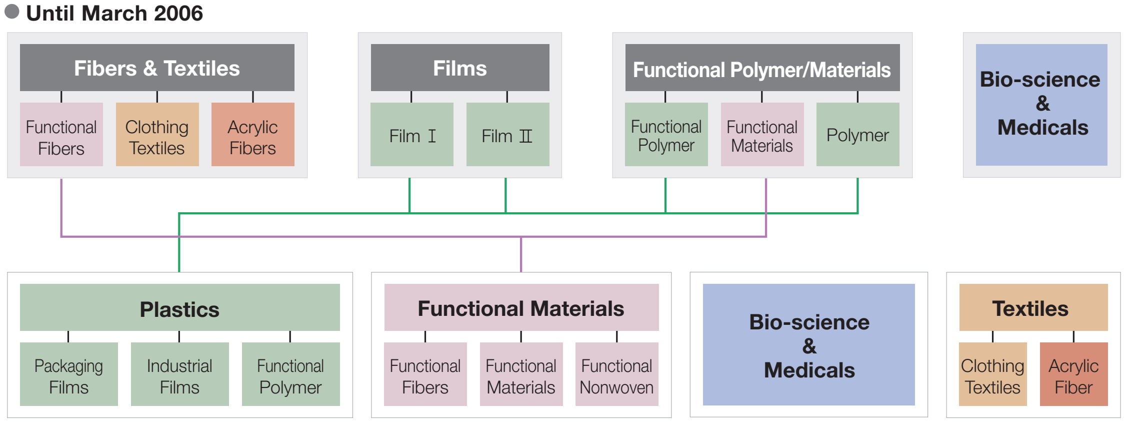
**Ryuzo Sakamoto**,
**President and Chief Operating Officer**

Ryuzo Sakamoto

## We changed the framework of business divisions, based on technology clusters.

We reorganized the specialty business around the technologies that constitute its competitive advantage. Films and functional polymers were grouped together through polymerization and modification technologies, while high performance fibers, functional filters and industrial textiles were grouped together around spinning and processing technologies. By making it easier to fuse technologies, we will promote the development of new businesses and further strengthen common technologies related to production. In particular, for the Plastics Products Division, we will ensure the polymer chain operates in an integrated manner, from raw materials to processed products.
On the other hand, the Fibers and Textiles Division, which is centered on textiles, will make an effort to thoroughly prioritize asset efficiency in operations.

● Until March 2006




● New Organization (from April 2006)

# Q&A: Toyobo's current status and future

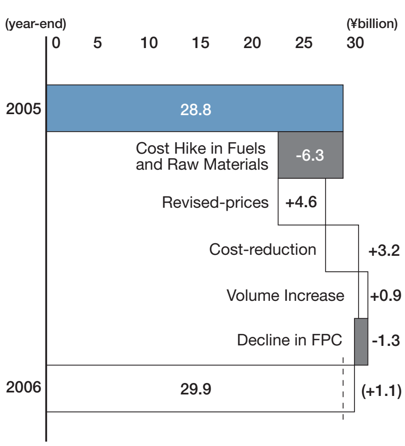
## Q Why were sales and operating income below the original plan?

**A Specialty businesses grew according to plan, but the decline in the FPC business had a large impact.**

We achieved higher revenues and higher profits for the second year in spite of the rise of raw material and fuel costs. It shows that our Company's revenue base is even stronger. The highly profitable specialty businesses are growing steadily, and we were able to turn back cost increases and achieve higher profits by thoroughly controlling fixed costs and by reducing variable costs.

However, the growth rate for operating income was lower than in the previous term, and unfortunately we fell below our initial plan of 31.0 billion yen in operating income by 1.1 billion yen. The biggest factor in our failure to achieve our initial goal for operating income was the slump in the flexible printed circuit (FPC) business due to severe price competition.

● Income Analysis in the Year Ended March 2006



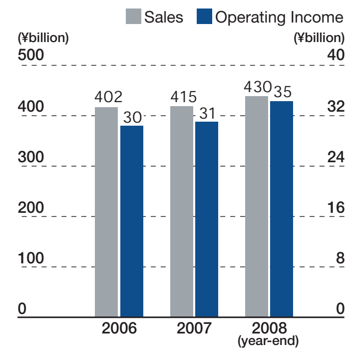

## Q What impact will the failure to achieve plans in the year ended March 2006 have on medium-term management plan goals?

**A We will not change the original goals for the specialty businesses, but we will review the goals for the non-specialty businesses.**

When the original goals were set in March 2005, the FPC business was doing well and we anticipated commensurate income in the year ending March 2008. We will restructure FPC business of the electronic parts business. Also, there will be a planned reduction in sales as we downsize non-specialty and non-core businesses.

However, we will stay strictly on plan for our specialty businesses, which are the pillars of our profits. Overall, we are aiming for sales of 430.0 billion yen and operating income of 35.0 billion yen.

● Performance Forecast in the Three Years to March 2008




## Q What are your forecasts for increases in material and fuel costs in the year ending March 2007?

**A As of now (May 2006), we calculate that there will be an increase of at least about 4.0 billion yen in costs compared to the year ended March 2006.**

In more detail, the "4.0 billion yen in increased costs" in our profit plan includes costs of 2.8 billion yen that were projected based on costs we experienced

in the second half of the year ended March 2006, and 1.2 billion yen in cost increases beyond what we projected. We aim to do as much as we can to reduce these through the elimination of waste and loss in manufacturing processes, as part of our improvement of manufacturing technologies.

**Q What are the capital investment plans for each of the specialty businesses?**

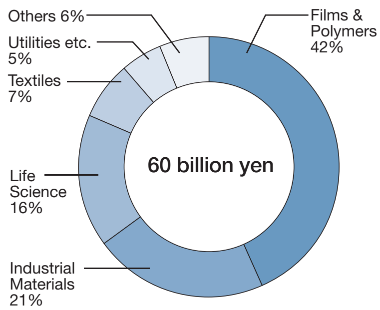
**A We will implement capital investment centered on 9 priority growth businesses.**

The expansion of functional film capacity will be a key issue. In November 2005, we started operations of new facilities (annual capacity of 10,000 tons) that produce the films for LCDs and optics. In order to respond to vigorous demand, we plan to have additional lines in operation by the year ending March 2009 and therefore will make an early decision regarding its capital investment. In functional polymers, we are considering expanding capacity and setting up overseas locations for engineering plastics, as demand is growing in the automotive parts industry.

In industrial materials, we will increase production capacity for airbag fabrics both in Japan and overseas.

In life science and medical products, we need to have cultivation facilities in order to begin production of functional proteins that utilize our cell culture and purification technologies. Also, we will continue to increase the production capacity of hollow fiber membranes for artificial kidneys.

● Capital Expenditure Over the Three Years to March 2008

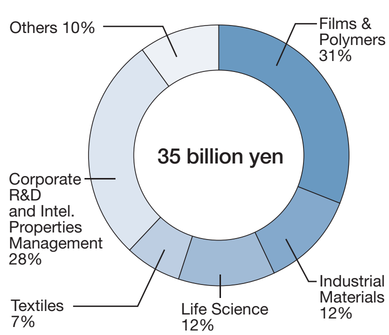



**Q What areas and issues will you focus on in future R&D activities?**

**A We will speed up commercialization in areas where we see good prospects such as automobiles and electronic and displays.**

We have determined 5 markets in which we can proactively develop specialty businesses: automobiles, electronics and displays, environmental materials, comfort and safety, and life sciences. For example, toward the electronics and displays market, we are developing next generation electronic materials and fuel cell battery materials. For the life science market, we are considering the business of functional proteins.

● R&D Expenditures Over the Three Years to March 2008




**Q What is the breakdown for each of the new segments in next term's projected results (sales: 410.0 billion yen, operating income: 31.0 billion yen)?**

**A Three segments from the specialty businesses will drive revenues.**

Sales will grow steadily in all business segments except for the textile segment, which needs further improvements in asset efficiency. Operating Income will also grow in all segments. However, growth will be slower than in the year ending March 2006 for the film and functional resins business due to increased depreciation expenses for new equipment and the fact that we will be starting up a nylon film for packaging business in China (Shanghai), which will incur an operating loss for the first year.

● Performance Forecast by Business Segment

Sales (¥billion)

| | 2005 | 2006 | difference |
|---|---|---|---|
| Films & Functional Polymers | 115.8 | **127** | +11.2 |
| Industrial Materials | 68.4 | **74** | +5.6 |
| Life Science | 29.7 | **34** | +4.3 |
| Textiles | 142.7 | **140** | –2.7 |

Operating Income (¥billion)

| | 2005 | 2006 | difference |
|---|---|---|---|
| Films & Functional Polymers | 14.9 | **15.5** | +0.6 |
| Industrial Materials | 5.7 | **6.3** | +0.6 |
| Life Science | 5.6 | **6.2** | +0.6 |
| Textiles | 3.5 | **3.8** | +0.3 |

## According to the new organization of business divisions, we will change our “Segment Information” from the year ending March 2007.

From the year ending March 2007, Toyobo will change its business segments for disclosure. We will be able to clarify the achievements and issues for each business using the new segment information.
However, in this section we will continue to report based on the previous segment breakdowns.

**Former (unitl the year ended March 2006)**

### Plastics Products

- Packaging Films
- Industrial Films
- Copolyester Polymer “VYLON”
- Engineering plastics
- Photosensitive Polymer
- Acrylate Functional Polymer

→ Films & Functional Polymers

- Activated Carbon Fibers and Filters

→ Industrial Materials

### Bio-science, Medical and Functional Materials and Products

- High-performance fibers “DYNEEMA”, “ZYLON”
- Non-woven Fabrics (Spunbond and Staple)
- PPS Fiber “PROCON”

→ Industrial Materials

- Enzymes for Diagnostic Reagents
- Diagnostic Reagents
- Research Reagents and Equipments for Life Science
- Contract Production of Pharmaceuticals
- Hollow Fiber Membrane for Artificial Kidneys
- Seawater Desalination Membrane Module “HOLLOSEP”

→ Life Science

### Fibers and Textiles

- Airbag Fabrics
- Polyester Filaments for Tire Codes
- Polyester Staple Fibers, Industrial Materials

→ Industrial Materials

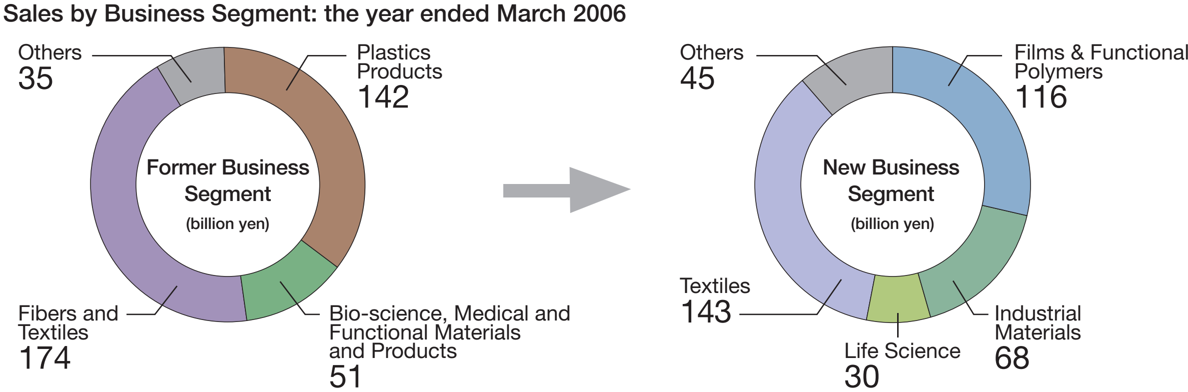
- Yarns and Textiles
- Clothing and Sewing “MUNSINGWEAR”
- Fibers for Clothes
- Acrylic Fiber “EXLAN”

→ Textiles

**New**

- Films & Functional Polymers
- Industrial Materials
- Life Science
- Textiles

**Sales by Business Segment: the year ended March 2006**



# Plastics Products


## Overview of the Year Ended March 2006

Sales of plastics products increased only slightly overall, despite solid growth in sales of films and resins because of lackluster sales of electronic parts.

Overall sales of films increased thanks to higher sales volume of industrial films. Packaging films saw sales decline slightly due to sluggish growth in sales volumes that was caused in part by inventory corrections for film converters. While we succeeded in passing on a portion of the increases in raw material prices, the price spikes were drawn out longer than expected, so the difficult operating environment persisted. Sales of industrial films, however, rose substantially thanks to increased demand, particularly for LCD and optical films for applications like televisions and computers, and also to the benefits of putting new facilities into operation.

We continued to aggressively expand our functional resins business by conducting research and development on new products and promoting development overseas. Sales of the highly functional resin “VYLON” increased steadily,

Specialty Business

### “SOFTSHINE” — easy-to-mold and transparent

**We are aiming for further development of applications utilizing our original technology**

Our newly developed “SOFTSHINE”, a polyester film that continues to have the excellent characteristics of being moldable in 3 dimensions and highly durability in oriented polyester films. “SOFTSHINE” has features of clear printability and metallic gloss. With these characteristics, it will enable new product design, including plating alternatives for embellishments to plastic products and steel sheets. We expect to centering on applications for information archiving, industrial adhesives and conductive materials. Molding resins also experienced further expansion thanks to aggressive sales activities in Japan and aboard, especially in the area of automotive applications.

Electronic parts suffered a considerable drop off in sales due to heightened competition pushing down prices for printed circuit boards, which dragged down sales and income for the plastics products segment as a whole.

As a result of the above developments, sales of plastics products increased 2% over the previous year, to ¥141,950 million, while operating income from the business inched down ¥0.6%, to ¥17,142 million.

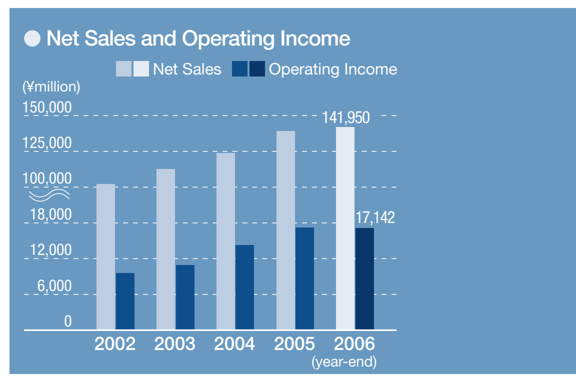
## Future Strategies and Initiatives

In April 2006, films and functional resins, which had been in separate organizations, were consolidated into the Plastics Products Division. By removing the barrier between films and polymers, the new division will seek to bolster competitiveness and create new value. We plan to raise the competitiveness of existing products through integrated operations from the polymer stage, while developing and commercializing new products. Fusing technologies as well as markets and marketing will serve to promote the creation of new businesses.

In the area of films, we will push forward with plans and preparations for a new system for LCD and optical films that we will aim to put online in the year ending March 2009 in order to accommodate demand growth. In addition, we will work to expand sales of new products like “SOFTSHINE”, a readily molded polyester film with three-dimensional molding properties.

In the area of functional polymers, we will continue preparations to increase supply capacity for engineering plastics in Japan and overseas in order to accommodate growth in demand for auto parts applications. In addition, we will further strengthen overseas marketing for nylon, something we have been doing for a number of years. With respect to optical functional materials, we plan to start expanding beyond our traditional market of commercial printing to new markets on a full-fledged basis. As to new businesses, we will start commercializing next-generation electronic materials.

With respect to development, in conjunction with the organizational restructuring in this business segment, we will also consolidate research centers for films and functional resins in an effort to create a system that facilitates technological fusions.



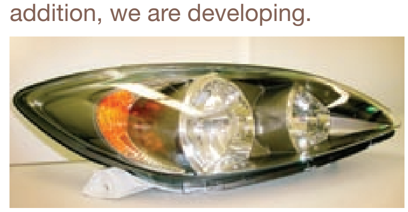

develop a variety of applications in electric home appliances, automobiles parts and construction materials.

## Highly functional polymers —“VYLOPET” and “VYLON”

**Our unique modifying technology meets the needs of the electronic and automotive parts, and electrical appliance industries.**

“VYLOPET” is a polyester engineering plastic. It is used in a variety parts by automobile and home electrical appliance manufacturers because of its rich surface gloss and the fact that it is suitable for embellishments such as metal displacement.

“VYLON” is a co-polymer that can be used in various applications such as adhesives, coatings, binders, conductive paste, and UV and heat cured resins. Demand is growing for its use as a substitute material for vinyl chloride and epoxy resins. We use this technology to add the functions that our customers require to polymers. We are maintaining our top share in the Japanese market and are now exploring overseas markets. In addition, we are developing.



# Bio-science, Medical and Functional Materials and Products


### Overview of the Year Ended March 2006

The bio-science and medical segment turned in stable results thanks to expansion led by innovative products.

The bio-science business enjoyed strong sales of enzymes for measuring blood glucose, and biochemical diagnostic reagent and new immunodiagnostic systems further penetrated their respective markets, resulting in a solid performance for the segment as a whole. Our contract pharmaceutical production business earned manufacturing and experimentation contracts from drug companies due to the strong reputation.

Artificial kidney hollow fiber membrane, due to higher reliability, has increased in sales, especially overseas market. Antithrombogenic coating materials, which are used in artificial lungs, blood circuits and other applications, registered sales gains. In addition, for seawater desalination reverse osmosis modules, we received an order for a major project in the Middle East, which follows on from our delivery of modules for a large domestic plant the previous year.

Specialty Business

### Toyobo's Bio-science Business

The start of Toyobo's bio-science business can be traced back more than 50 years. In the 1950's, we developed a yeast application for treating wastewater from our rayon plant. After carrying out continuous biotechnological research, we launched enzymes for diagnostic reagents from 1970 and enzymatic diagnostic reagents from 1972. Currently, in our bio-science business, we have more than 100 enzymes for diagnostic reagents, and more than 50 diagnostic reagents and life science research

In the functional materials segment, sales of non-woven fabrics and filters increased, as we had many inquiries regarding our materials for auto applications, solvent-recovery equipment, and PPS fibers and yarns for bag filters, ”PROCON”, which removes harmful substances. Applications of the ultra-high molecular weight polyethylene fiber “DYNEEMA” in fishing line, protective gloves and heavy-duty ropes, grew steadily.

