

Consolidated Financial Statements-Summary

(For the year ended March 31, 2007)

TEIJIN
Human Chemistry, Human Solutions

English translation from the original Japanese-language document

(All financial information has been prepared in accordance with accounting principles generally accepted in Japan)

May 7, 2007

Company name : TEIJIN LIMITED (Stock code 3401)

<http://www.teijin.co.jp/english/index.html>

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(Amounts less than one million yen are omitted)

1. Results of FY2006 (April 1, 2006 through March 31, 2007)

(1) Consolidated financial results

	Net sales	Operating income	Ordinary income	Net income
	Million yen	Million yen	Million yen	Million yen
FY2006	1,009,586	75,061	60,493	34,124
FY2005	938,082	76,757	68,162	24,852

	E.P.S.	Diluted E.P.S.	ROE	ROA	Ratio of Operating income to Net sales
	Yen	Yen	%	%	%
FY2006	36.78	36.76	9.7	6.2	7.4
FY2005	26.60	26.58	7.9	7.6	8.2

cf. Equity in earnings of unconsolidated subsidiaries and affiliates : -3,973 million yen (FY2005 : -644 million yen)

(Note) ROE : Ratio of Net income to Shareholders' equity ROA : Ratio of Ordinary income to Total assets

(2) Consolidated financial position

	Total assets	Net assets	Shareholders' equity ratio	Shareholders' equity per share
	Million yen	Million yen	%	Yen
FY2006	999,917	407,736	36.7	395.18
FY2005	943,991	338,609	35.9	364.81

cf. Shareholders' equity : 366,752 million yen (FY2005 : - million yen)

cf. Number of shares outstanding at end of period (Consolidated): 928,058,501 (FY2005 : 927,661,383)

(Note) Shareholders' equity : Total net assets at end of period - stock acquisition rights at end of period - minority interest in consolidated subsidiaries at end of period

(3) Consolidated cash flows

	From operating activities	From investing activities	From financing activities	Cash & cash equivalents at end of period
	Million yen	Million yen	Million yen	Million yen
FY2006	96,455	(87,065)	(19,073)	28,365
FY2005	75,491	(74,062)	1,511	37,585

(4) Scope of consolidation and equity method

Consolidated subsidiaries	82 companies
Unconsolidated subsidiaries	42 companies
Affiliates	32 companies
Total	156 companies

(5) Change in scope of consolidation and equity method

Consolidated subsidiaries	(increase)	3	(decrease)	5
Equity method companies	(increase)	10	(decrease)	3

2. Dividends

Period	Dividends per share			Total dividends paid (Annual)	Payout ratio (Consolidated)	Dividend on equity ratio (Consolidated)
	Interim	Year-end	Annual			
FY2005	Yen 3.50	Yen 4.00	Yen 7.50	Million yen 6,957	% 28.2	% 2.2
FY2006	4.50	5.50	10.00	9,281	27.2	2.6
FY2007 (Forecast)	4.50	5.50	10.00		23.8	

3. Estimate of business results for the year ending March 31, 2008

	Net sales	Operating income	Ordinary income	Net income	E.P.S.
	Million yen	Million yen	Million yen	Million yen	Yen
FY2007 interim	500,000	34,500	29,000	17,000	18.32
FY2007	1,030,000	80,000	69,000	39,000	42.02

Consolidated Statements of Income

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Human Chemistry, Human Solutions

(Million yen : amounts less than one million yen are omitted)

	FY2005 (Apr. 2005 - Mar. 2006)	FY2006 (Apr. 2006 - Mar. 2007)	Increase (Decrease)
Net sales	938,082	1,009,586	71,503
Cost of sales	687,717	750,849	63,132
Gross profit	250,365	258,736	8,371
Selling, general and administrative expenses	173,607	183,675	10,068
Operating income	76,757	75,061	(1,696)
Nonoperating revenues			
Interest income	385	729	343
Dividend income	1,423	993	(429)
Foreign exchange gain	2	998	996
Gain on refund of antidumping duty deposit	521	-	(521)
Other income	1,329	1,229	(99)
Total	3,662	3,951	288
Nonoperating expenses			
Interest expense	6,957	9,481	2,524
Equity on losses of unconsolidated subsidiaries and affiliates	644	3,973	3,328
Amortization of start-up cost of a foreign subsidiary	833	-	(833)
Other expenses	3,822	5,064	1,241
Total	12,257	18,518	6,261
Ordinary income	68,162	60,493	(7,669)
Extraordinary income			
Gain on sales of property, plant and equipment	644	5,615	4,971
Gain on compensation for transfer of property under eminent domain	-	2,550	2,550
Gain on sales of investment securities	61	759	697
Gain on reversal of allowance for doubtful receivable	81	143	61
Gain on insurance adjustment	-	1,468	1,468
Gain on return of substitutional portion of employee retirement benefits	246	-	(246)
Gain on sales of goodwill	196	-	(196)
Other income	534	468	(66)
Total	1,765	11,005	9,239
Extraordinary losses			
Loss on disposal of property, plant and equipment	3,247	2,746	(500)
Loss on sales of property, plant and equipment	6,172	121	(6,050)
Write-down of investment securities	448	235	(213)
Loss on sales of investment securities	115	913	798
Special provision for allowance for doubtful receivables	10	654	643
Restructuring costs	2,105	3,113	1,008
Special factory operating loss	2,348	1,709	(639)
Loss on impairment	6,000	1,122	(4,878)
Environmental protection cost	2,404	366	(2,037)
Loss on redemption of debentures	800	-	(800)
Other losses	1,238	2,040	801
Total	24,894	13,023	(11,870)
Income before income taxes	45,033	58,474	13,440
Income taxes - current	16,375	15,527	(848)
Reversal of prior year's income taxes	-	(2,917)	(2,917)
Income taxes - deferred	(2,066)	(8,198)	6,131
Minority interest in net losses of consolidated subsidiaries	1,738	3,542	1,803
Net income	24,852	34,124	9,271

Consolidated Balance Sheets

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Human Chemistry, Human Solutions

(Million yen : amounts less than one million yen are omitted)

	FY2005 (As of Mar. 31, 2006)	FY2006 (As of Mar. 31, 2007)	Increase (Decrease)
< Assets >			
Current assets			
Cash and time deposits	37,594	28,375	(9,218)
Trade notes and accounts receivable	193,564	208,413	14,848
Inventories	129,908	141,095	11,187
Short-term loans	3,011	2,803	(208)
Deferred income taxes	12,268	11,289	(979)
Other current assets	24,247	26,894	2,647
Allowance for doubtful receivables	(1,592)	(1,462)	129
Total	399,002	417,409	18,406
Fixed assets			
Tangible assets			
Buildings	81,932	84,435	2,502
Machinery and equipment	172,949	208,056	35,107
Land	48,225	47,764	(460)
Construction in progress	29,711	22,742	(6,968)
Other	13,680	16,632	2,951
Total	346,498	379,631	33,133
Intangible assets			
Software and others	23,610	22,705	(905)
Cost in excess of net book value of consolidated subsidiaries	21,247	-	(21,247)
Goodwill	-	31,049	31,049
Total	44,858	53,754	8,896
Investments and other assets			
Investments in securities	117,803	111,610	(6,192)
Long-term loans	2,828	3,097	269
Prepaid pension expense	10,843	13,645	2,802
Deferred income taxes	1,613	2,079	466
Other assets	23,885	22,383	(1,501)
Allowance for doubtful receivables	(3,341)	(3,694)	(353)
Total	153,632	149,121	(4,510)
Total fixed assets	544,988	582,507	37,519
Total assets	943,991	999,917	55,926

Consolidated Balance Sheets

TEIJIN

Human Chemistry, Human Solutions

(Million yen : amounts less than one million yen are omitted)