As a result of these developments, sales of bio, medical and functional materials and products rose 4.8% over last year, to ¥50,906 million, while operating income increased 8.9% year-on-year, to ¥7,933 million.

## Future Strategies and Initiatives

The bio-science and medical segment is generally made up of highly profitable, developmental businesses, but going forward we plan to carry out growth initiatives in order to speed up the pace of expansion.

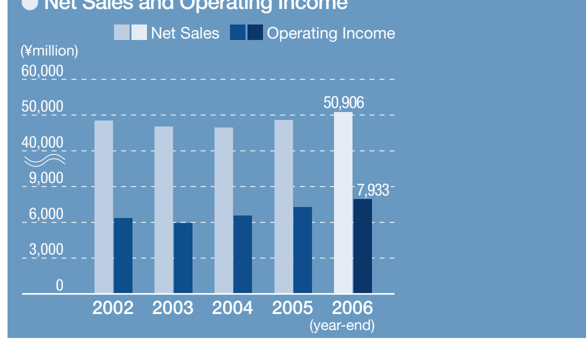
In the diagnostic area, we will work to expand point-of-care related diagnostic enzymes and develop immunodiagnostic systems into a point-of-care application. In terms of new business, we will continue to develop functional substances that allow us to leverage our technologies for cultivation and purification. For our pharmaceuticals business, we are aiming to increase orders by expanding production capacity at a new facility for injection pharmaceuticals that was completed in August 2005.

Sales of medical and functional membranes will be influenced by reduced reimbursement prices for artificial kidneys in the domestic market. However, the total sales are expected to be increased by aggressively introducing new functional membranes and promoting them, especially in growing overseas market.

With regard to the desalination membrane business, we will continue to step up sales activities for seawater desalination membranes in the Middle East-Gulf region, which is the primary market for this product. Plans also call for expanding into UF/MF membrane fields by applying the membrane technologies we have cultivated over many years.

In the functional materials segment, we intend to look into our next capacity expansion for “DYNEEMA” (Nippon Dyneema Co., Ltd. jointly established with DSM), and with spunbond and non-woven fabrics, we will strive to continue growth centering on the automobile- and environment-related markets. For environment-related products, we will strengthen marketing activities in China for bag filters, which prevent air pollution.

● Net Sales and Operating Income




reagents in our product lineups. Through these businesses and continuous development, fermentation, purification and genetic engineering have become the core technologies for our bio-science business.

We currently enjoy the top share in the domestic market for enzymes for diagnostic reagents because of the superior quality of our products and our full lineup. For example, we have developed an enzyme named ‘PQQ-GDH’ for measuring blood glucose. Currently, this enzyme is being adopted for several major self-monitoring blood glucose (SMBG) systems all over the world, due to its advanced qualities such as higher reactivity, specificity, stability and cost performance. For diagnostic reagents, we have developed a ‘New Immunoassay System’.

For life science research reagents, we are maintaining second position in the domestic market with our PCR-related enzymes and other products. We have developed and are selling KOD DNA polymerase, which is one of the best enzymes for PCR and can amplify DNA more quickly and accurately than others.

We will continue to expand these businesses, and with our core technologies, we will develop new specialty products and enter new markets.

# Fibers and Textiles


## Overview of the Year Ended March 2006

As a result of efforts to reduce the scale of operations in general textiles in the field of clothing fibers and to keep expanding in the field of industrial materials, the Toyobo Group was able to maintain flat sales overall in the fibers and textiles division.

In the field of industrial materials, we were able to boost sales dramatically through efforts to increase the sales volume of base fabrics for airbags and tire cords.

In the fiber and textiles area, sales increased partly thanks to our affiliated subsidiary. In the apparel business, “Munsingwear” experienced recovery. In the textile business, sales of special composite spun materials and other original Toyobo Group performance products for sports and atheletic use expanded, and sales of fabrics for use in medical products also grew. On the other hand, sales of textiles for use in casual clothing and bedding declined, in conjunction with our withdrawal from producing unprofitable items. Furthermore, in the field of clothing fibers, sales of the polyester and polyurethane fiber

**Specialty Business**

## NY66 fabrics for automobile airbags

### Nylon 66 yarn is optimized for airbags

Our unique Nylon 66 yarn is manufactured with our own original spinning technology, and has the properties of fineness and toughness. We have about a 50% share of the Japanese market. Our non-coated fabrics have been highly evaluated for their cost competitiveness and reliable quality. This type can be stored in a small space because it is thin and light, and in addition, its scrapped material generated in the

"ESPA" fell due to the decisions we made to downsize operations in general textiles and to stop exporting unprofitable items, but sales of nylon increased thanks to our shift in focus to high-profit items and a price rise.

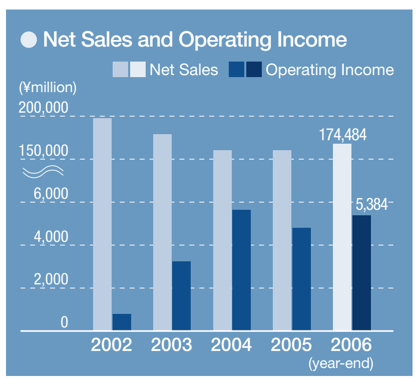
As a result of the above developments, sales of fibers and textiles in the year ended March 2006 increased 3.8% over the previous year, to ¥174,484 million, and operating income grew 12.0%, to ¥5,384 million.

### Future Strategies and Initiatives

With regard to new organizational structures and new segments, the fibers and textiles business will be divided into industrial materials and clothing textiles. The industrial materials segment will be established for air bags and tire cords, as well as for functional materials like highly functional fibers and non-woven fabric for filters. The present textiles and fibers segment will become the clothing textiles segment by excluding industrial fibers. It will consist primarily of clothing fibers, spun fibers, woven fabrics and apparel textiles.

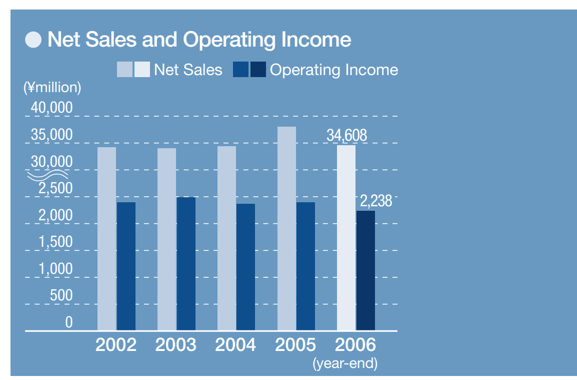
The industrial materials business will devise and execute growth strategies centering on airbag fabrics, highly functional fibers, functional filters and other products. In particular, for airbag fabrics, we will strive for further expansion by carrying out capital investment in Japan and overseas and by entering the market for coated type airbag fabrics.

In the textiles business, we plan to focus activities on functional clothing combined with a system for evaluating comfort. Products include moisture-absorbing, exothermic materials and composite spun materials. We will also proceed with reorganizing and shrinking low-income businesses throughout the Group.




## Other Business

While we recorded a drop in sales due to the sale of our catering business, the other businesses, including engineering, real estate, information processing services and logistics services, each performed more or less as planned. As a result of the above developments, sales of other business in the year ended March 2006 decreased 9.0% over the previous year, to ¥34,608 million, and operating decreased 6.5%, to ¥2,238 million.




manufacturing process can be recycled as engineering plastics.

**The airbag market is growing as the number of automobiles equipped with airbags and the number of airbags installed per vehicle increase**

At the beginning of this century, the airbag market was mainly concentrated in three regions: North America, Western Europe and Japan. However, as the automobile market expands, it is estimated that the BRICs and Eastern Europe will become new airbag markets by 2010, and it is projected that the market will almost double compared with 2000 to over 100,000 tons. In addition, the number of airbags per automobile has been increasing. In Europe and the US, airbags are being installed in the side window position - so called curtain airbags - in addition to the driver and passenger seats. Curtain airbags will require coated fabrics with a higher stability of air repletion, and they are projected to spread and permeate the market in the future. With this trend, growth in the airbag market is projected to continue. We expanded our yarn production capacity from 10,000 tons per year in 2004 to 12,000 tons per year in 2005. We are planning continuous expansion to 15,000 tons over the mid-term.

## Seawater Desalination Membrane Business:

# Meeting the Global Water Shortage

Many regions face chronic water shortages, making it increasingly difficult to secure clean water for drinking and use in industry and agriculture. Especially in the Middle East, obtaining safe water supplies is a major challenge, as aquifers have been depleted. Meanwhile, water usage has increased, as ever-larger amounts are soaked up by expanding populations and industrial bases. In Asia, China is finding it difficult to meet the demand created by its rapid industrialization and urbanization.

These circumstances have created an increasing demand for seawater desalination plants, which can convert our planet's abundant seawater resources into the fresh water that is so necessary for human life.

## RO Membranes Using Cellulose Triacetate

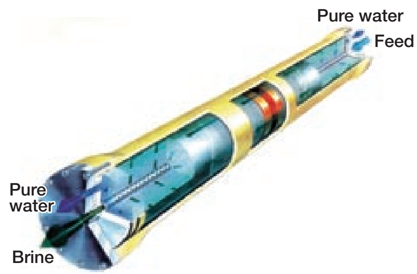
Currently, there are about 17,500 seawater desalination plants in the Gulf Countries and around the world. Their daily production capacity is 37.8 million tons of water, a volume sufficient to support 150 million people. The demand for new plants is projected to increase by more than 10% annually.

The methods of seawater desalination include reverse osmosis (RO) and evaporation. The RO method, which involves forcing seawater through RO membranes, can treat water with higher salinity and requires less energy than evaporation and other methods. This method is currently used in most seawater desalination plants. The RO membrane, one of Toyobo's specialty products, is currently attracting considerable attention.

Although there are several types of RO membranes, Toyobo's RO membrane uses cellulose triacetate (CTA) and has excellent resistance to chlorine. Toyobo is the only manufacturer with the technology to make this membrane. The hollow fiber membrane can remove almost 100% of colloidal matter, bacteria and bacilli, and can filter out dissolved salts. Based on this, we anticipate the development of many applications, including the creation of pure water and water for manufacturing pharmaceuticals from tap water.

## Toyobo Boasts a Dominant Share in the Gulf Countries

RO membranes are an effective means of seawater desalination, but the seawater in Gulf Countries presents special challenges, owing such severe conditions as high temperature and high salinity. Toyobo's RO membranes have a high production capacity, which overcomes these problems. Even when filtering water that has been pre-chlorinated to prevent the propagation of bacteria, RO



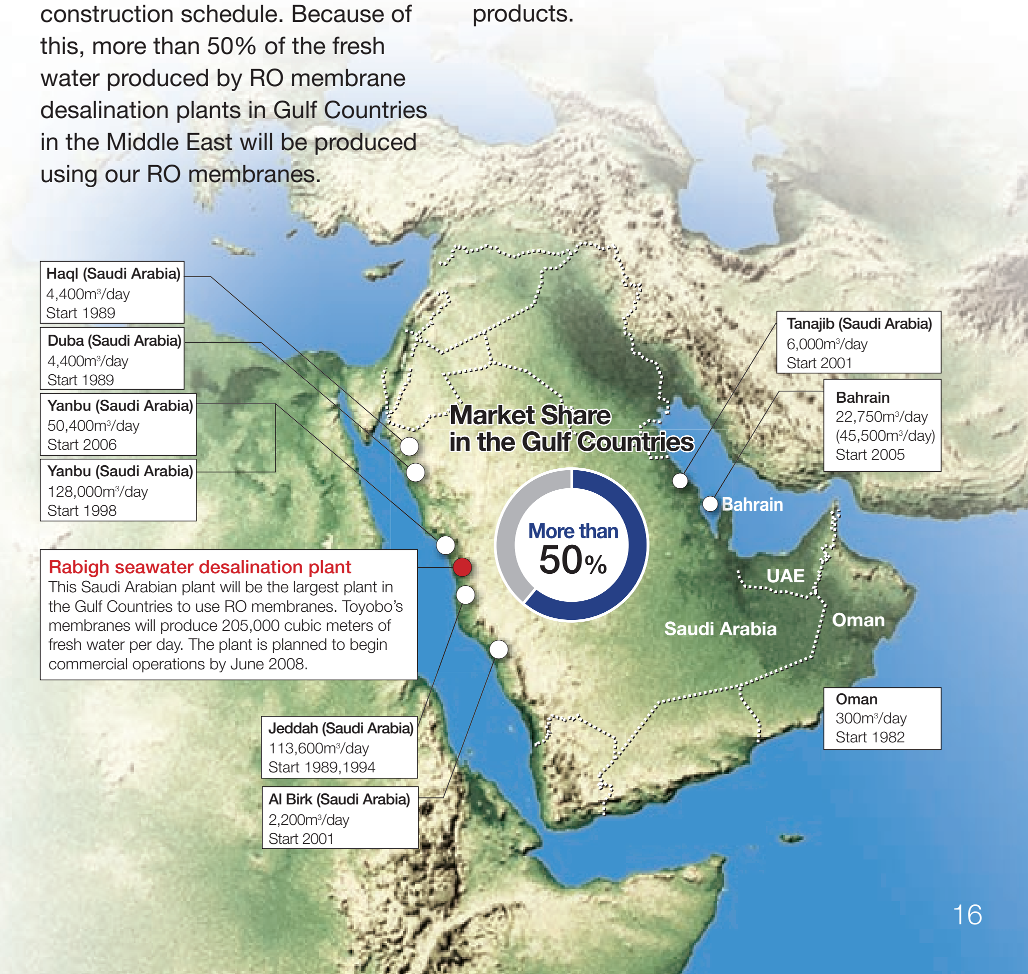

membranes are not damaged. In addition, they have a structure that doesn't become clogged even after long term use, keeping down operating costs after installation.

In the fall of 2005, a Saudi Arabian plant that is the largest seawater desalination plant among all Gulf Countries in the Middle East, decided to install Toyobo's RO membranes. We received this order because the high functionality and high reliability of our RO membrane were verified at large desalination plants in Saudi Arabia over many years. Full-scale construction will begin on this plant in January 2006 and commercial operations will start in June 2008, an extremely short construction schedule. Because of this, more than 50% of the fresh water produced by RO membrane desalination plants in Gulf Countries in the Middle East will be produced using our RO membranes.

## Future Developments

The construction of one seawater desalination plant after another is being planned in the Middle East as populations grow and infrastructure is developed, and a 10% annual growth in the industry is projected in that region. Toyobo is aiming for further growth in orders in the region, and we have decided to increase RO membrane manufacturing capacity by a factor of 1.5 by the summer of 2006.

Leveraging our experience in the Gulf Countries, we aim to expand sales by targeting environments such as ocean coastal areas, where marine microorganisms and algae breed in profusion and chlorine sterilization is an absolute necessity. More specifically, we will proactively expand our business from the Gulf Countries, which have established national policies to eliminate water shortages and improve water quality, to Southeast Asia. We will also make efforts to differentiate our products.



# High-performance Filter Business:
# Clean Air for Living and the Earth

Functional filters are specialty products that integrate Toyobo's manufacturing technologies for highly functional materials and non-woven fabrics. These advanced filters are mainly used for space and atmospheric purification applications.

Our space purification filters are used in various applications, from household appliances, such as air purifiers and vacuum cleaners, to such automotive applications as engine fluid filters and cabin air purifiers.

For atmospheric purification applications, we provide highly functional filters with excellent heat and chemical resistance. These filters are used in dust collectors at municipal incinerators and thermal power stations. In addition, many coating factories have begun using solvent adsorption equipment employing our functional filters.

Filters now fulfill a variety of functions, ranging from the home to the global environment. As regulations requiring manufacturers to prevent air pollution have been strengthened, we will meet the needs of producers of copy machines, automobiles and other coating plants.

Toyobo continues to provide a wide range of functional filters to respond to these requirements, by enhancing our R&D through partnerships.

### Global Supply Capabilities and Environmental Responsiveness Needed for Automobile Filters

Toyobo has earned a high level of trust from the automobile industry in the area of air purification filters. Typical products include ventilation-type cabin air filters, which remove diesel exhaust gas, dust and pollen from the outside air, and circulation-type cabin air filters

that eliminate cigarette smoke and odors, such as moldy smells, from inside the vehicle.

Around 7.35 million cars are fitted with cabin filters in Japan annually, and our share accounts for approximately 32% of that market. We believe that as people become more concerned about the atmosphere in which their vehicles operate and also about allergies, the need for cabin air filters will increase, both in Japan and other countries.

Using our original molding technology, we have achieved a filter structure for vehicle air purifying filters that does not require a plastic frame. The automobile industry, which is focused on environmental and recycling issues and has introduced eco-cars and hybrid cars, has warmly welcomed our structure that does not use plastics. Toyobo's share of air purification filters has thus risen to 23%.

We intend to further develop our current technology, and add antibacterial and antiallergenic functions to the Elitolon electret air filter, which collects atmospheric dust extremely effectively using charged polymer fibers to apply a static electrical charge.

### Filter Products for Dust Collectors that Contribute to the Protection of the Global Environment

Dust collectors (bag filters) purify the air by removing ash and harmful materials generated by exhaust gases from garbage incinerators and boilers. China and other industrializing countries are expected to expand into promising markets, as pollution laws, ISO rules and other regulations are strengthened.

We provide excellent materials for high-temperature bag filters, which are used in dust collectors in municipal incinerators and thermal power stations. Our unique materials include the polyphenilene sulfide (PPS) fiber "PROCON", developed by Toyobo, and polyimide fiber P84, produced by Inspec Fibers Inc. of Austria. We account for 60% of PPS fiber sales in the world.

We plan to enhance marketing activities and expand our filter business in China to meet the surge in demand related to the construction of thermoelectric power plants.