	FY2005 (As of Mar. 31, 2006)	FY2006 (As of Mar. 31, 2007)	Increase (Decrease)
< Liabilities >			
Current liabilities			
Trade notes and accounts payable	110,718	139,405	28,687
Bank loans	82,804	65,100	(17,704)
Long-term loans due within one year	19,247	16,540	(2,706)
Commercial paper	44,000	75,000	31,000
Bonds due within one year	43,530	36,733	(6,797)
Income taxes payable	22,210	17,313	(4,897)
Deferred income taxes	-	1	1
Accrued expenses	23,040	23,906	866
Allowance for discount and rebate	668	627	(40)
Reserve for compensation for completed works	155	192	37
Reserve for adjustment of returned unsold goods	30	65	35
Other current liabilities	51,513	51,859	345
Total	397,919	426,747	28,828
Noncurrent liabilities			
Bonds	43,866	49,933	6,066
Long-term loans	64,848	52,171	(12,676)
Employees' retirement benefits	17,562	17,852	289
Directors' and statutory auditors' retirement benefits	1,502	1,653	150
Liabilities in accordance with the application of the equity	5	863	858
Deferred income taxes	33,018	33,113	95
Other noncurrent liabilities	9,615	9,844	228
Total	170,420	165,433	(4,986)
Total liabilities	568,339	592,181	23,841
< Minority interest in consolidated subsidiaries >	37,042	-	(37,042)
< Shareholders' equity >			
Common stock	70,787	-	(70,787)
Capital surplus	63,132	-	(63,132)
Retained earnings	167,049	-	(167,049)
Net unrealized holding gains on securities	46,922	-	(46,922)
Foreign currency translation adjustments	(9,046)	-	9,046
Treasury stock	(236)	-	236
Total shareholders' equity	338,609	-	(338,609)
Total liabilities and shareholders' equity	943,991	-	(943,991)
<Net assets>			
Shareholders' equity			
Common stock	-	70,787	70,787
Capital surplus	-	63,137	63,137
Retained earnings	-	196,899	196,899
Treasury stock	-	(87)	(87)
Total shareholders' equity	-	330,737	330,737
Valuation and translation adjustments and others	-		
Net unrealized holding gains on securities	-	40,268	40,268
Deferred losses on hedges	-	36	36
Foreign currency translation adjustment	-	(4,289)	(4,289)
Total valuation and translation adjustments and others	-	36,015	36,015
Stock acquisition rights	-	96	96
Minority interests in consolidated subsidiaries	-	40,886	40,886
Total net assets	-	407,736	407,736
Total liabilities and net assets	-	999,917	999,917

Consolidated Statement of Changes in Net Assets

FY2006 (Apr. 2006 - Mar. 2007)

(Million yen : amounts less than one million yen are omitted)

	Shareholders' Equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock at cost	Shareholders' Equity Total
Balance as of March 31, 2006	70,787	63,132	167,049	(236)	300,732
Changes of items during the period					
Cash dividends paid*1			(3,711)		(3,711)
Cash dividends paid			(4,176)		(4,176)
Bonuses to directors and statutory auditors*1			(198)		(198)
Net income			34,124		34,124
Change owing to prior year's tax effect accounting adjustment by overseas subsidiaries			2,971		2,971
Others*2			839		839
Treasury stock purchased				(133)	(133)
Disposal of treasury stock		5		282	288
Net changes of items other than shareholders' equity					
Total	-	5	29,849	149	30,004
Balance at March 31, 2007	70,787	63,137	196,899	(87)	330,737

	Valuation and translation adjustments and others				Stock acquisition rights	Minority interest in consolidated subsidiaries	Net assets Total
	Net unrealized holding gains on securities	Deferred gains on hedges	Foreign currency translation adjustments	Total			
Balance as of March 31, 2006	46,922	-	(9,046)	37,876	-	37,042	375,651
Changes of items during the period							
Cash dividends paid*1							(3,711)
Cash dividends paid							(4,176)
Bonuses to directors and statutory auditors*1							(198)
Net income							34,124
Change owing to prior year's tax effect accounting adjustment by overseas subsidiaries							2,971
Others*2							839
Treasury stock purchased							(133)
Disposal of treasury stock							288
Net changes of items other than shareholders' equity	(6,654)	36	4,756	(1,861)	96	3,844	2,079
Total	(6,654)	36	4,756	(1,861)	96	3,844	32,084
Balance at March 31, 2007	40,268	36	(4,289)	36,015	96	40,886	407,736

*1 Appropriation approved at the annual meeting of shareholders held in June 2006.