### Solvent Adsorption Equipment to Meet VOC Regulations

The market for solvent adsorption equipment that is highly effective in removing the VOCs discharged by manufacturing plants is growing rapidly, as VOC regulations are strengthened and the re-use of reclaimed solvents becomes possible.

At Toyobo, we have integrated all processes, ranging from the development and manufacture of absorption materials to the design and manufacture of treatment systems. Over the past 30 years, we have delivered more than a thousand such systems.

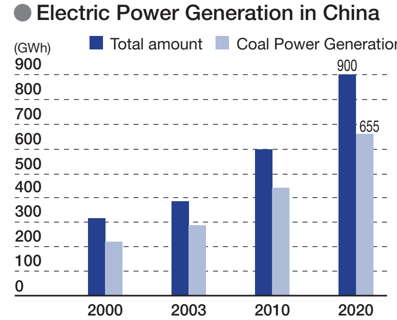
We will expand applications of dry concentration recovery equipment, which drains less water from reclaimed solvent, and propose systems that are optimized for the environment in which they

will be used, further increasing customer satisfaction. We also intend to explore overseas markets, including China, which is experiencing remarkable industrial development.

● Toyobo's High-performance Filters

| Product types | | Raw materials | Usage |
|---|---|---|---|
| Atomospheric Air Purification | Dust collection filter | PPS and polyimide | Incinerator and thermal power plant |
| | Solvent adsorption filter (K-filter) | Activated carbon fibers | Painting and coating factories |
| Room Air Purification | Built-in filters | Non-woven polyolefin and polyester | Built-in filters for air purifiers, copiers, vacuums, etc. |
| | Car-mounted filters | | Car-mounted filters for cabin, internal air purifiers and engine filters |

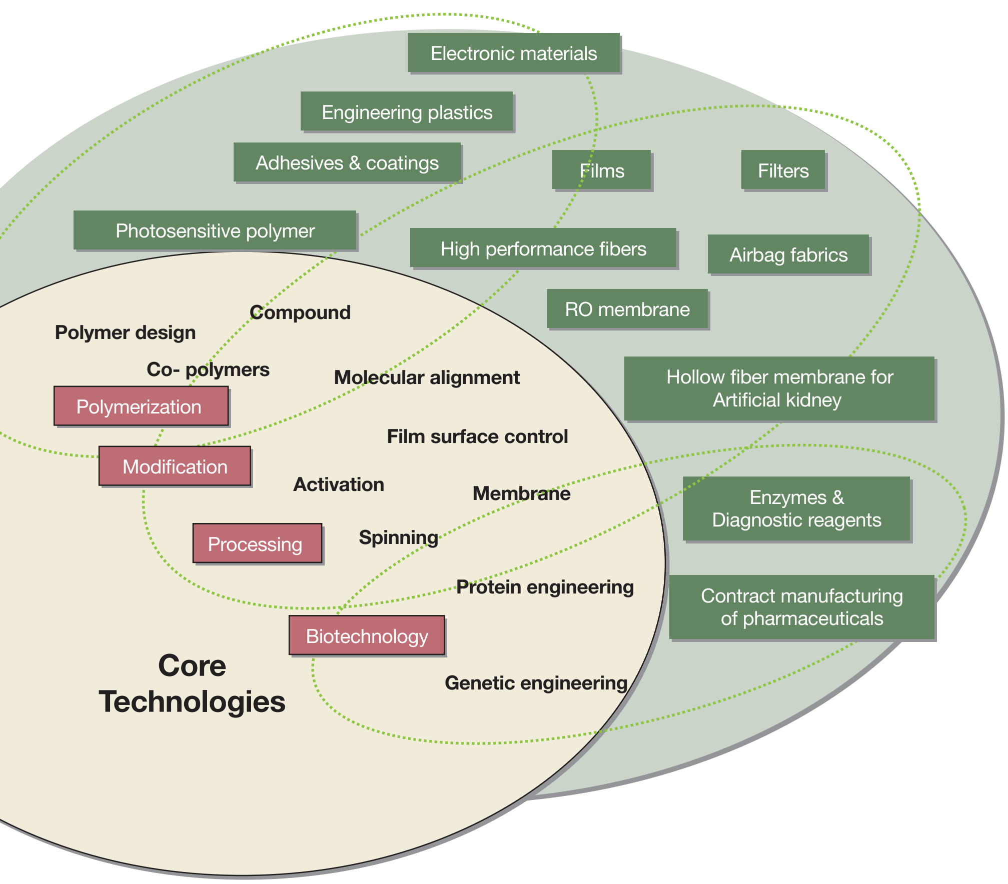
● Electric Power Generation in China




Source: Chinese Society of Electrostatic Precipitation

# With the fusion of our core technologies, we are accelerating the development of new specialty businesses.

## Core Technologies and Products




We are aiming to become a "specialty business conglomerate". R&D is an essential driver for our growth. We will increase our R&D investment to 35 billion yen over 3 years. In addition, we will modify the R&D framework under our new organization.

First, we established the Business Development Planning Office in April 2006. This division will optimize the allocation of R&D resources throughout the whole company. It also has the mission of accelerating new business launches in line with our corporate strategy and promoting the introduction of external technologies.

Secondly, we reviewed our research centers in response to the reorganization of business divisions. The development of films and of functional polymers were combined in the Plastic Products and Development Center, with the aim of enhancing the merger of our core technology fields such as polymers, films and moldings. We are also pursuing technological synergies by integrating functional filters, high performance fibers and industrial fibers to the Functional Materials Research Center.

## Nano-Multi-layer Films

We have a technological advantage in base film production and in surface control. Currently we are focusing on developing Nano-Multi-layer films, combining polymer design, compounds and coating as our new core technologies. It has become possible to add new functions to base film with the characteristics of different raw materials in each layer.

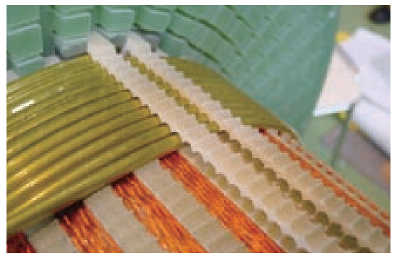
## Thermoplastics "PELPRENE"

"PELPRENE" is a thermoplastic polyester elastomer. It is a unique material that combines the characteristics of both rubber and engineering plastics. We have successfully developed a higher-durability type with excellent resistance to heat-aging and hydrolysis, and we expect that it will be suitable for a broader range of customers' requirements, such as for usage in automobile parts.

## "DYNEEMA"

"DYNEEMA" is a high performance fiber stronger than steel yet light enough to float on water.

"DYNEEMA" has a unique property of expansion at extremely low temperature. It will be able to be used for compensation in dimensional change at ultra-low-temperature.



Super conduction coil using "DYNEEMA" (Photo provided by Japan Atomic Energy Research Institute)

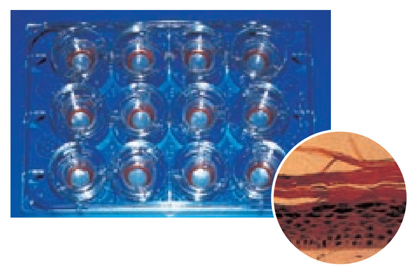
## Fuel Cell Membrane

We have been developing a new ion exchange membrane for fuel cells. Features of our membrane are high efficiency of power generation and high durability accompanied by high proton conductivity and low fuel permeability.

We expect our membrane would be a key material and a universal core technology for portable, stationary, and automotive power sources.

## "TESTSKIN" and "TESTLIVER"

We have begun applying tissue engineering techniques employing our three-dimensional cell culture technology. In addition to TESTSKIN, our existing three-dimensional skin model, we have commercialized TESTLIVER, a model for human artificial livers. Techniques using these models are contributing to the development of pharmaceuticals and cosmetics by replacing conventional bioassay processes, such as skin irritation tests, drug metabolism studies and animal hepatotoxicity studies. In the future, we will move forward in the development of higher value-added cell-based assay systems centered on tissue engineering technologies.



## Management of Intellectual Properties

### Developing Our Patent Network to Maintain Our Competitive Edge

Intellectual Properties are crucial factors for our growth, especially in our specialty business. We have increased the number of staff dealing with patents.

We own an enormous amount of technology and know-how that we have invented through our R&D and business development activities over the years. We are actively committed to the maintenance of our precious intellectual property rights and the acquisition of new rights so as to be able to utilize these competitive properties as a management resource.

We are endeavoring to develop a patent network from basic patents to peripheral technologies in order to ensure the competitiveness of our products.

We will also utilize trademarks and design rights as intangible assets more effectively in order to enhance our corporate brand value.

We established our internal patent award system in the year ended March 1993 ahead of other companies to deal with the employee invention issue that has drawn attention domestically in recent years.

We have revised the system based on guidelines from the Patent Office in April 2005. Furthermore, we have striven to enhance inventors' incentives by the patent application award system since the year ended March 2001.

## Basic Policy on Corporate Governance

Guided by the concepts of expediting and ensuring the accuracy of decision-making and prioritizing fairness, Toyobo has worked to enhance group governance in line with the requirements of consolidation and strengthen its systems of risk management and compliance, so as to accommodate the changing times and secure sustained improvement in corporate value. With respect to enhancing group management, we have worked to strengthen management at companies in the Toyobo Group, as well as to improve asset efficiency for the overall group and ensure thorough governance by shoring up our auditing system. The Advisory Board on Executive Rules and Regulation was established in the year ended March 2005, and it includes one outside committee member. In addition, at the end of June 2005 we instituted a system of corporate officers in an effort to ensure management transparency and fairness.

## Corporate Bodies and Enhancements to Internal Control Systems

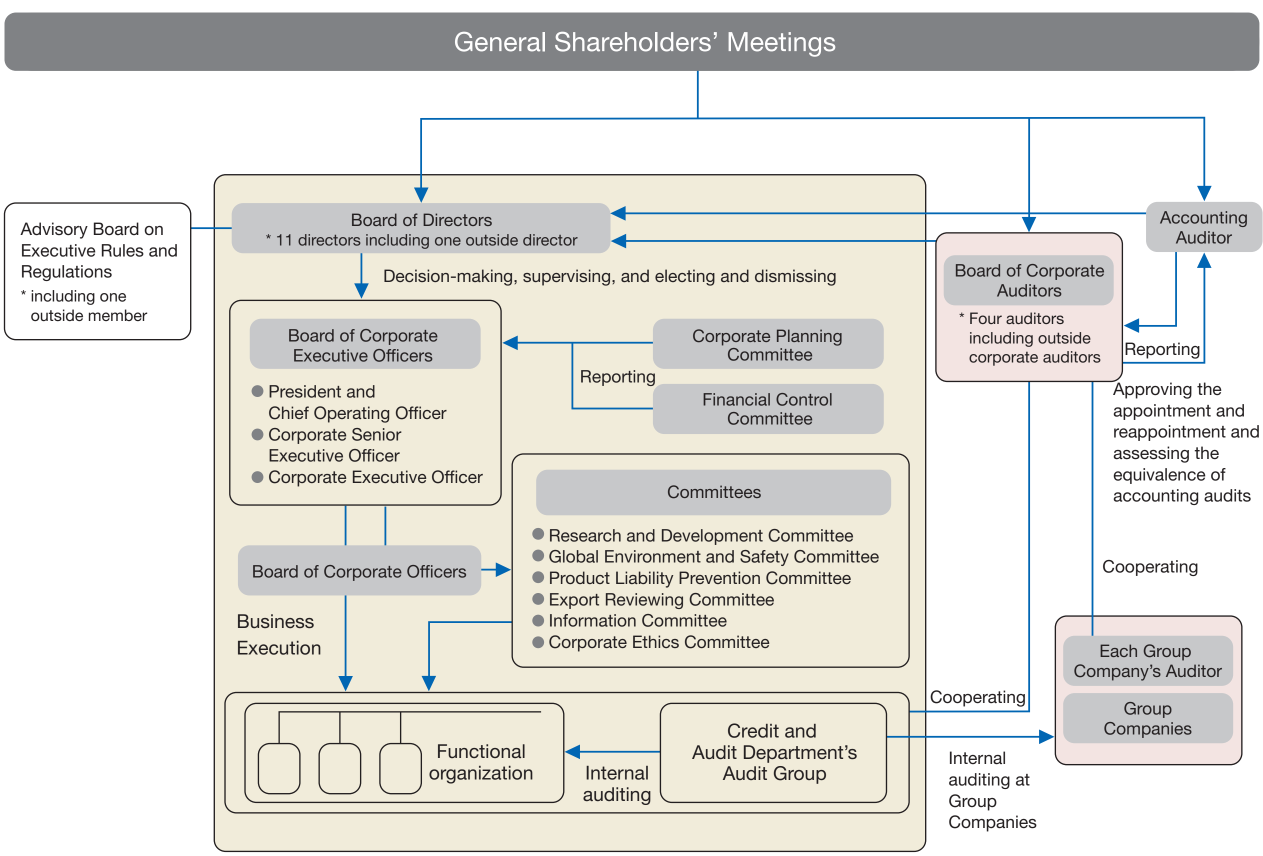
### 1) Board of Directors and Business Execution

We are currently building a system to improve management transparency and fairness, ensure quick decision-making and facilitate robust business execution. To achieve these goals we instituted a system of corporate officers at the end of June 2005, and clearly separated decision-making and supervision, which is handled by the Board of Directors, from business execution, which is handled by corporate officers.

With regard to decision-making and oversight, the Board of Directors makes decisions on management policies and important business execution matters such as management plans. It also oversees directors and corporate officers in the performance of their duties. The Board of Directors is comprised of 11 directors and includes one outside director. Given the diversity and level of specialization of our business activities, all directors, with the exception of the chairman and outside director, concurrently serve as corporate officers, enabling fast and accurate decision-making. The outside director does not have any special stake in the company and, as a director that is independent of the organizations responsible for executing business activities, is responsible for overseeing corporate officers in the performance of their duties.

With respect to business execution, the president, who serves as the chief operating officer, convenes monthly meetings of the Board of Corporate Executive Officers, which consists of corporate executive officers and decides on matters relevant to business execution delegated by the Board of Directors. The Corporate Planning Committee and Financial Control Committee, which are under the Board of Corporate Executive Officers, are responsible for deliberating on major capital

## Corporate Governance Structure



expenditures, new business projects, large investment plans and other matters, and reporting to the Board of Corporate Executive Officers. In addition, the president and chief operating officer convene monthly meetings of the Board of Corporate Officers, which is made up of all corporate officers and the general managers of operating departments. At the meetings, reports are made on business execution, cross-organizational, company-wide issues, and progress on company-wide projects.

### 2) Corporate Auditor System and Accounting Audits

There are two full-time corporate auditors and two part-time corporate auditors who are outside auditors. They attend meetings of the Board of Directors and other important meetings and give their opinion as necessary. The outside corporate auditors do not have any special stake in the company and conduct auditing from a perspective that is independent of the Board of Directors and the corporate organization that is involved in business execution. In addition, the Board of Corporate Auditors receives auditing plans and reports from the accounting auditors and regularly meets with them to exchange information. One member of the Credit and Audit Department's Audit Group serves concurrently as a staff member assigned to the corporate auditors. The person in this role reports the results of internal audits to corporate auditors and exchanges information with them.

Corporate auditors also strive to enhance auditing in connection with the establishment of appropriate internal controls for the Toyobo Group as a whole. This is accomplished through holding meetings with corporate auditors at group companies and otherwise working to enhance coordination with the corporate auditors of consolidated subsidiaries.

### 3) Internal Controls and Group Management

The Credit and Audit Department's Audit Group has been established to monitor the effectiveness of internal controls, and it conducts internal auditing encompassing group companies on the basis of an annual schedule. In addition, group companies were reorganized in October 2003 for each of Toyobo's business divisions to ensure our system of group management enables governance to function more effectively.

### 4) Enhancements to Risk Management and Compliance Systems

Risk management is undertaken by a number of committees chaired by corporate officers responsible for the respective types of risk. Together, the Corporate Ethics Committee, Information Committee, Export Reviewing Committee, Product Liability Prevention Committee, Global Environment and Safety Committee, and Research and Development Committee handle the various risks facing the Toyobo Group as a whole.

Our system for ensuring that employees comply with laws and regulations centers on the Ethics & Compliance Committee, which is chaired by the corporate officer in charge of compliance. An internal communication channel has also been established for these types of issues in the form of the Compliance Inquiry Counter. In addition, the Law Department's Compliance Group serves as the administrative body responsible for compliance-related issues. Along with promoting compliance, it works to ensure full awareness regarding compliance with the law and corporate ethical standards. To this end it has created the TOYOBO Corporate Action Guidelines and TOYOBO Corporate Codes of Conduct, which it distributes to all employees.

### 5) Construction of Internal Controls for Financial Reporting

We are currently making preparations to appropriately comply with the requirements for an assessment system to ensure the propriety of financial statements and other related information, which is mandated by the new Financial Instruments and Exchange Law.

## Board of Directors

■ Chairman, Board of Directors
Junji Tsumura

■ President
Ryuzo Sakamoto

■ Directors
Masahiko Hachimaru
Fumishige Imamura
Yoshihisa Kawamura
Kenji Hayashi
Shigeaki Kogamo
Kazuyuki Yabuki
Fumiaki Miyoshi
Hiroyuki Kagawa
Kunihiro Ashida*

* Outside Director

## Board of Corporate Auditors

Fumio Hotogi
Akichika Taki
Hitoshi Kuroda*
Makoto Ogasahara*

* Outside Corporate Auditor

## Corporate Officers

■ Chief Operating Officer
Ryuzo Sakamoto

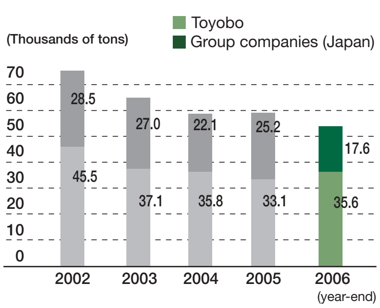
■ Corporate Senior Executive Officer
Masahiko Hachimaru

■ Corporate Executive Officers
Fumishige Imamura
Yoshihisa Kawamura
Ichiji Masaki
Tsuyoshi Hongo

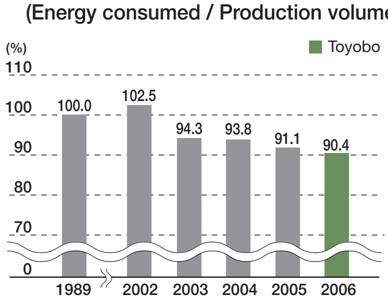
■ Corporate Officers
Kenji Hayashi
Shigeaki Kogamo
Kazuyuki Yabuki
Fumiaki Miyoshi
Hiroyuki Kagawa
Kazuo Kurita
Masaaki Sekino
Seiji Nansai
Kanji Aono
Kunio Tou
Yukihiro Sogabe
Hiroshi Takahashi
Masayuki Yoshikawa
Yasuyuki Nakajima
Osamu Izukawa

# Promoting environmental conservation activities and product safety initiatives in line with business portfolio changes

### ● Industrial Waste Generated




### ● Unit Energy Consumption (Energy consumed / Production volume)




Toyobo conducts environmental activities based on the Global Environmental Charter established in 1992 and an environmental philosophy of contributing to society and working to protect the environment through our people- and earth-friendly technologies in order to leave behind a livable planet and affluent society for the next generation.

Continuing from the previous year, in the year ended March 2006 we engaged in environmental conservation activities and worked to reduce our environmental impact with a focus on the following seven activities, which are laid out in our medium-term environmental plan: (1) development of environmental management systems; (2) energy plans; (3) reduction of industrial waste; (4) strengthening management of chemical substances; (5) promotion of eco business; (6) disclosure of environmental information; and (7) environmental management of affiliate companies.

In the area of product safety, we are striving to improve the safety of our products and enhance customer service while utilizing customer views and opinions in our day-to-day corporate activities. We also engage in activities that make a contribution to society while partnering with local community members.

## Initiatives to Reduce Industrial Waste

The Toyobo Group worked to reduce discharge of industrial waste by 30%, with the year ended March 2002 as the baseline year and the year ended March 2006 as the achievement year, through reducing the amount of waste generated and recycling. An increase in coal ash, however, caused us to just miss this goal. Also, zero emissions was achieved in the year ended March 2006 at the Toyama Center, so now all our business sites have attained zero emissions status.

The percentage of industrial waste sent to landfills for Toyobo as a whole was below our target figure of two percent. Going forward, we plan to contribute to the formation of a recycling-based society by actively reducing the amount of industrial waste generated and by promoting recycling.

## Energy Plans

Toyobo targets annual 1.5% reductions in unit energy consumption at each of our business sites, with the year ended March 1991 as the baseline year. In the year ended March 2006, we reduced energy consumption per unit of production by 0.8%, although total energy consumption and $CO_2$ emissions both increased slightly due to higher production volume. Looking ahead, we will strengthen environmental measures at the facility level and carry out initiatives to conserve energy and reduce $CO_2$ emissions.

## Product Assessment with Eco-Product Checklist

We have consolidated our environment products under the Eco-Partner System® brand since 1998 and have developed business on this basis to help conserve the environment.
Since 1998, we have used eco-product checklists to evaluate reduction of environmental impact over the full product lifecycle, from raw materials to manufacturing, usage and disposal. Products that earn a certain score are promoted under the Eco-Partner System® brand. Recently, we altered our definition of “eco-product” by removing “prevention of global warming” from “severity of environmental problem” and making it an independent assessment item on the checklist, and by adding assessments of the degree of contribution to third-party certification and also of whether or not it contributes to reducing environmental impact at the product usage stage. Furthermore, we clarified certification standards for Eco-Partner System® products, which has made it easier for evaluators to identify points of environmental contribution. Going forward, we will continue to utilize this system to conduct environmental assessments on our products.

*Eco-Product Checklists
Eco-product checklists are used for the wide-ranging, comprehensive evaluation of reductions in environmental impact across the entire product lifecycle, compared to current products, in the form of reducing $CO_2$, harmful substances and waste, conserving resources and energy. They are also used to assess contribution to environmental improvement through use of recycled materials and biomass materials, biodegradability, as well as through improved product usage.

## Product Safety and Quality Initiatives

We established a Product Safety Charter in 1994 and have engaged in a variety of product safety initiatives in order to ensure the safety of products and technologies we develop, manufacture and sell, to prevent direct or indirect harm to customers, and to maintain and improve smooth company activities, as well as the public’s trust in the company.

## Community Activities

Each business site actively participates in a variety of activities to promote harmonious existence with the local community, including an eco-development project to beautify and conserve the environment around the Research Center and a volunteer cleanup project for the Suma coastline. We also partner with a variety of organizations involved in support for developing countries, disaster relief and environmental protection, and provide support in the form of clothing, making donations and raising money for disaster-stricken areas, and assisting in the protection of natural environments.

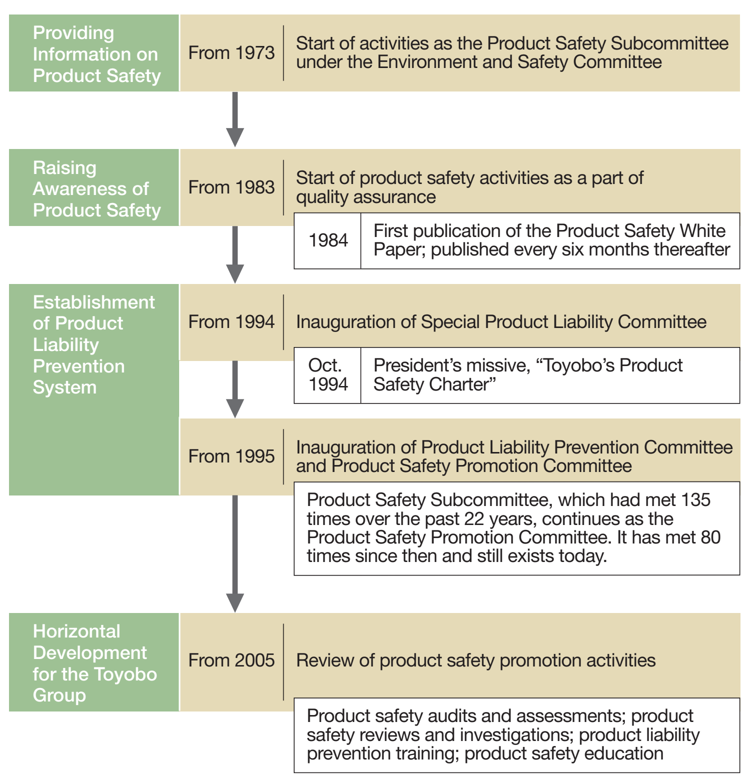
## The Toyobo Biotechnology Foundation

The Toyobo Biotechnology Foundation was established in 1982 to commemorate the 100th anniversary of Toyobo’s founding. The aim of the foundation is to provide research support by holding research seminars and symposiums, and offering research grants, in order to promote academic research in biotechnology. It works to ensure that society broadly benefits by the achievements of these researchers. Including this year ended March 2006, the foundation has provided research grants for a total of 130 international students.

## Toyobo Future Forest

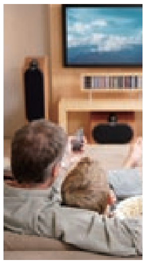
In order to help conserve the environment through forest development, Toyobo is participating in the Company Forestry program run by Wakayama Prefecture. We have named a forest in Hidakagawa the “Toyobo Future Forest,” and in April 2006 planted approximately 1,900 broadleaf trees, including konara oaks, mountain cherries, and momi firs. By engaging in work such as clearing the underbrush, over the next 10 years, the forest will serve as an opportunity for every employee to reflect on the importance of nature, consider environmental issues and refresh both mind and body.

● Product Safety Initiatives



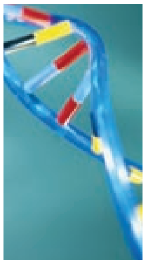
# Toyobo Group (Major Consolidated Companies and Affiliates)

As of March 2006



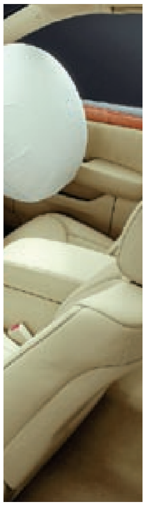
## Plastics Products Business

Toyo Kasei Kogyo Co., Ltd.
Kureha Elastomer Co., Ltd.
Cosmo Electronics Co., Ltd.
Tsuruga Film Co., Ltd.
Yuho Co., Ltd.
Toyo Cloth Co., Ltd.*
Toyoshina Film Co., Ltd.**
Japan U-Pica Co., Ltd.**
Japan Unipet Co., Ltd.**
Mizushima Aroma Co., Ltd.**



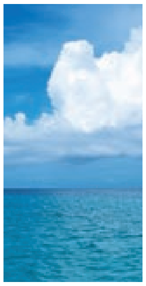
## Bio-Science, Medical and Functional Materials and Products Business

Toyobo Gene Analysis Co., Ltd.
Kureha Ltd.
Toyobo Kankyo Techno Co., Ltd.
SHINKO AMERICAN INC.
PAC Biologics Inc.
Nippon Dyneema Co., Ltd.***



## Fibers and Textiles Business

Japan Exlan Co., Ltd.
Miyuki Keori Co., Ltd.
Toyobo Technowool Co., Ltd.
Daido Maruta Finishing Co., Ltd.
Toyobo Interiors Co., Ltd.
Toyobo Sewing Threads Co., Ltd.
Toyo Dyeing Industry Co., Ltd.
Toyo Knitting Co., Ltd.
Sakae Mfg. Co., Ltd.
Toyobo Fairtone Co., Ltd.
Suntomic Co., Ltd.
Toyo Shirts Manufacturing Co., Ltd.
Kyushu Toyo Knitting Co., Ltd.
Kingo Shoji Co., Ltd.***
PERAK TEXTILE MILLS SDN.BHD.
INDUSTRIAS UNIDAS, S.A.
TOYOBO WOOL (MALAYSIA) SDN.BHD.
TOYOBO TEXTILE(MALAYSIA)SDN.BHD.
P.T.TOYOBO KNITTING INDONESIA
TOYOBO DO BRASIL INDUSTRIA TEXTIL LTDA.
TOYOBO DO BRASIL LTDA.
TOYOBO INDUSTRIAL MATERIAL (THAILAND) LTD.
P.T.SHINKO TOYOBO GISTEX GARMENT
P. T. UNILON TEXTILE INDUSTRIES.**
ERAWAN TEXTILE CO., LTD.**



## Others

Toyobo Real Estate Co., Ltd.
Toyobo G.M.S. Co., Ltd.
Toyobo G.F.A. Co., Ltd.
Toyobo Information System Create, Inc.
Toyobo Logistics Co., Ltd.
Toyobo Sunliving, Inc.
Toyobo Living Service Co., Ltd.
Miyuki Holdings Co., Ltd.*
Shinko Sangyo Co., Ltd.
Toyobo Engineering Co., Ltd.
Ashimori Industry Co., Ltd.**
Godo Syoji Co., Ltd.**
Nippei Toyama Corporation**

* Subsidiaries listed on securities exchange in Japan
** Affiliates subject to equity method
*** Affiliates

# *Financial Statements*



## Overview of Financial Statements for Term Ended March 2006

During the term ended March 2006 (April 1, 2005 – March 31, 2006), the business environment surrounding the Toyobo Group in Japan showed a clear trend toward recovery, owing to growth in consumer spending and an increase in capital investment driven by improved corporate profits, amid rising expectations of an end to deflation. Meanwhile, overseas, the U.S. economy continued to lead a recovery of the world economy. The automotive, digital consumer electronics and medical markets in which the Toyobo Group operates also continued to expand strongly. On the other hand, a sustained surge in raw material and fuel prices from the previous fiscal year was a factor in pushing product costs up.

In such an environment, the Toyobo Group worked to create an even more stable earnings structure with the aim of becoming a “specialty business conglomerate”, by promoting structural reform of non-specialty businesses such as general textiles, and expanding highly profitable specialty businesses such as functional films, functional polymers, industrial fibers and bio-science and medical products.

In our plastics business, while sales of films and functional polymers continued to increase satisfactorily from the previous term, electronic parts slumped, and revenues of the business overall grew only slightly. The bio- science, medical and functional materials business did well overall, and in the functional materials business, sales increased in the area of non-woven fabrics and filters as various materials for automobiles performed well. In the textile business, while sales of clothing textiles continued to shrink, we continued to strive to expand our industrial fibers business. Other businesses generally proceeded according to plan.

As a result, consolidated sales for the current term amounted to 401.9 billion yen, up 8.3 billion yen (2.1%) on a year-on-year basis. In terms of profits, operating income increased by 1.1 billion yen (3.8%) to 29.9 billion yen, ordinary income increased by 3.0 billion yen (13.9%) to 24.6 billion yen, and net income increased by 400 million yen (3.2%) to 12.6 billion yen. All income categories were at the highest levels in our history.

## Sales

The consolidated sales of the current term were 401.9 billion yen, up 8.3 billion yen (2.1%) on a year-on-year basis.

In the film division of our plastics business, films for LCD and optics increased greatly along with growing demand for

## Six-year Summary

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006, 2005, 2004, 2003, and 2002

Millions of yen, except per share information

| | 2002 | 2003 | 2004 | 2005 | **2006** |
|---|---|---|---|---|---|
| **For the year:** | | | | | |
| Net sales | ¥ 383,078 | ¥ 376,377 | ¥ 373,066 | ¥ 393,686 | **¥ 401,948** |
| Cost of sales | 307,298 | 299,488 | 291,440 | 305,494 | **310,746** |
| Selling, general and administrative expenses | 59,448 | 57,167 | 55,770 | 59,410 | **61,315** |
| Operating income | 16,332 | 19,721 | 25,856 | 28,782 | **29,887** |
| Other expenses | 39,131 | 36,119 | 9,457 | 7,190 | **8,305** |
| Income (loss) before income taxes | (22,799) | (16,397) | 16,399 | 21,592 | **21,582** |
| Provision for income taxes | (9,428) | (9,681) | 7,326 | 9,058 | **8,952** |
| Net income (loss) | (13,361) | (6,965) | 8,762 | 12,207 | **12,596** |
| Net income (loss) per share (yen) (1) | ¥ (19.34) | ¥ (10.11) | ¥ 12.63 | ¥ 17.58 | **¥ 18.10** |
| **At the end of the year:** | | | | | |
| Total current assets | ¥ 222,552 | ¥ 200,266 | ¥ 195,080 | ¥ 203,969 | **¥ 204,385** |
| Property, plant and equipment | 244,863 | 232,917 | 216,409 | 229,197 | **230,231** |
| Total assets | 589,408 | 537,314 | 495,969 | 511,813 | **514,791** |
| Total long-term liabilities | 167,031 | 165,969 | 152,086 | 160,534 | **135,088** |
| Total stockholders’ equity | 96,603 | 84,025 | 104,033 | 107,518 | **125,143** |

Note 1: In the fiscal year ended March 31, 2003, the Company applied the Accounting Standards Related to Accounting for Net Income per Share (Corporate Accounting Standard No. 2) and Guidelines for Applying Accounting Standards Related to Net Income per Share (Guideline No. 4 for Applying Corporate Accounting Standards) to calculate net income (loss) per share. Prior year amount of net income per share has not been restated.

thin panel TVs. In the functional polymers division, engineering plastics mainly in the area of automotives were good, and the highly functional resin “VYLON”, mainly in the areas of data recording, industrial adhesives and conductive materials grew steadily. However, electronic parts (flexible printed circuit boards) revenues declined sharply because of falling prices due to intensifying price competition. As a result, sales increased only slightly in the plastics business.

Results were stable in the bioscience, medical products and functional materials division. The area of bioscience showed good results overall, as enzymes for measuring blood sugar level continued to show good results from the previous term, and biochemical diagnostic reagents and new immunodiagnostic systems permeated the market. The volume of overseas sales of our hollow fiber membranes for artificial kidneys grew, thanks to their high reliability. Following delivery of our seawater desalination reverse osmosis membranes to a major plant in Japan in the previous term, we have received orders for a large project in the Middle East.

Sales grew in the functional materials division, as various types of materials for automobiles, such as bag filters to remove harmful substances continued to do well. High performance fiber “DYNEEMA” posted good results in applications such as fishing gear, safety gloves and tether ropes for towing boats.

In the industrial materials area of our textile business, we strove to increase the sales volume of fabrics for airbags and tire cords, and we were able to increase sales significantly. In the area of clothing fabrics, revenues increased as demand recovered, especially for “MUNSINGWEAR” sport apparel.

## Cost of Goods Sold, and Selling and General Administrative Expenses

The cost of goods sold in the current term increased to 310.7 billion yen, up 5.3 billion yen (1.7%) from the previous term, due mainly to the increase of production volume and soaring material and fuel prices. However, the ratio of cost of goods sold to sales improved by 0.3 points, from 77.6% in the previous term to 77.3%.

Selling and general administrative expenses increased by 1.9 billion yen (3.2%) on a year-on-year basis to 61.3 billion yen. This was due to an increase in new consolidated subsidiaries.

## Operating Income/Non-operating Income/ Ordinary Income

The consolidated operating income of the current term was 29.9 billion yen, up 1.1 billion yen (3.8%) on a year-on-year basis. (Please see page 47 for operating income by business segment.)

The ratio of operating income to sales improved by 0.1 points to 7.4%, and the ratio of operating income to total assets also improved by 0.2 points, from 5.6% in the previous term to 5.8%.

In addition, non-operating income (net amount) improved by 1.9 billion yen (26.4%) on a year-on-year basis to 5.3 billion yen. In non-operating income, dividends received and income from sales of investment shares declined, but income from adjustments of consolidated accounts and equity method investments increased. Meanwhile in non-operating expenses, interest expense declined along with a reduction of interest-bearing liabilities.