*2 Changes of surpluses owing to actuarial differences in retirement benefit obligations calculated based on U.K. accounting standards

Consolidated Statements of Appropriations

(Million yen : amounts less than one million yen are omitted)

	FY2005 (Apr. 2005 - Mar. 2006)
(Capital surplus)	
Balance at beginning of period	63,123
Increase in capital surplus	
Profit from sales of treasury stock	8
Total	8
Balance at end of period	63,132
(Retained earnings)	
Balance at beginning of period	149,711
Increase in retained earnings	
Net income	24,852
Increase due to change of accounting standards by a foreign subsidiary, etc	674
Total	25,527
Decrease in retained earnings	
Cash dividends paid	6,491
Bonuses to directors and statutory auditors	163
Decrease due to change of accounting standards by a foreign subsidiary, etc	1,533
Total	8,188
Balance at end of period	167,049

Consolidated Statements of Cash Flows

(Million yen : amounts less than one million yen are omitted)

	FY2005 (Apr. 2005 - Mar. 2006)	FY2006 (Apr. 2006 - Mar. 2007)	Increase (Decrease)
Cash flows from operating activities			
Income before income taxes	45,033	58,474	13,440
Depreciation and amortization of consolidation account adjustment	50,389	-	(50,389)
Depreciation and amortization of goodwill	-	54,008	54,008
Loss on impairment	6,000	1,122	(4,878)
(Decrease) increase in retirement benefits	(1,424)	7	1,432
(Decrease) increase in allowance for doubtful receivables	(3,402)	115	3,518
Interest and dividend income	(1,809)	(1,723)	85
Interest expense	6,957	9,481	2,524
Equity in losses of unconsolidated subsidiaries and affiliates	644	3,973	3,328
Loss (gain) on sales and disposal of property, plant and equipment	8,775	(2,746)	(11,522)
Proceeds from compensation for transfer of property under eminent domain	-	(2,550)	(2,550)
Loss on sales of investment securities	53	153	100
Write-down of investment securities	448	235	(213)
Loss on redemption of debentures	800	-	(800)
Decrease (increase) in receivables	4,976	(10,900)	(15,876)
Increase in inventories	(11,075)	(7,704)	3,371
(Decrease) increase in payables	(4,455)	25,145	29,601
Other, net	(248)	(8,222)	(7,973)
Subtotal	101,664	118,872	17,207
Interest and dividends received	3,048	2,838	(209)
Interest paid	(6,679)	(8,400)	(1,721)
Income taxes paid	(22,542)	(16,854)	5,687
Net cash and cash equivalents provided by operating activities	75,491	96,455	20,964
Cash flows from investing activities			
Purchase of property, plant and equipment	(66,620)	(69,995)	(3,375)
Proceeds from sales of property, plant and equipment	5,619	8,031	2,412
Purchase of investment securities	(3,406)	(6,835)	(3,428)
Proceeds from sales and redemption of investment securities	452	1,262	810
Purchase of additional shares in subsidiaries	-	(10,854)	(10,854)
Increase in short-term loans receivable	(942)	(1,088)	(146)
Long-term loans advanced	(772)	(1,275)	(503)
Collections on long-term loans receivable	78	304	226
Other, net	(8,470)	(6,615)	1,855
Net cash and cash equivalents used in investing activities	(74,602)	(87,065)	(13,003)
Cash flows from financing activities			
Decrease in short-term bank loans, net	(3,388)	(18,965)	(15,577)
Increase in commercial paper, net	44,000	31,000	(13,000)
Issue of debentures	27,237	51,733	24,496
Redemption of debentures	(46,482)	(57,014)	(10,532)
Proceeds from long-term debt	8,133	15,455	7,321
Repayment of long-term debt	(20,348)	(32,159)	(11,811)
Cash dividends paid	(6,491)	(7,887)	(1,395)
Cash dividends paid to minority shareholders	(1,292)	(1,486)	(194)
Other, net	143	251	107
Net cash and cash equivalents provided by (used in) financing activities	1,511	(19,073)	(20,585)
Effect of exchange rate changes on cash and cash equivalents	1,748	374	(1,374)
Net increase (decrease) in cash and cash equivalents	4,689	(9,308)	(13,998)
Cash and cash equivalents at beginning of period	32,895	37,585	4,689
Increase of cash and cash equivalents due to change in scope of consolidation	-	88	88
Cash and cash equivalents at end of period	37,585	28,365	(9,220)

Segment Information

TEIJIN

Human Chemistry, Human Solutions

1. Industrial Segment Information

(1) FY2006 (Apr. 2006 - Mar. 2007)

								Millions of Yen
I. Sales and Operating income								
	Synthetic Fibers	Films & Plastics	Pharma. & H. H. Care	Trading & Retail	IT & New Products etc.	Total	Elimination & Corporate	Consolidated Total
Sales								
1) External customers	293,280	287,901	113,093	266,491	48,818	1,009,586	-	1,009,586
2) Intersegment net sales or transfer	71,907	15,486	86	9,374	43,446	140,301	(140,301)	-
Net sales	365,187	303,388	113,180	275,865	92,265	1,149,888	(140,301)	1,009,586
Operating expenses	347,846	269,488	91,988	270,470	87,945	1,067,738	(133,213)	934,525
Operating income	17,341	33,899	21,192	5,395	4,319	82,149	(7,088)	75,061

II. Assets, Depreciation and Capital expenditure

Assets	406,473	284,171	78,972	92,296	72,935	934,849	65,067	999,917
Depreciation	22,924	16,612	7,799	406	1,848	49,592	2,140	51,733
Loss on impairment	1,122	-	-	-	-	1,122	-	1,122
Capital expenditure	42,214	19,915	7,908	188	2,988	73,216	2,481	75,698

(Notes)

1. Unallocated operating expenses disclosed in "Elimination & Corporate" for the year ended March 31, 2007 amounted to 6,937 million yen.
2. Corporate assets disclosed in "Elimination & Corporate" as of March 31, 2007 amounted to 124,420 million yen, which mainly included investments of the parent company in "Cash and time deposits" and "Investments in securities" etc.
3. Depreciation and Capital expenditure included long-term prepaid expenses and their amortization.

(2) FY2005 (Apr. 2005 - Mar. 2006)

								Millions of Yen
I. Sales and Operating income								
	Synthetic Fibers	Films & Plastics	Pharma. & H. H. Care	Trading & Retail	IT & New Products etc.	Total	Elimination & Corporate	Consolidated Total
Sales								
1) External customers	260,966	264,511	105,588	259,828	47,187	938,082	-	938,082
2) Intersegment net sales or transfer	66,797	15,041	91	8,406	38,061	128,398	(128,398)	-
Net sales	327,764	279,553	105,680	268,234	85,248	1,066,481	(128,398)	938,082
Operating expenses	313,215	238,602	86,362	262,918	81,489	982,588	(121,263)	861,324
Operating income	14,548	40,950	19,318	5,316	3,759	83,893	(7,135)	76,757

II. Assets, Depreciation and Capital expenditure

Assets	355,905	279,568	82,817	89,018	67,164	874,475	69,516	943,991
Depreciation	21,786	16,113	6,379	415	1,919	46,614	2,180	48,794
Loss on impairment	5,335	-	-	-	-	5,335	665	6,000
Capital expenditure	33,833	19,178	8,736	221	3,423	65,393	1,383	66,777

(Notes)

1. Unallocated operating expenses disclosed in "Elimination & Corporate" for the year ended March 31, 2006 amounted to 7,107 million yen.
2. Corporate assets disclosed in "Elimination & Corporate" as of March 31, 2006 amounted to 132,696 million yen, which mainly included investments of the parent company in "Cash and time deposits" and "Investments in securities" etc.
3. Depreciation and Capital expenditure included long-term prepaid expenses and their amortization.