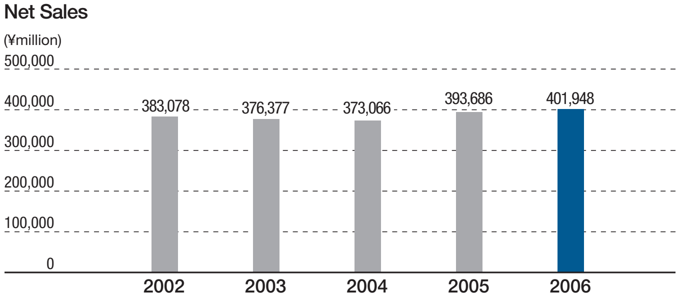
As a result of the above, ordinary income for the term increased by 3.0 billion yen (13.9%) from 21.6 billion yen in the previous term to 24.6 billion yen. Operating income and ordinary income both recorded the highest levels yet.

## Net Income

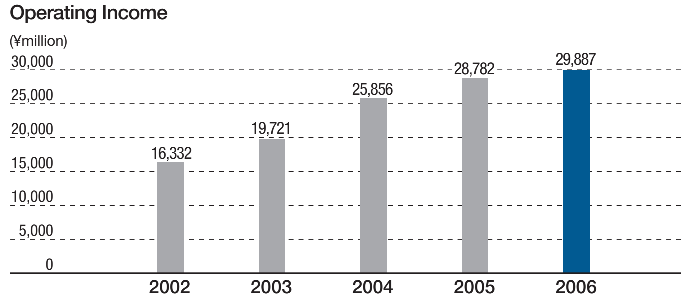
Extraordinary income increased from 8.6 billion yen in the previous term to 13.0 billion yen. This was largely due to gains of 5.4 billion yen from the sale of investment securities in order to reduce interest-bearing liabilities, special dividends of 3.4 billion yen in liquidation dividends from special-purpose companies, and 2.9 billion yen from a gain on securities contributed to employees retirement benefit trust.

Extraordinary losses increased from 7.4 billion yen in the previous term to 16.0 billion yen. This was largely due to

Net Sales




Operating Income



losses related to lawsuits of 6.6 billion yen. These included settlement payments and attorney's fees related to suits involving our company and our company's non-consolidated subsidiary in the U.S. In addition, there were restructuring-related expenses of 2.0 billion yen, a loss of 2.3 billion yen on disposal of property, plant and equipment from the sales of unnecessary equipment, and an impairment loss of 2.4 billion yen.

As a result of the above, the consolidated net income for the current term was 12.6 billion yen, an increase of 389 million yen (3.2%) from the previous term, and recorded the highest level of net income. In addition, net income per share increased from 17.58 yen in the previous term to 18.10 yen.

## Liquidity and Source of Funds

The balance of cash flow from operating activities for the current term was positive at 27.3 billion yen. Net income before adjustments for taxes, etc. was 21.6 billion yen, about the same as in the previous term. However, there was a loss from a lawsuit related to Zylon fiber, and the amount of corporate tax paid increased significantly, so that cash flow from operating activities decreased by 2.8 billion yen (9.2%) from the previous term.

The balance of cash flow from investment activities for the current term was negative at 4.0 billion yen, a reduction in funds of 8.9 billion yen (181.7%) from the inflow of 4.9 billion yen in the previous term. This was mainly due to an increase in outlays for the purchase of fixed tangible assets.

The balance of cash flow from financing activities for the current term was negative at 23.1 billion yen, due to the ongoing reduction of interest-bearing liabilities. However, compared to the 37.6 billion yen loss of the previous term, the reduction in funds declined by 14.5 billion yen (38.6%).

As a result of the above, the balance of cash and cash equivalents at the end of the term was 11.9 billion yen, an increase of 311 million yen (2.7%) from 11.6 billion yen in the previous term.

## Assets, Liabilities and Stockholders' Equity

The balance of total assets at the end of the current term was 514.8 billion yen, up 3.0 billion yen (0.6%) from 511.8 billion yen at the end of the previous term.

The balance of current assets at the end of the current term was 204.4 billion yen, up 416 million yen (0.2%) on a year-on-year basis. This was mainly due to an increase in inventories to 89.1 billion yen, up 3.6 billion yen (4.2%) on a year-on-year basis.

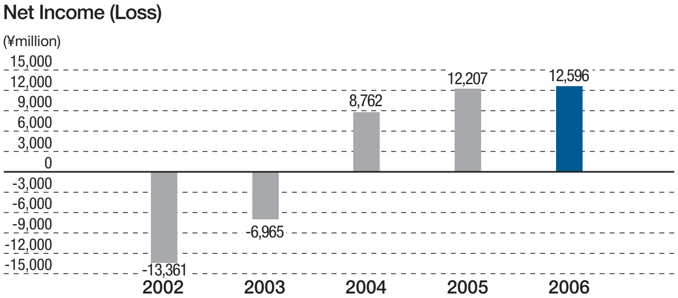
The balance of fixed assets at the end of the current term was 310.4 billion yen, up 2.6 billion yen (0.8%) from 307.8 billion yen at the end of the previous term. The balance of tangible fixed assets was 230.2 billion yen, up 1.0 billion yen (0.5%) on a year-on-year basis. This was due to investment in new equipment. Investments and other assets increased to 78.6 billion yen, up 3.4 billion yen (4.5%) on a year-on-year basis. This was mainly because the market value of investment securities increased.

The balance of total liabilities at the end of the current term was 372.4 billion yen, down 15.7 billion yen (4.0%) from 388.0 billion yen at the end of the previous term. This was due to the reduction of interest-bearing liabilities to strengthen our financial condition, to 206.2 billion yen, down 14.8 billion yen (6.7%%) from 221.0 billion yen on a year-on-year basis. Consequently, the D/E ratio declined from 2.06 at the end of the previous term to 1.65.

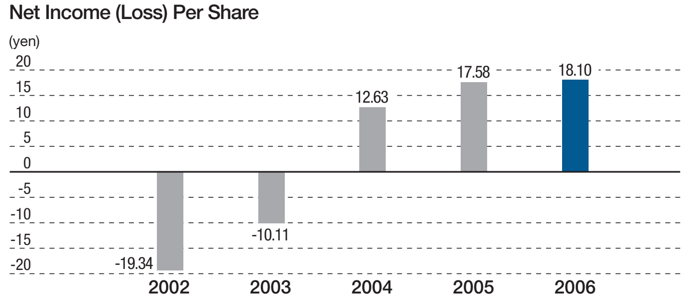
The balance of current liabilities at the end of the current term was 237.3 billion yen, up 9.8 billion yen (4.3%) on a year-on-year basis. While short-term borrowings were reduced by 20.3 billion yen (17.8%) compared to the previous term, long-term debt due within one year and bonds to be repaid within one year increased by 19.2 billion yen and 10.0 billion yen, respectively.

The balance of fixed liabilities at the end of the current term was 135.1 billion yen, down 25.4 billion yen (15.9%) from 160.5 billion yen at the end of the previous term. This was due to a reduction in long-term borrowings of 13.3 billion yen, and the transfer of 10.0 billion yen in bonds planned to be repaid

Net Income (Loss)




Net Income (Loss) Per Share



within one year to current liabilities. In addition, the employees' severance and retirement benefits reserve was reduced by 5.6 billion yen.

The balance of the stockholders' equity increased to 125.1 billion yen, up 17.6 billion yen (16.4%) on a year-on-year basis. This was because retained earnings increased by 9.1 billion yen, and also because net unrealized holding gains on securities increased by 4.5 billion yen and foreign currency translation adjustments increased by 3.1 billion yen.

The shareholders' equity ratio was 24.3%, up by 3.3 points from 21.0% in the previous term. The return (ordinary income) on asset ratio (ROA) was 4.8%, up by 0.5 points from the 4.3% of the previous term.

## Risk Factors

Toyobo is exposed to the following risks that may affect its operating results and financial status.

The future matters specified in the following are based on information that was available as of the end of this fiscal year and certain assumptions that serve as the basis of rational judgments.

**(1) Political & Economic Situations**

We produce and offer a variety of fibers and textiles, plastic products, bio, medical and functional materials and products to domestic and foreign markets. In the event of political turmoil or a serious economic recession in our production bases or in major markets, our operating results or financial status may be seriously influenced by such events through the impact on our production and sales.

**(2) Decline of Retail Prices**

We sell a range of products, including textiles, plastics, and bio, medical and functional materials, in a variety of markets both in Japan and overseas. Many of these products are in competition with the products of other companies.

Price cuts of our competitors may cause a decline in our retail prices or a decrease in our sales volume. In our medical business, our retail prices may drop due to lowered official price standards. Our operating results or financial status may be seriously influenced by such circumstances through a sales decrease.

**(3) Business Downturn or Retreat by Major Customers**

We sell a range of products, including textiles, plastics, and bio, medical and functional materials, to a variety of customers both in Japan and overseas.

We provide certain of our products to specific customers. In the event that such customers face a downturn in business, retreat from business, cut back inventories significantly, claim drastic rate reductions, or request production adjustments, our operating results or financial status may be seriously influenced by such events through a sales decrease.

**(4) Tariff Hikes and Import Regulations in Overseas Major Markets**

We sell textiles, plastics products, bio medical and functional materials and products in domestic and overseas markets. In case tariff hikes or import regulations on quantity limits are imposed under antidumping laws in overseas major markets in future, our business and financial conditions may be seriously affected by the sales decrease caused by the restrictions on exports.

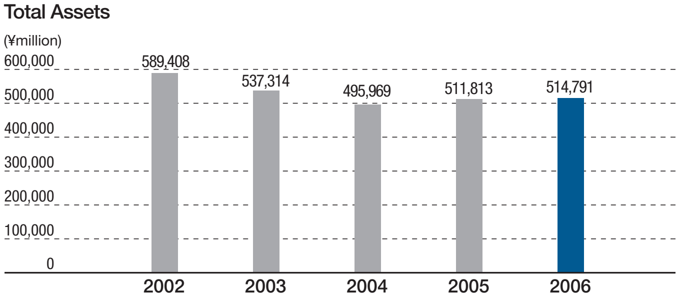
**(5) Credit**

We have made provisions for bad debt losses based on past default ratios and strive to minimize our credit risk under the credit management regulation by setting credit limits for each customer and other means. However, in the event of the bankruptcy of our major customers due to economic recession, our operating results or financial status may be seriously influenced by such events through bad debt loss that substantially exceeds the amount of provisions made.

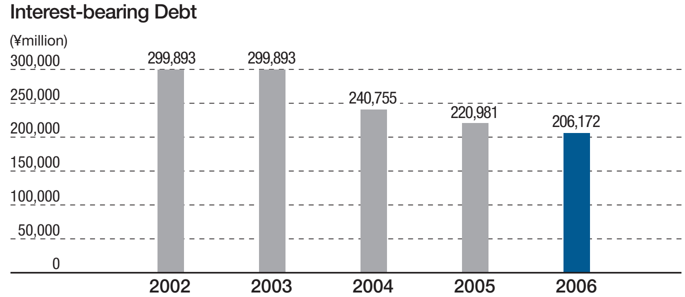
**(6) Product Defects**

For prevention of product defects, we produce a variety of

Total Assets




Interest-bearing Debt



products, including textiles, plastics and bio, medical and functional materials, in accordance with specific quality control standards under the control of Global Environment and Safety Committee and Product Liability Prevention Committee, and are covered by product liability insurance. However, it is not guaranteed that all of our products are free from all defects, that there would be no defective product at all in future, or that compensatory payment is fully covered by the insurance. Accordingly, in case of material product defects, our operating results or financial status may be seriously influenced by large liability payments or loss of credit.

**(7) Purchase of Raw Materials**

We purchase raw materials from various suppliers in order to produce a variety of products, including textiles, plastics, and bio, medical and functional materials. Although the major materials are provided by a number of suppliers to some extent due in part to risk management considerations, there is a risk that we may not be able to purchase sufficient volume in case the suppliers have problems. Even if we can purchase such materials, purchase prices may rise suddenly. Our operating results or financial status may be seriously influenced under such circumstances by cost increases or production cutbacks.

**(8) Intellectual Properties**

We work to actively expand the scale of its businesses for highly functional products where we enjoy a strong competitive advantage, like films, high function products, and bio, medical and industrial materials, which are rooted in core technologies for textiles, polymers and biotechnology. For this reason, we endeavor to build and protect technology and know-how differentiated from those of our competitors' products in fibers and textiles, polymer and bio-medical fields. However, there is a risk in certain areas that we may not be able to prevent the production and sale of similar products, the violation of a patent, or the imitation of confidential business information by a third party due to insufficient protection. Although we develop products and technology while paying full attention to the intellectual property rights of other companies, we are not free from the possibility that we might infringe the intellectual property rights of other companies. Thus, in the event that our intellectual property rights are infringed or we infringe the rights of other companies, our operating results or financial status may be seriously influenced by a sales decrease or liability payments.

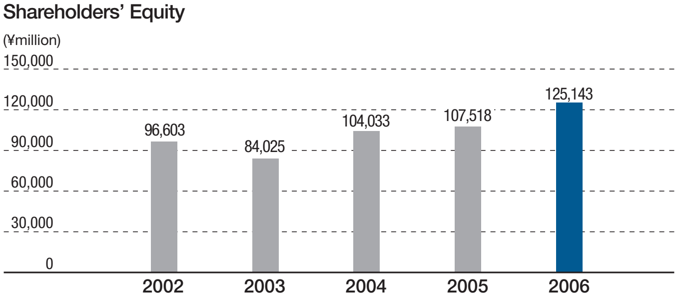
**(9) Development of New Products and New Usages**

Given our commitment to being a specialty business conglomarate, we invest our research and development spending in the business domain of high functional products for which we have a strong competitive advantage, like films, high function materials, and bio, medical and industrial materials, which are rooted in core technologies for textiles, polymers and biotechnology, in order to develop new products and applications. However, it is not fully guaranteed that our development will be successful at all times. Our operating results or financial status may be seriously influenced under such circumstances by a decline in our future growth and profitability.

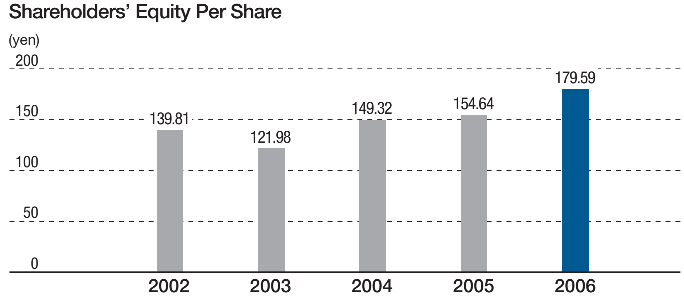
**(10) Public Regulations**

We conduct production activities and other corporate activities in various locations in Japan and abroad, and operate our business under various public regulations on business licenses, tax and environment-related issues in domestic or foreign areas where these business sites are located. In case water restrictions or legal regulations on environment-related issues become tighter in the area where our major business sites are located, our operating results or financial status may be seriously influenced by restrictions imposed on our production activities or other corporate activities, or by being forced to make large capital investments, tax payments or other expenditures in order to comply with the regulations.

**Shareholders' Equity**




**Shareholders' Equity Per Share**



**(11) Litigation**

We conduct production activities and other corporate activities in various domestic and overseas locations. In this process, there is a possibility that lawsuits may be brought against us in connection with product liability, the environment, labor, intellectual property or other areas.

There is a significant lawsuit that was in litigation during the current consolidated fiscal year as described in page 48. We intend to establish the fact that their claim is incorrect to defend ourselves properly. However, in case we or TOYOBO AMERICA, INC. loses the suit, our business and financial conditions may be seriously affected by the compensation claim from the plaintiffs.

**(12) Foreign Exchange Rate Fluctuation**

Our operations include production and sales of our products in foreign areas. In case we suffer substantial fluctuations in the foreign exchange rate, our operating results or financial status may be seriously influenced by a sales decrease, cost increase, or lowered price competitiveness after conversion to yen.

**(13) Interest Rate Fluctuation**

We work to reduce interest-bearing liabilities and fix interest rates. However, in case the current level of interest rates goes up sharply, our operating results or financial status may be seriously influenced by such cases through significant increases in interest costs.

Also, for retirement benefit liability, the group usually states the amount of retirement benefits estimated to be paid at retirement that are deemed to have been incurred by the end of the consolidated fiscal year under review, discounted based on the time period from the estimated payment date to the end of the fiscal year under review, and based on the yield rate of highly secure long-term bonds. For this reason, if interest rates go down further, our operating results or financial status may be seriously influenced by increases in retirement benefit liability and retirement benefit expenses (expenses for differences of implicit costs).

**(14) Stock Price Volatility**

We hold a considerable amount of marketable securities. In case stock market prices decline substantially, our operating results or financial status may be seriously influenced by a decrease in the value of the securities.

Also, our pension assets include a significant amount of marketable securities, so if stock prices fall considerably, our operating results or financial status could be substantially impacted due to decreased pension assets and increased retirement benefit expenses (recognized actuarial loss).

**(15) Substantial Decline of Land Prices**

We own a great deal of land, most of which has already been revaluated pursuant to the Land Revaluation Law. In case land prices decline substantially, our operating results or financial status may be seriously influenced by a loss in value or losses incurred when selling.

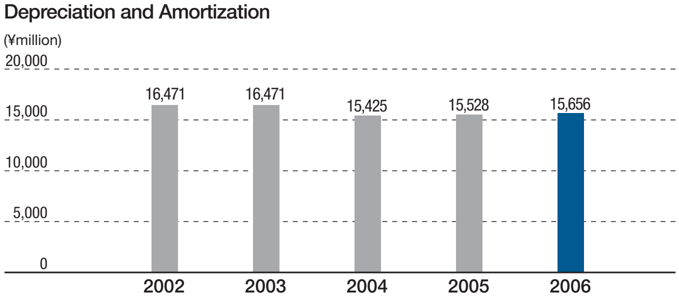
**(16) Downgrade in Rating**

In case credit rating agencies downgrade our issued debentures, our operating results or financial status may be seriously influenced by the impact on funding.

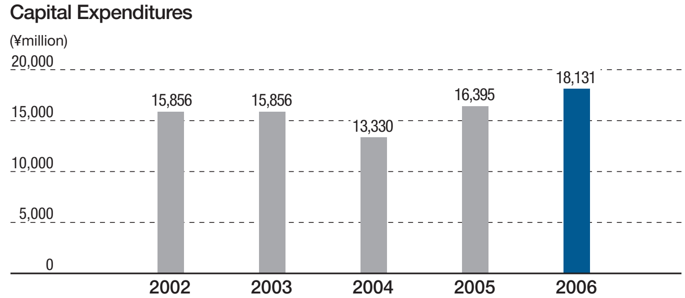
**(17) Accidents and Disasters**

We conduct production activities and other corporate activities at various domestic and overseas locations. We carry out strict plant control and strive to prevent damage caused by accidents and disasters at these production facilities and business sites. However, in case of massive earthquakes, wind and flood damage, snow damage, and other natural disasters, our operating results or financial status may be seriously influenced under such circumstances as our production activities may be interrupted.

Depreciation and Amortization




Capital Expenditures



## Consolidated Balance Sheets

### ASSETS

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Current assets:** | | | |
| Cash and cash equivalents (Notes 2 and 10) | **¥ 12,470** | ¥ 11,889 | **$ 106,155** |
| Notes and accounts receivable: | | | |
| Trade | **90,485** | 94,669 | **770,282** |
| Other | **5,282** | 4,651 | **44,965** |
| Allowance for doubtful receivables | **(1,277)** | (2,234) | **(10,871)** |
| | **94,490** | 97,086 | **804,376** |
| Inventories (Note 5) | **89,132** | 85,500 | **758,764** |
| Deferred income taxes (Note 7) | **4,018** | 4,020 | **34,204** |
| Other current assets (Note 10) | **4,275** | 5,474 | **36,392** |
| Total current assets | **204,385** | 203,969 | **1,739,891** |
| **Investments and noncurrent assets:** | | | |
| Investment securities (Notes 3 and 10): | | | |
| Unconsolidated subsidiaries affiliates | **16,847** | 15,069 | **143,415** |
| Other | **41,459** | 38,356 | **352,933** |
| Loans | **3,331** | 3,758 | **28,356** |
| Deferred income taxes (Note 7) | **12,332** | 13,188 | **104,980** |
| Other investments and noncurrent receivables | **7,808** | 8,558 | **66,468** |
| Allowance for doubtful receivables | **(3,128)** | (3,644) | **(26,628)** |
| | **78,649** | 75,285 | **669,524** |
| **Property, plant and equipment (Note 10):** | | | |
| Land | **115,185** | 112,215 | **980,548** |
| Buildings and structures | **118,557** | 115,717 | **1,009,254** |
| Machinery and equipment | **342,214** | 335,873 | **2,913,203** |
| Tools, furniture and fixtures | **22,439** | 22,306 | **191,019** |
| Construction in progress | **4,002** | 8,650 | **34,068** |
| | **602,397** | 594,761 | **5,128,092** |
| Less accumulated depreciation | **372,166** | 365,564 | **3,168,179** |
| | **230,231** | 229,197 | **1,959,913** |
| **Other assets:** | | | |
| Intangible assets | **1,526** | 3,362 | **12,991** |
| | **1,526** | 3,362 | **12,991** |
| **Total assets** | **¥ 514,791** | ¥ 511,813 | **$ 4,382,319** |

See accompanying notes to consolidated financial statements.

## LIABILITIES, MINORITY INTERESTS AND STOCKHOLDERS' EQUITY

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Current liabilities:** | | | |
| Short-term borrowing (Notes 8 and 10) | **¥ 93,659** | ¥ 114,001 | **$ 797,301** |
| Long-term debt due within one year (Notes 8 and 10) | **46,260** | 17,090 | **393,803** |
| Notes and accounts payable: | | | |
| Trade | **61,513** | 60,063 | **523,649** |
| Other | **12,085** | 13,428 | **102,877** |
| | **73,598** | 73,491 | **626,526** |
| Employees' savings deposits | **5,927** | 6,160 | **50,455** |
| Customers' deposits (Note 10) | **4,873** | 2,787 | **41,483** |
| Accrued employees' bonuses | **4,748** | 4,666 | **40,419** |
| Accrued income taxes | **6,001** | 6,795 | **51,085** |
| Deferred income taxes (Note 7) | **95** | 101 | **809** |
| Other current liabilities | **2,105** | 2,382 | **17,919** |
| Total current liabilities | **237,266** | 227,473 | **2,019,800** |
| **Long-term liabilities:** | | | |
| Long-term debt due after one year (Notes 8 and 10) | **66,254** | 89,890 | **564,008** |
| Employees' severance and retirement benefits (Note 9) | **20,184** | 25,820 | **171,823** |
| Directors', operating officers' and corporate auditors' retirement benefits | **1,264** | 1,621 | **10,760** |
| Deferred income taxes on land revaluation (Note 14) | **28,165** | 28,095 | **239,763** |
| Deferred income taxes (Note 7) | **10,923** | 6,385 | **92,985** |
| Excess of net assets acquired over cost, net | **2,228** | 3,357 | **18,967** |
| Other long-term liabilities | **6,070** | 5,366 | **51,673** |
| Total long-term liabilities | **135,088** | 160,534 | **1,149,979** |
| **Contingent liabilities (Note 11)** | | | |
| **Minority interests in consolidated subsidiaries** | **17,294** | 16,288 | **147,221** |
| **Stockholders' equity:** | | | |
| Common stock | | | |
| Authorized - 2,000,000,000 shares | | | |
| Issued - 699,027,598 shares in 2006 and 2005 | **43,341** | 43,341 | **368,954** |
| Capital surplus | **16,086** | 15,884 | **136,937** |
| Retained earnings | **18,556** | 9,413 | **157,964** |
| Land revaluation excess (Note 14) | **39,998** | 39,897 | **340,495** |
| Revaluation excess – foreign (Note 15) | **6,620** | 6,329 | **56,355** |
| Net unrealized holding gains on securities | **12,640** | 8,109 | **107,602** |
| Foreign currency translation adjustments | **(11,682)** | (14,795) | **(99,447)** |
| Less treasury stock, at cost | | | |
| (2,220 thousand shares in 2006 and 3,743 thousand shares in 2005) | **(416)** | (660) | **(3,541)** |
| **Total stockholders' equity** | **125,143** | 107,518 | **1,065,319** |
| **Total liabilities, minority interests and stockholders' equity** | **¥ 514,791** | ¥ 511,813 | **$ 4,382,319** |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Net sales (Note 13)** | **¥ 401,948** | ¥ 393,686 | **$ 3,421,707** |
| **Cost of sales** | **310,746** | 305,494 | **2,645,322** |
| Gross profit | **91,202** | 88,192 | **776,385** |
| **Selling, general and administrative expenses** | **61,315** | 59,410 | **521,963** |
| Operating income (Note 13) | **29,887** | 28,782 | **254,422** |
| **Other income (expenses):** | | | |
| Interest and dividend income | **1,232** | 1,866 | **10,488** |
| Interest expense | **(3,080)** | (3,309) | **(26,219)** |
| Rent | **734** | 762 | **6,248** |
| Gain on sales of securities | **5,418** | 8,389 | **46,122** |
| Gain on sales of property, plant and equipment | **1,061** | 248 | **9,032** |
| Loss on disposal of property, plant and equipment | **(2,744)** | (4,731) | **(23,359)** |
| Gain on securities contributed to employees' retirement benefit trust | **2,927** | — | **24,917** |
| Special loss on restructuring of businesses (Note 16) | **(1,994)** | (556) | **(16,974)** |
| Write-down of investment securities | **(429)** | (103) | **(3,652)** |
| Write-down of inventories | **(1,884)** | — | **(16,038)** |
| Special allowance for doubtful receivables | **—** | (971) | **—** |
| Reversal of allowance for doubtful receivable | **205** | — | **1,745** |
| Amortization of consolidation goodwill | **655** | 373 | **5,576** |
| Equity in income of unconsolidated subsidiaries and affiliates | **771** | 269 | **6,563** |
| Retirement benefits for employees for prior periods | **(1,609)** | (1,749) | **(13,697)** |
| Salaries paid to dispatched employees | **(1,343)** | (1,465) | **(11,433)** |
| Losses related to lawsuits | **(6,571)** | (2,367) | **(55,938)** |
| Dividend on liquidation of special-purpose company | **3,400** | — | **28,944** |
| Loss on impairment of fixed assets | **(2,387)** | — | **(20,320)** |
| Other, net | **(2,667)** | (3,846) | **(22,703)** |
| | **(8,305)** | (7,190) | **(70,698)** |
| **Income before income taxes** | **21,582** | 21,592 | **183,724** |
| **Provision for income taxes (Note 7)** | | | |
| Current | **6,879** | 8,037 | **58,561** |
| Deferred | **2,073** | 1,021 | **17,647** |
| | **8,952** | 9,058 | **76,208** |
| **Minority interest in income of consolidated subsidiaries** | **(34)** | (327) | **(289)** |
| **Net income** | **¥ 12,596** | ¥ 12,207 | **$ 107,227** |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Net income per share** | **¥ 18.10** | ¥ 17.58 | **$ 0.154** |
| **Cash dividends applicable to the year** | **5.00** | 5.00 | **0.043** |

See accompanying notes to consolidated financial statements.

## Consolidated Statements of Stockholders' Equity

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2006 and 2005

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **Common stock:** | | | |
| Opening balance | ¥ 43,341 | ¥ 43,341 | $ 368,954 |
| Closing balance | ¥ 43,341 | ¥ 43,341 | $ 368,954 |
| **Capital surplus:** | | | |
| Opening balance | ¥ 15,884 | ¥ 15,882 | $ 135,218 |
| Adjustments for merger | 20 | — | 170 |
| Gain on sale of treasury stock | 182 | 2 | 1,549 |
| Closing balance | ¥ 16,086 | ¥ 15,884 | $ 136,937 |
| **Retained earnings** | | | |
| Opening balance | ¥ 9,413 | ¥ 2,017 | $ 80,131 |
| Net income | 12,596 | 12,207 | 107,227 |
| Adjustments for the effects of changes in consolidated subsidiaries | (27) | (1,105) | (230) |
| Adjustment for changes in investments accounted for by the equity method | (81) | (336) | (689) |
| Cash dividends – ¥ 5 per share | (3,492) | (3,493) | (29,727) |
| Adjustments for merger | — | (63) | — |
| Adjustments for reversal of revaluation of land | 147 | 186 | 1,252 |
| Closing balance | ¥ 18,556 | ¥ 9,413 | $ 157,964 |
| **Land revaluation excess** | | | |
| Opening balance | ¥ 39,897 | ¥ 39,652 | $ 339,636 |
| Reversal of land revaluation excess | (147) | (186) | (1,252) |
| Increase resulting from changes in equity | 248 | 431 | 2,111 |
| Closing balance | ¥ 39,998 | ¥ 39,897 | $ 340,495 |
| **Revaluation excess – foreign** | | | |
| Opening balance | ¥ 6,329 | ¥ 6,333 | $ 53,878 |
| Adjustments for the effects of currency exchange | 291 | (4) | 2,477 |
| Closing balance | ¥ 6,620 | ¥ 6,329 | $ 56,355 |
| **Net unrealized holding gains on securities** | | | |
| Opening balance | ¥ 8,109 | ¥ 12,185 | $ 69,030 |
| Increase (decrease) in holding gains, net | 4,531 | (4,076) | 38,572 |
| Closing balance | ¥ 12,640 | ¥ 8,109 | $ 107,602 |
| **Foreign currency translation adjustments** | | | |
| Opening balance | ¥ (14,795) | ¥ (14,975) | $ (125,947) |
| Foreign currency translation adjustments | 3,113 | 180 | 26,500 |
| Closing balance | ¥ (11,682) | ¥ (14,795) | $ (99,447) |
| **Treasury stock** | | | |
| Opening balance | ¥ (660) | ¥ (402) | $ (5,618) |
| Treasury stock purchased | — | (258) | — |
| Treasury stock sold | 244 | — | 2,077 |
| Closing balance | ¥ (416) | ¥ (6,603) | $ (3,541) |

| | Thousands of shares | |
|---|---|---|
| **Number of shares of common stock authorized** | 2,000,000 | 2,000,000 |
| **Number of shares of common stock issued** | | |
| Opening balance | 699,028 | 699,028 |
| Closing balance | 699,028 | 699,028 |

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Cash flows provided by operating activities:** | | | |
| Income before income taxes | **¥ 21,582** | ¥ 21,592 | **$ 183,724** |
| Depreciation and amortization | **15,656** | 15,528 | **133,277** |
| Amortization of consolidation goodwill | **(655)** | (373) | **(5,576)** |
| Retirement benefits, net | **(1,531)** | (521) | **(13,033)** |
| Allowance for doubtful receivables, net | **(523)** | 581 | **(4,452)** |
| Loss on sales and disposal of property, plant and equipment, net | **1,683** | 3,304 | **14,327** |
| Gain on sales of securities | **(5,418)** | (8,389) | **(46,122)** |
| Write-down of investment securities | **429** | 103 | **3,652** |
| Equity in income of unconsolidated subsidiaries and affiliates | **(771)** | (269) | **(6,563)** |
| Interest and dividend income | **(1,232)** | (1,866) | **(10,488)** |
| Gain on securities contributed to employee retirement benefits trust | **(2,927)** | — | **(24,917)** |
| Dividend on liquidation of special-purpose company | **(3,400)** | — | **(28,944)** |
| Loss on impairment of fixed assets | **2,387** | — | **20,320** |
| Interest expense | **3,080** | 3,309 | **26,219** |
| Special loss on restructuring of businesses | **1,994** | 556 | **16,975** |
| Losses related to lawsuits | **6,571** | 2,367 | **55,938** |
| Decrease in trade notes and accounts receivable | **5,267** | 5,324 | **44,837** |
| Increase in inventories | **(1,727)** | (5,239) | **(14,702)** |
| Increase in trade notes and accounts payable | **1,190** | 1,158 | **10,130** |
| Other, net | **2,023** | (622) | **17,221** |
| Total | **43,678** | 36,543 | **371,823** |
| Special loss on restructuring of businesses | **(1,914)** | (556) | **(16,294)** |
| Losses related to lawsuits | **(6,370)** | (2,100) | **(54,227)** |
| Income taxes paid | **(8,095)** | (3,816) | **(68,911)** |
| Net cash provided by operating activities | **27,299** | 30,071 | **232,391** |
| **Cash flows provided by (used in) investing activities:** | | | |
| Purchase of property, plant and equipment | **(19,960)** | (13,657) | **(169,916)** |
| Proceeds from sales of property, plant and equipment | **1,831** | 4,496 | **15,587** |
| Purchase of investment securities | **(2,352)** | (532) | **(20,022)** |
| Proceeds from sales of investment securities | **10,808** | 14,646 | **92,006** |
| Interest and dividend income excluding unconsolidated subsidiaries and affiliates | **5,712** | 1,858 | **48,625** |
| Purchase of investment securities of consolidated subsidiaries | **—** | (686) | **—** |
| Dividend income from affiliates accounted for by equity method | **318** | 128 | **2,707** |
| Other, net | **(368)** | (1,343) | **(3,132)** |
| Net cash provided by (used in) investing activities | **(4,011)** | 4,910 | **(34,145)** |
| **Cash flows used in financing activities:** | | | |
| Cash dividends | **(3,492)** | (3,493) | **(29,727)** |
| Cash dividends to minority interests | **(263)** | (192) | **(2,239)** |
| Net decrease in short-term borrowings | **(22,111)** | (20,849) | **(188,227)** |
| Proceeds from long-term debt | **25,917** | 18,260 | **220,627** |
| Repayment of long-term debt | **(20,973)** | (17,628) | **(178,539)** |
| Payment of bonds | **(300)** | (10,000) | **(2,554)** |
| Payment of interest | **(3,118)** | (3,277) | **(26,543)** |
| Proceeds from sales of treasury stock | **(31)** | (50) | **264** |
| Payment for purchase of treasury stock | **1,300** | 273 | **(11,067)** |
| Payment in legal settlement of debt | **—** | (636) | **—** |
| Net cash used in financing activities | **(23,071)** | (37,592) | **(196,399)** |
| **Adjustment for foreign currency translation** | **190** | (4) | **1,617** |
| **Net increase (decrease) in cash and cash equivalents** | **407** | (2,615) | **3,464** |
| **Cash and cash equivalents at beginning of year** | **11,583** | 13,948 | **98,604** |
| **Increase resulting from changes in consolidated subsidiaries** | **(96)** | 250 | **(817)** |
| **Cash and cash equivalents at end of year (Note 2)** | **¥ 11,894** | ¥ 11,583 | **$101,251** |

See accompanying notes to consolidated financial statements.

## 1 BASIS OF PRESENTING FINANCIAL STATEMENTS

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

The accounts of overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles prevailing in the respective countries of domicile. The accompanying consolidated financial statements have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of stockholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the corporate Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2006, which was ¥117.47 to U.S. $1. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

## 2 SIGNIFICANT ACCOUNTING POLICIES

**Principles of consolidation**

The consolidated financial statements include the accounts of the Company and its 63 (68 in 2005) significant substantially controlled subsidiaries. Investments in 17 (16 in 2005) non-consolidated subsidiaries and affiliates, for which the Company has significant influence, are accounted for by the equity method. Intercompany transactions and accounts have been eliminated. Significant differences between the cost of investments and the equity in their net assets at dates of acquisition are amortized over five years.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

The accounts of 17 consolidated subsidiaries are included on the basis of their fiscal years, which end on December 31 (January 31 for 1, February 28 for 2 and March 20 for 3 other subsidiaries). These subsidiaries do not prepare, for consolidation purposes, statements for the period, which corresponds with the fiscal year of the Company. When there are significant transactions between their respective fiscal year ends and the Company's year end, necessary adjustments are made to reflect such transactions properly in the accompanying consolidated financial statements.