2. Regional Segment Information

(1) FY2006 (Apr. 2006 - Mar. 2007)

I. Sales and Operating income							Millions of Yen
	Japan	Asia	Americas	Europe	Total	Elimination & Corporate	Consolidated Total
Sales							
1) External customers	652,247	178,332	109,350	69,656	1,009,586	-	1,009,586
2) Intersegment net sales or transfer	46,862	30,170	4,091	25,587	106,712	(106,712)	-
Net sales	699,109	208,502	113,442	95,243	1,116,298	(106,712)	1,009,586
Operating expenses	650,759	195,651	109,440	78,012	1,033,864	(99,339)	934,525
Operating income	48,349	12,851	4,001	17,231	82,433	(7,372)	75,061

II. Assets

Assets	656,910	179,515	82,205	145,028	1,063,658	(63,741)	999,917
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(Notes)

1. Unallocated operating expenses disclosed in "Elimination & Corporate" for the year ended March 31, 2007 amounted to 6,937 million yen.
2. Corporate assets disclosed in "Elimination & Corporate" as of March 31, 2007 amounted to 124,420 million yen, which mainly included investments of the parent company in "Cash and time deposits" and "Investments in securities" etc.

(2) FY2005 (Apr. 2005 - Mar. 2006)

I. Sales and Operating income							Millions of Yen
	Japan	Asia	Americas	Europe	Total	Elimination & Corporate	Consolidated Total
Sales							
1) External customers	619,218	150,582	103,402	64,878	938,082	-	938,082
2) Intersegment net sales or transfer	40,292	33,558	3,303	18,919	96,073	(96,073)	-
Net sales	659,510	184,141	106,706	83,798	1,034,156	(96,073)	938,082
Operating expenses	613,997	163,234	103,115	68,792	949,140	(87,815)	861,324
Operating income	45,512	20,906	3,590	15,006	85,015	(8,257)	76,757

II. Assets

Assets	606,319	179,006	80,233	120,008	985,568	(41,577)	943,991
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(Notes)

1. Unallocated operating expenses disclosed in "Elimination & Corporate" for the year ended March 31, 2006 amounted to 7,107 million yen.
2. Corporate assets disclosed in "Elimination & Corporate" as of March 31, 2006 amounted to 132,696 million yen, which mainly included investments of the parent company in "Cash and time deposits" and "Investments in securities" etc.

1. Results of Operations and Financial Position

(1) Analysis of Results of Operations

Sales and Income

In fiscal 2006, ended March 31, 2007, firm economic growth persisted in the United States and Europe, while in the People's Republic of China (PRC), investment and brisk exports continued to drive strong growth. The Japanese economy continued to expand gradually, reflecting, among others, rising capital investment and an improved employment environment. In this environment, the Teijin Group implemented a variety of initiatives in line with its STEP UP 2006 medium-term management plan, decisively investing resources in growth SBUs, strengthening R&D and cultivating new businesses, and reinforcing its focus on four key fields: "automobiles and aircraft," "information and electronics," "health care," and "environment and energy."

Teijin's consolidated net sales passed the ¥1,000 billion mark for the first time ever, rising 7.6% from fiscal 2005, to ¥1,009.6 billion. Operating income slipped 2.2%, to ¥75.1 billion, and ordinary income fell 11.3%, to ¥60.5 billion. Net income climbed 37.3%, to a record ¥34.1 billion, surpassing the previous record, of ¥26.2 billion set 16 years ago in fiscal 1990, ended March 31, 1991.

The increase in net sales was primarily due to higher sales in all segments, and reflected strategic investments, which supported the increasingly diverse nature of Teijin's operations, sales price revisions—made in response to rising raw materials prices and fuel costs—and other factors.