**Allowance for doubtful receivables**

With respect to normal trade accounts receivable, the allowance is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

**Securities**

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of stockholders' equity. Realized gains and losses on sale of such securities are computed using moving-average cost.

Other securities with no available fair market value are stated at moving-average cost.

**Inventories**

Inventories are principally stated at cost. Cost is determined principally by the periodic weighted average method.

**Property, plant and equipment**

Property, plant and equipment are principally carried at cost. Depreciation is provided principally on the declining-balance method over estimated useful lives, except that certain machinery and equipment are depreciated on the straight-line method.

Overseas consolidated subsidiaries principally use the straight-line method.

The Company previously used the straight-line method depreciation for certain machinery and equipment used in the Plastics Products and Functional Materials Divisions, excluding indirect departments, the method was changed to the declining-balance method, effective April 1, 2005.

This change was implemented in order to facilitate a quick return on invested capital and improve financial strength, given the fast pace of technological innovation and short product life cycles in these divisions.

As result of this change, depreciation increased by ¥358 million ($3,048), compared to the previous method, while operating income and net income before income taxes each fell by ¥272 million ($2,315). The effects on each business segment are stated in Note 13.

**Software**
The Company and its domestic consolidated subsidiaries include software in intangible assets and amortize it using the straight-line method over the estimated useful life of five years.

**Research and development expenses**
Expenses relating to research and development activities are charged to income when incurred. Research and development expenses were ¥10,079 million ($85,801 thousand) and ¥9,201 million, respectively, for the years ended March 31, 2006 and 2005.

**Bond issuance costs**
Bond issuance costs are charged to income when incurred.

**Finance leases**
Finance leases, which do not transfer ownership and do not have bargain purchase provisions, are accounted for in the same manner as operating leases.

**Accrued employees' bonuses**
The Company and its domestic consolidated subsidiaries follow the Japanese practice of paying bonuses to employees in June and December. The Company and its domestic subsidiaries accrue the estimated amounts of employees' bonuses at the balance sheet date, based on estimated amounts to be paid in the subsequent period. Bonuses to directors, operating officers and corporate auditors, which are subject to approval at the stockholders' meeting, are accounted as an appropriation of retained earnings.

**Stockholders' equity**
Under the Japanese Commercial Code, the entire amount of the issue price of shares is required to be accounted for as capital, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital, which is included in capital surplus.

The Japanese Commercial Code provides that an amount equal to at least 10% of cash dividends and other cash appropriations shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of common stock. The total amount of legal reserve and additional paid-in capital of the Company has reached 25% of common stock, and therefore the Company is not required to provide any more legal reserve. The legal reserve and additional paid-in capital may be used to eliminate or reduce a deficit by resolution of the stockholders' meeting or may be capitalized by resolution of the Board of Directors. On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common stock, they are available for dividends by resolution of stockholders' meeting. Legal reserve is included in retained earnings in the accompanying financial statements.

**Income taxes**
The Company and its consolidated subsidiaries provide income taxes at the amounts currently payable and deferred income taxes pertaining to loss carryforwards, timing differences between financial statements and tax reports and in respect of the elimination of unrealized intercompany profits and other adjustments for consolidation purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

**Employees' severance and retirement benefits**
Under the terms of the Company's and its domestic consolidated subsidiaries' retirement plans, substantially all employees are entitled to lump-sum payments at the time of retirement. The amount of the retirement benefit is, in general, based on the length of service, basic salary at the time of retirement and cause of retirement.

The Company and its domestic consolidated subsidiaries also have contributory funded pension plans which cover substantially all employees.

The Company and its domestic consolidated subsidiaries provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of the plan assets.

The excess of the projected benefit obligation over the total of the fair value of pension assets as of April 1, 2000 and the liabilities for severance and retirement benefits recorded as of April 1, 2000 (the "net transition obligation") is being recognized in expenses in equal amounts primarily over fifteen years (for certain consolidated subsidiaries, five years) commencing with the year ended March 31, 2001. Prior service costs are recognized in expenses in equal amounts over ten years (within the average of the estimated remaining service lives of the employees), and actuarial gains and losses are recognized in expenses using the straight-line method over ten years (within the average of the estimated remaining service lives) commencing with the following period.

**Directors', operating officers' and corporate auditors' retirement benefits**
The Company and its domestic consolidated subsidiaries accrue the estimated amounts of directors', operating officers' and corporate auditors' retirement benefits equal to management's estimate of the amounts payable to them at the balance sheet dates if they retired at those dates. Amounts payable to directors, operating officers and corporate auditors upon retirement are subject to the approval of stockholders.

**Translation of foreign currencies**
Accounts denominated in foreign currencies: Cash, receivables and payables denominated in foreign currencies are translated at year-end exchange rates.

Foreign currency financial statements: Assets and liabilities are translated at year-end exchange rates. Income and expenses are translated at the average exchange rates prevailing during the year. Resulting translation adjustments are reflected in the consolidated financial statements as “Foreign currency translation adjustments” and in minority interests.

**Derivatives and hedge accounting**
The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gains or losses unless derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

1. If a forward foreign exchange contract is executed to hedge an existing foreign currency receivable or payable,
   (a) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and
   (b) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.
2. If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

The following summarizes hedging derivative financial instruments used by the Companies and items hedged:

Hedging instruments:
- Forward foreign exchange contracts
- Interest rate swap contracts

Hedged items:
- Future transactions denominated in foreign currencies
- Foreign currency receivables and payables
- Interest expense on borrowings

The Company and certain consolidated subsidiaries evaluate hedge effectiveness semi-annually by comparing the cumulative changes in cash flows or the changes in fair value of hedged items and the corresponding changes in the hedging derivative instruments.

**Accounting standard for impairment of fixed assets**
Effective April 1, 2005, the Company and its consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets (“Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets” issued by the Business Accounting Deliberation Council on August 9, 2002) and the implementation guidance for the accounting standard for impairment of fixed assets (the Financial Accounting Standard Implementation Guidance No. 6 issued by the Accounting Standards Board of Japan on October 31, 2003).

The effect of the adoption of the new accounting standard was to decrease income before income taxes by ¥2,387 million ($20,320 thousand). The accumulated impairment loss was directory deducted from asset’s acquisition cost.

**Cash and cash equivalents**
In preparing the consolidated statements of cash flows, cash on hand, readily-available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

The reconciliations of cash and cash equivalents in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2006, and 2005 are as follows.

| | Millions of yen | | Thousands of U.S.dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Cash and cash equivalents in the balance sheet | **¥ 12,470** | ¥ 11,889 | **$ 106,155** |
| Time deposits maturing after three months | **(576)** | (306) | **(4,904)** |
| Cash and cash equivalents in the cash flow statement | **¥ 11,894** | ¥ 11,583 | **$ 101,251** |

**Net income per share**
Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

## 3 SECURITIES

The following tables summarize acquisition costs, book values (fair values) of securities with available fair values as of March 31, 2006 and 2005:

**Available-for-sale securities**

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2006 | | | 2005 | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| **Securities with book values exceeding acquisition costs:** | | | | | | |
| Equity securities | ¥ 11,180 | ¥ 34,402 | ¥ 23,222 | ¥ 14,824 | ¥ 31,192 | ¥ 16,368 |
| Other | 15 | 18 | 3 | — | — | — |
| | ¥ 11,195 | 34,420 | ¥ 23,225 | ¥ 14,824 | ¥ 31,192 | ¥ 16,368 |
| **Securities with book values not exceeding acquisition costs:** | | | | | | |
| Equity securities | ¥ 1,318 | ¥ 1,173 | ¥ (145) | ¥ 822 | ¥ 701 | ¥ (121) |
| Other | — | — | — | 15 | 14 | (1) |
| Total | ¥ 1,318 | ¥ 1,173 | ¥ (145) | ¥ 837 | ¥ 715 | ¥ (122) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2006 | | |
| | Acquisition cost | Book value | Difference |
| **Securities with book values exceeding acquisition costs:** | | | |
| Equity securities | $ 95,173 | $ 292,858 | $ 197,685 |
| Other | 128 | 153 | 25 |
| | $ 95,301 | $ 293,011 | $ 197,710 |
| **Securities with book values not exceeding acquisition costs:** | | | |
| Equity securities | $ 11,220 | $ 9,986 | $ (1,234) |
| Total | $ 11,220 | $ 9,986 | $ (1,234) |

The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2006 and 2005:

| | Book value | | |
|---|---|---|---|
| | Millions of yen | | Thousands of U.S. dollars |
| | 2006 | 2005 | 2006 |
| Non-listed equity securities | ¥ 5,598 | ¥ 5,555 | $ 47,654 |
| Non-listed bonds | — | 300 | — |
| Other | 216 | 536 | 1,839 |
| Total | ¥ 5,814 | ¥ 6,391 | $ 49,493 |

The following table summarizes available-for-sale securities sold in the years ended March 31, 2006 and 2005:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| Total sales of available-for-sale securities | ¥ 10,808 | ¥ 14,314 | $ 92,006 |
| Related gains | 5,428 | 8,389 | 46,208 |
| Related losses | 10 | — | 85 |

## 4 DERIVATIVES AND HEDGE ACCOUNTING

The Company and its consolidated subsidiaries enter into forward foreign exchange and interest rate swap transactions to control risks related to foreign currencies and interest rates. Forward foreign exchange contracts are used to hedge the risk of fluctuations in foreign currency exchange rates with respect to foreign currency receivables and payables and future transactions denominated in foreign currencies resulting from import and export transactions, and the interest rate swap transactions are used to reduce financing costs and to hedge the risk of fluctuations in interest rates as to short-term borrowings and long-term debt. Hedging derivative financial instruments used by the Company and its consolidated subsidiaries and hedged items are summarized at Significant Accounting Policies. The Company and its consolidated subsidiaries deal with highly rated international financial institutions as counterparty to these transactions to minimize credit risk exposure. Derivative transactions related to normal operations are esntered into by each operational division, and the processing of the transactions, such as settlements, are controlled by the finance division. Derivative transactions related to financial transactions are entered into by the operational division in accordance with established policies approved by the Board of Directors. Outstanding positions of derivative transactions are controlled by the finance division and the actual results of derivative transactions are reported to the Board of Directors.

At March 31, 2006 and 2005 hedge accounting has been applied to all derivatives, so outstanding positions are not disclosed.

## 5 INVENTORIES

Inventories at March 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Finished goods | **¥ 57,516** | ¥ 56,715 | **$ 489,623** |
| Work in process | **20,851** | 19,369 | **177,501** |
| Raw materials | **7,849** | 6,913 | **66,817** |
| Supplies | **2,916** | 2,503 | **24,823** |
| | **¥ 89,132** | ¥ 85,500 | **$ 758,764** |

## 6 LOSS ON IMPAIRMENT

The Company and its domestic consolidated subsidiaries recorded impairment losses on the following asset groups for the year ended March 31, 2006.

| Location | Use | Classification |
|---|---|---|
| TOYOBO CO., LTD., and Toyobo Realestate Co., Ltd. (Naruto, Tokushima Prefecture) | Idle assets | Leaseholds, Structures |
| Miyuki Holdings Co., Ltd., and Lan Clothing Co., Ltd. (Higashi Osaka, Osaka Prefecture) (Nishi Sonogi-Gun, Nagasaki Prefecture) | Business assets (Sewing factories) | Buildings and structures, Machinery and equipment, Land, Other property, plant and equipment, Intangible assets, Lease assets, |
| Miyuki Life Co., LTd. (Chuou-ku, Tokyo etc.) | Business assets (Retail stores) | Other property, plant and equipment, Lease assets |
| Miyuki Sales Co., Ltd. (Yoichi-gun, Hokkaido etc.) | Idle assets | Buildings and structures, Land |
| Miyuki Holdings Co., Ltd. (Hamamatsu, Shizuoka Prefecture etc.) | Fringe benefits facilities | Buildings and structures, Land |

The Company and its domestic consolidated subsidiaries pool business assets according to management accounting classifications, and idle assets according to each separate property.

Since the relevant business assets have recorded recurring losses for the past two fiscal years or more, and the relevant idle assets and fringe-benefits facilities have been affected by falling land values, the Company and its domestic consolidated subsidiaries reduced the book value of each to a recoverable amount, and recorded the resulting impairment loss of ¥2,387 million ($20,320 thousand) in Other income (expenses). The amount consisted of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Buildings and structures | **¥ 348** | **$ 2,962** |
| Machinery and equipment | **9** | **77** |
| Land | **141** | **1,200** |
| Other property, plant and equipment | **5** | **43** |
| Leaseholds | **1,828** | **15,561** |
| Intangible assets | **2** | **17** |
| Lease assets | **¥ 54** | **$ 460** |
| Total | **¥ 2,387** | **$ 20,320** |

The recoverable amount of these assets or asset groups was determined by their net sales price or utility value. The recoverable amount of land and leaseholds was calculated based on real-estate appraisal or their property tax assessment value.

## 7 INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicated a normal corporate income tax rate in Japan of approximately 41% for 2006 and 2005.

The actual effective tax rate in the accompanying consolidated statements of income for the years ended March 31, 2006 and 2005 differ from the normal corporate tax rate by less than 5%, and therefore, the above reconciliations are not required to be disclosed.

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2006 and 2005 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Deferred tax assets:** | | | |
| Accrued employees' bonuses | **¥ 1,919** | ¥ 2,016 | **$ 16,336** |
| Accrued enterprise tax | **127** | 110 | **1,081** |
| Employees' severance and retirement benefits | **8,773** | 10,626 | **74,683** |
| Directors and corporate auditors' retirement benefits | **518** | 664 | **4,410** |
| Allowance for doubtful receivables | **556** | 1,058 | **4,733** |
| Impairment loss | **1,009** | — | **8,589** |
| Write-down of investment securities | **1,175** | 1,857 | **10,003** |
| Tax losses carried forward | **2,909** | 4,154 | **24,764** |
| Unrealized income | **9,869** | 10,072 | **84,013** |
| Securities acquired through merger | **271** | 419 | **2,307** |
| Other | **2,096** | 1,477 | **17,843** |
| **Total deferred tax assets** | **29,222** | 32,453 | **248,762** |
| **Valuation allowance** | **(6,035)** | (7,275) | **(51,375)** |
| **Net deferred tax assets** | **23,187** | 25,178 | **197,387** |
| **Deferred tax liabilities:** | | | |
| Net unrealized holding gains on securities | **(9,437)** | (6,633) | **(80,335)** |
| Reserve for deferred gain on sale of property | **(786)** | (611) | **(6,691)** |
| Undistributed earnings of overseas subsidiaries and affiliates | **(493)** | (418) | **(4,197)** |
| Consolidation adjustment for allowance for doubtful receivables | **(137)** | (155) | **(1,166)** |
| Valuation difference of subsidiaries | **(2,185)** | (1,821) | **(18,600)** |
| Tax deferred gains on assets transferred to a new company | **(2,580)** | (2,580) | **(21,963)** |
| Tax deferred gains on spin-off | **(2,238)** | (2,238) | **(19,052)** |
| **Total deferred tax liabilities** | **(17,855)** | (14,456) | **(151,996)** |
| **Net deferred tax assets** | **¥ 5,332** | ¥ 10,722 | **$ 45,390** |

| Reconciliation to Balance Sheet accounts | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Current assets** | **¥ 4,018** | ¥ 4,020 | **$ 34,204** |
| **Investments and noncurrent assets** | **12,332** | 13,188 | **104,980** |
| **Current liabilities** | **(95)** | (101) | **(809)** |
| **Long-term liabilities** | **(10,923)** | (6,385) | **(92,985)** |
| **Total** | **¥ 5,332** | ¥ 10,722 | **$ 45,390** |

## 8 SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2006 and 2005 consisted of short-term notes, generally for 365 days, bearing interest at averages rates of 0.77% and 0.79%, respectively. Long-term debt at March 31, 2006 and 2005 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2006 | 2005 | 2006 |
| **Unsecured:** | | | |
| 0.44% bonds due 2005 | — | ¥ 300 | — |
| 0.86% to 0.92%bonds due 2006 | ¥ 10,300 | ¥ 10,300 | $ 87,682 |
| 0.72% bonds due 2007 | 300 | 300 | 2,554 |
| 1.3% bonds due 2008 | 10,000 | 10,000 | 85,128 |
| **Long-term loans, principally maturing through 2017 at the weighted average interest rate of 1.3% as of March 31, 2006** | | | |
| Secured | 12,609 | 19,290 | 107,338 |
| Unsecured | 79,305 | 66,790 | 675,109 |
| **Total** | 112,514 | 106,980 | 957,811 |
| **Less amount due within one year** | 46,260 | 17,090 | 393,803 |
| | ¥ 66,254 | ¥ 89,890 | $ 564,008 |

The aggregate annual maturities of long-term debt outstanding as of March 31, 2006 are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2007 | ¥ 46,260 | $ 393,803 |
| 2008 | 15,942 | 135,711 |
| 2009 | 27,284 | 232,264 |
| 2010 | 11,206 | 95,395 |
| 2011 | 11,351 | 96,629 |
| Thereafter | 471 | 4,009 |
| | ¥ 112,514 | $ 957,811 |

The Company has an overdraft contract and credit commitments from three banks in order to perform efficient financing. Total unused credit available to the Company at March 31, 2006 was ¥21,000 million ($178,769 thousand).

## 9 EMPLOYEES' SEVERANCE AND RETIREMENT BENEFITS

Employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2006 and 2005 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Projected benefit obligation | **¥ 71,672** | ¥ 73,051 | **$ 610,130** |
| Fair value of pension assets | **(26,780)** | (21,933) | **(227,973)** |
| Employee retirement benefit trust | **(8,364)** | (3,035) | **(71,201)** |
| Unrecognized net transition obligation | **(14,937)** | (16,533) | **(127,156)** |
| Unrecognized actuarial differences | **(3,078)** | (7,668) | **(26,202)** |
| Unrecognized prior service costs | **1,671** | 1,938 | **14,225** |
| Liability for severance and retirement benefits | **¥ 20,184** | ¥ 25,820 | **$ 171,823** |

Included in the consolidated statements of income for the years ended March 31, 2006 and 2005 are severance and retirement benefit expenses comprised of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Service costs – benefits earned during the year | **¥ 2,212** | ¥ 2,756 | **$ 18,830** |
| Interest cost on projected benefit obligation | **1,501** | 1,557 | **12,778** |
| Expected return on plan assets | **(712)** | (634) | **(6,061)** |
| Amortization of net transition obligation | **1,714** | 1,929 | **14,591** |
| Amortization of actuarial differences | **1,265** | 1,384 | **10,769** |
| Amortization of prior service costs | **(277)** | (332) | **(2,358)** |
| Employees' severance and retirement benefit expenses | **¥ 5,703** | ¥ 6,660 | **$ 48,549** |

The discount rates used by the Company and its domestic consolidated subsidiaries are 2.0% to 2.5% for the years ended March 31, 2006 and 2005. The rates of expected return on plan assets used by the Company and its domestic consolidated subsidiaries are 2.5% to 3.5% for the years ended March 31, 2006 and 2005. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated number of total service years. Past service costs are recognized as an expense in equal amounts over ten years, and actuarial gains/losses are recognized in the statements of income using the straight-line method over ten years.

## 10 ASSETS PLEDGED AS COLLATERAL

At March 31, 2006, assets pledged as collateral for secured long-term debt of ¥12,609 million ($107,338 thousand), short-term debt of ¥250 million ($2,128 thousand) and customers' deposits of ¥670 million ($5,704 thousand) were as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash and cash equivalents | **¥ 4** | **$ 34** |
| Investment securities | **108** | **919** |
| Property, plant and equipment-net of accumulated depreciation | **37,148** | **316,234** |
| Other current assets | **160** | **1,362** |
| | **¥ 37,420** | **$ 318,549** |

## 11 CONTINGENT LIABILITIES

At March 31, 2006, the Company and certain consolidated subsidiaries were contingently liable as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| **As endorser of notes discounted** | ¥ 42 | $ 358 |
| **As guarantor of indebtedness of:** | | |
| Unconsolidated subsidiaries and affiliates | ¥ 5,942 | $ 50,583 |
| Other companies | 189 | 1,609 |
| Employees (housing loans) | 611 | 5,201 |
| | ¥ 6,742 | $ 57,393 |

## 12 LEASES

Lease payments for finance leases which do not transfer ownership and do not have bargain purchase provisions were ¥688 million ($5,857 thousand) and ¥642 million for the years ended March 31, 2006 and 2005, respectively. Future minimum lease payments for the remaining lease periods, as of March 31, 2006, including interest, were ¥562 million ($4,784 thousand) due within one year and ¥949 million ($8,079 thousand) due beyond one year.

Original lease obligations, accumulated payments and remaining payments of leased properties were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| **Machinery and equipment:** | | | |
| Original lease obligation | ¥ 913 | ¥ 725 | $ 7,772 |
| Payments made | 562 | 399 | 4,784 |
| Impairment loss | 42 | — | 358 |
| Remaining payments | ¥ 309 | ¥ 326 | $ 2,630 |
| **Tools, furniture and fixtures** | | | |
| Original lease obligation | ¥ 1,768 | ¥ 2,131 | $ 15,051 |
| Payments made | 920 | 1,365 | 7,832 |
| Remaining payments | ¥ 848 | ¥ 766 | $ 7,219 |
| **Intangible assets** | | | |
| Original lease obligation | ¥ 741 | ¥ 734 | $ 6,308 |
| Payments made | 430 | 429 | 3,661 |
| Remaining payments | ¥ 311 | ¥ 305 | $ 2,647 |

Future minimum lease payments under operating leases for the remaining lease periods, as of March 31, 2006, were ¥12,860 million ($109,475 thousand), of which ¥2,275 million ($19,367 thousand) is due within one year.

Future minimum lease receipts as lessor under operating leases for the remaining lease periods, as of March 31, 2006, were ¥1,208 million ($10,283 thousand), of which ¥159 million ($1,354 thousand) is due within one year.

## 13 SEGMENT INFORMATION

The Company's and its consolidated subsidiaries' operations are classified into four industry segments as follows:

**Fibers and Textiles**: Man-made fibers, natural fibers and textile goods
**Plastics**: Films and resins for various industrial applications
**Bio, medical and functional materials and products**: BBiochemistry articles, medical supplies, functional materials and products, biomedical products
**Other business**: Plant equipment and engineering, real estate, information processing service, logistics service and other

| Year ended March 31, 2006 | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net sales to external customers | Intersegment net sales or transfer amounts | Net sales | Operating costs and expenses | Operating income | Identifiable assets | Depreciation and amortization | Impairment Loss | Capital expenditure |
| **Fibers and textiles** | **¥ 174,484** | **¥ 473** | **¥ 174,957** | **¥ 169,573** | **¥ 5,384** | **¥ 183,368** | **¥ 5,428** | **¥ 428** | **¥ 5,469** |
| **Plastics** | **141,950** | **157** | **142,107** | **124,965** | **17,142** | **140,769** | **5,376** | **—** | **9,148** |
| **Bio, medical and functional materials and products** | **50,906** | **2** | **50,908** | **42,975** | **7,933** | **54,134** | **2,656** | **—** | **2,150** |
| **Other businesses** | **34,608** | **11,577** | **46,185** | **43,947** | **2,238** | **118,526** | **1,035** | **1,959** | **529** |
| **Total** | **401,948** | **12,209** | **414,157** | **381,460** | **32,697** | **496,797** | **14,495** | **2,387** | **17,296** |
| **Elimination or Corporate** | **—** | **(12,209)** | **(12,209)** | **(9,399)** | **(2,810)** | **17,994** | **1,161** | **—** | **835** |
| **Consolidated** | **¥ 401,948** | **¥ —** | **¥ 401,948** | **¥ 372,061** | **¥ 29,887** | **¥ 514,791** | **¥ 15,656** | **¥ 2,387** | **¥ 18,131** |

| Year ended March 31, 2005 | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net sales to external customers | Intersegment net sales or transfer amounts | Net sales | Operating costs and expenses | Operating income | Identifiable assets | Depreciation and amortization | Impairment Loss | Capital expenditure |
| **Fibers and textiles** | ¥ 168,098 | ¥ 446 | ¥ 168,544 | ¥ 163,739 | ¥ 4,805 | ¥ 172,707 | ¥ 5,678 | ¥ — | ¥ 5,502 |
| **Plastics** | 138,981 | 281 | 139,262 | 122,007 | 17,255 | 126,829 | 5,209 | — | 4,904 |
| **Bio, medical and functional materials and products** | 48,584 | 12 | 48,596 | 41,314 | 7,282 | 50,546 | 2,326 | — | 4,649 |
| **Other businesses** | 38,023 | 10,255 | 48,278 | 45,885 | 2,393 | 110,516 | 924 | — | 174 |
| **Total** | 393,686 | 10,994 | 404,680 | 372,945 | 31,735 | 460,598 | 14,137 | — | 15,229 |
| **Elimination or Corporate** | — | (10,994) | (10,994) | (8,041) | (2,953) | 51,215 | 1,391 | — | 1,166 |
| **Consolidated** | ¥ 393,686 | ¥ — | ¥ 393,686 | ¥ 364,904 | ¥ 28,782 | ¥ 511,813 | ¥ 15,528 | ¥ — | ¥ 16,395 |

| Year ended March 31, 2006 | Thousands of U.S. dollars | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Net sales to external customers | Intersegment net sales or transfer amounts | Net sales | Operating costs and expenses | Operating income | Identifiable assets | Depreciation and amortization | Impairment Loss | Capital expenditure |
| **Fibers and textiles** | **$ 1,485,349** | **$ 4,027** | **$ 1,489,376** | **$ 1,443,543** | **$ 45,833** | **$ 1,560,977** | **$ 46,208** | **$ 3,643** | **$ 46,557** |
| **Plastics** | **1,208,394** | **1,336** | **1,209,730** | **1,063,803** | **145,927** | **1,198,340** | **45,765** | **—** | **77,875** |
| **Bio, medical and functional materials and products** | **433,353** | **17** | **433,370** | **365,838** | **67,532** | **460,833** | **22,610** | **—** | **18,303** |
| **Other businesses** | **294,611** | **98,553** | **393,164** | **374,113** | **19,051** | **1,008,989** | **8,811** | **16,677** | **40,503** |
| **Total** | **3,421,707** | **(103,933)** | **3,525,640** | **3,247,297** | **278,343** | **4,229,139** | **123,394** | **20,320** | **147,238** |
| **Elimination or Corporate** | **—** | **(103,933)** | **(103,933)** | **(80,012)** | **(23,921)** | **153,180** | **9,883** | **—** | **7,108** |
| **Consolidated** | **$ 3,421,707** | **$ —** | **$ 3,421,707** | **$ 3,167,285** | **$ 254,422** | **$ 4,382,319** | **$ 133,277** | **$ 20,320** | **$ 154,346** |

Corporate operating costs and expenses of ¥2,568 million ($21,861 thousand) and ¥2,800 million for the years ended March 31, 2006 and 2005, respectively, mainly consist of administrative and fundamental research department expenses. Corporate assets of ¥70,132 million ($597,021 thousand) and ¥101,148 million at March 31, 2006 and 2005, respectively, mainly consist of cash, marketable securities and assets of the administrative and fundamental research departments.

Overseas sales which include overseas subsidiaries' sales to overseas third parties as well as the Company's and its domestic subsidiaries' export sales to third parties, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2006** | 2005 | **2006** |
| Southeast Asia | **¥ 34,491** | ¥ 35,935 | **$ 293,615** |
| Other areas | **28,512** | 27,824 | **242,717** |
| Total | **¥ 63,003** | ¥ 63,759 | **$ 536,332** |

Principal countries and areas in each segment are:
Southeast Asia···China, Korea, Taiwan, Malaysia, Indonesia, and Thailand
Other areas········America, Germany, Brazil, and Saudi Arabia

## 14 LAND REVALUATION EXCESS

Applying the law on revaluation of land, the Company, two consolidated subsidiaries and an affiliate accounted for by the equity method, revaluated their land for business use on March 31, 2002 and included the increase in land value, net of income taxes and minority interests, in stockholders' equity. The current value of the land on March 31, 2006, fell ¥19,203 million ($163,472 thousand) in comparison with the book value of the land after revaluation.

Also, applying the law on revaluation of land, a consolidated subsidiary, revaluated its land for business use on March 31, 2000 and included the increase in land value, net of income taxes and minority interests, in stockholders' equity. The current value of the land on, March 31, 2006 fell ¥2,111 million ($17,971 thousand) in comparison with the book value of the land after revaluation.

## 15 REVALUATION EXCESS - FOREIGN

Applying the local company law, two consolidated subsidiaries in Brazil and their unconsolidated subsidiary, accounted for by the equity method, revaluated their land, buildings and structures, and included the increase in their assets value in stockholders' equity.

As accounting principles and practices generally accepted in Brazil are different from the accounting and disclosure requirements under Japanese GAAP, the two consolidated subsidiaries in Brazil did not record deferred income taxes on their revaluations. As a result, in the years ended March 31, 2006 and 2005, respectively, deferred income taxes of ¥2,169 million ($18,464 thousand) and ¥1,414 million were not recorded.

## 16 SPECIAL LOSS ON RESTRUCTURING OF BUSINESSES

During the year ended March 31, 2006, the Company incurred special losses for additional severance payments for early retirement of ¥428 million ($3,643 thousand), and losses in the fiber business of ¥1,565 million ($13,323 thousand), which are included in total restructuring losses of ¥1,994 million ($16,975 thousand) in the consolidated statement of income.

During the year ended March 31, 2005, the Company incurred special losses for additional severance payments for early retirement of ¥470 million, and losses in the fiber business of ¥86 million, which are included in total restructuring losses of ¥556 million in the consolidated statement of income.

## 17 LAWSUIT

**1) Settlement of a class action**

The Company reached a settlement agreement with purchasers of bullet resistant vests on July 12, 2005 (JST) in a class action brought before Mayes County District Court in Oklahoma, USA.

The terms of the settlement are as follows.

a. The Company will pay US$29 million into a settlement fund.
b. Plaintiffs will release the Company and Toyobo America, Inc. from all claims related to this matter.
c. Separate from the settlement fund stated in (a) above, the Company will pay attorney fees for the plaintiffs in the amount of US$9.4 million.
d. The Company will pay US$60,000 to class representatives approved by the court (Named Plaintiffs) for incentive awards.
e. The settlement agreement makes it clear that the Company denies any wrongdoing or legal liability alleged by the plaintiffs in the class action.

**2) Settlement of an action for damages brought by an injured police officer**

In January 2006, the Company reached a settlement with a plaintiff and all defendants in an action for damages brought before Allegheny District Court in Pennsylvania, USA.

The specific terms of settlement cannot be disclosed due to provisions in the settlement agreement.

**3) Other lawsuits**

Even following settlement of the aforementioned actions, some lawsuits are still pending, including lawsuits brought by other injured police officers, the U.S. Department of Justice, and the bullet resistant vests manufacturer. The Company intends to continue to defend itself appropriately by providing evidence that the counterparties' claims are false.

## 18 SUBSEQUENT EVENT

At the ordinary stockholders' meeting of the Company held on June 29, 2006, appropriations of retained earnings for the year ended March 31, 2006 were duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends - ¥5.00 ($0.043) per share | ¥ 3,492 | $ 29,727 |

## To the Stockholders and Board of Directors of TOYOBO CO., LTD.:

We have audited the accompanying consolidated balance sheets of TOYOBO CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, stockholders' equity and cash flows for the years then ended, expressed in Japanese yen.These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TOYOBO CO., LTD. and its consolidated subsidiaries as of March 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

(1) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, TOYOBO CO., LTD. and its consolidated domestic subsidiaries adopted the new accounting standard for impairment of fixed assets.

(2) As discussed in Note 2 to the consolidated financial statements, effective April 1, 2005, TOYOBO CO., LTD. adopted the declining balance method of accounting for depreciation of certain machinery and equipment used in the Plastic Products and Fundamental Materials Divisions, which had been depreciated by the straight-line method.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.

Osaka, Japan
June 29, 2006

# Corporate Data / Investor Information

## Corporate Data (Non-consolidated)

### Head office
2-8 Dojima Hama 2-chome,
Kita-ku, Osaka 530-8230, Japan
Telephone: +81-6-6348-3111
Facsimile: +81-6-6348-3206

### Established
May 1882

### Incorporated
June 1914

### Number of employees
3,273 (As of March, 2006)

### Branches
**Tokyo Branch**
Toyobo Building, 17-9 Nihonbashi, Koami-cho, Chuo-ku, Tokyo 103-8530, Japan
Telephone: +81-3-3660-4800

**Nagoya Branch**
Nikko Shoken Building, 2-3 Sakae
3-chome, Naka-ku, Nagoya
460-0008, Japan
Telephone: +81-52-261-1311

### Research Center
1-1 Katata 2-chome, Otsu,
Shiga 520-0292, Japan
Telephone: +81-77-571-0006

### Overseas
**TOYOBO AMERICA, INC.**
950 Third Ave. 17th Floor,
New York, NY10022 U.S.A.
Telephone : +1-212-317-9245

**TOYOBO CO., LTD. China Office**
Room F1, 16th Floor,
Jiushi Fuxing Mansion,
918 Huaihai Zhong Road,
Shanghai, China
Telephone : +86-21-64155214

### Plants and Mills (As of June, 2006)
**Films manufacturing:**
Inuyama Plant
Tsuruga Films plant

**Polymers manufacturing:**
Tsuruga Polymers Plant
Iwakuni Polymers Plant

**Functional materials manufacturing:**
Tsuruga Functional Materials Plant
Iwakuni Functional Materials Plant

**Biochemicals manufacturing:**
Tsuruga Biochemicals Plant

**Functional membrane manufacturing:**
Iwakuni Membrane Plant

**Pharmaceuticals manufacturing:**
Otsu Pharmaceuticals Plant

**Spinning, weaving and dyeing:**
Nyuzen Mill
Inami Mill
Shogawa Mill

## Investor Information (As of March, 2006)

### Stock listings
Tokyo, Osaka

### Transfer agent
The Chuo Mitsui Trust and Banking Co., Ltd. Osaka Branch,
2-21 Kitahama, Chuo-ku, Osaka 541-0041, Japan
Telephone: +81-6-6202-7361

### Independent auditors
KPMG AZSA & Co.
3-6-5, Kawara-machi, Chuo-ku, Osaka 541-0048, Japan
Telephone: +81-6-7731-1000

### Common stock
Authorized 2,000,000,000 shares
Issued 699,027,598 shares

### Paid-in capital
¥43,341 million

### Number of stockholders
100,825

### Major stockholders (Ten largest stockholders)

| | Number of shares held (thousands) | Percentage of voting rights (%) |
|---|---|---|
| Japan Trustee Services Bank, Ltd. (Trust Account) | 49,899 | 7.14 |
| The Master Trust Bank of Japan, Ltd. (Trust Account) | 29,040 | 4.15 |
| Nippon Life Insurance Company | 20,613 | 2.95 |
| Mizuho Corporate Bank, Ltd. | 13,393 | 1.92 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 13,214 | 1.89 |
| Meiji Yasuda Life Insurance Company | 13,129 | 1.88 |
| Sumitomo Mitsui Banking Corporation | 13,034 | 1.86 |
| Toyukai (Contractor Share Holding) | 11,142 | 1.59 |
| Japan Trustee Services Bank, Ltd. (Employee Pension Trust Account, The Chuo Mitsui Trust and Banking Co., Ltd.) | 9,054 | 1.30 |
| Toyobo Employees Stockholders' Association | 9,050 | 1.29 |

# TOYOBO CO., LTD.

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Kita-ku, Osaka 530-8230, Japan

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