Operating income remained largely level with fiscal 2005. Gains were recorded in the high performance fibers business—part of the Synthetic Fibers segment—which benefited from a tight supply-demand situation, and the pharmaceuticals and home health care businesses, which saw favorable expansion as sales offset the impact of revisions to National Health Insurance (NHI) drug prices, that is, reimbursement prices paid to medical institutions by insurers under Japan's NHI scheme. However, operating income in the Films and Plastics segment fell, owing to, among others, falling sales prices for polycarbonate resin, a mainstay of the plastics business.

Nonoperating revenues were largely level with the previous period. In contrast, nonoperating expenses rose, reflecting an increase in interest expense, a consequence of higher interest rates, and a sharp increase in equity on losses of unconsolidated subsidiaries and affiliates, namely, PET film joint ventures in Europe and para-aramid film joint ventures in Japan.

Teijin recorded an extraordinary loss as in fiscal 2005, although this loss was an improvement on the previous period, as restructuring measures prompted declines in loss on sales of property, plant and equipment and impairment loss.

The increase in net income was primarily attributable to the abovementioned improvement in extraordinary items.

The principal goals of our current medium-term management plan, STEP UP 2006, which commenced in fiscal 2006 and will conclude in fiscal 2008, are a return on assets (ROA)—calculated using operating income—of higher than 10%, a return on equity (ROE) of above 12% and a debt-to-equity ratio (interest-bearing debt divided by shareholders' equity) of between 0.6 times and 0.7 times. For the period under review, we achieved an ROA of 7.7%, ROE of 9.7% and a debt-to-equity ratio of 0.81 times.

Note: See page 18 for more information on Teijin's SBUs, as set forth in the STEP UP 2006 medium-term management plan.

Business Segment Results

Synthetic Fibers

Sales in the Synthetic Fibers segment increased 12.4%, to ¥293.3 billion, and operating income climbed 19.2%, to ¥17.3 billion.

In the polyester fibers business, efforts to revise sales prices in Japan were successful, but rising raw materials prices and fuel costs worldwide hampered the performance of subsidiaries in Southeast Asia. In the high performance fibers business, sales and operating income expanded favorably in the area of aramid and carbon fibers.

Polyester Fibers

Operating conditions were harsh, owing to rising raw materials prices and fuel costs worldwide and the emergence of the PRC as a major market force, which prompted an increase in the supply of products in the market. In Southeast Asia, these factors had a significant impact on the performance of subsidiaries in Thailand and Indonesia. However, core subsidiary Teijin Fibers Limited in Japan returned to profitability as it actively promoted sales price revisions in response to rising raw materials prices and fuel costs. In April 2006, Teijin Fibers took over the industrial-use polyester fibers business of Teijin Techno Products Limited, which includes Teijin's proprietary *Teonex*[®] high-performance polyethylene naphthalate (PEN) fibers business, allowing the company to integrate all aspects of production, sales and research for polyester fibers.

On another front, we continue to focus on establishing new business models and developing new products. We are stepping up efforts to expand ECO CIRCLE[®], a closed-loop recycling system by expanding the number of participating companies in polyester fibers business. We are also introducing innovative new products including *ECO STORM*[™], a waterproof and moisture permeable material made from recycled polyester fibers. As well, we have commenced sales of highly elastic, lightweight high-performance nonwoven textiles.

High Performance Fibers

Sales of *Twaron*[®] and *Technora*[®] para-aramid fibers continue to increase, particularly for automotive and safety-related applications, as we capitalized on the special characteristics of these fibers to expand marketing. Against a background of soaring demand, we completed new production facilities for *Twaron*[®] para-aramid fibers prior to the end of 2006. In addition, we made the decision to build additional production facilities for *Twaron*[®], the first of which

is scheduled to come on line gradually beginning at the end of 2008, which will increase our annual production capacity by approximately 15%. We continue to sell out capacity for *Technora*[®] for such applications as rubber reinforcements, and we are currently considering the expansion of production capacity to accommodate rising demand. Production and sales of *TEIJINCONEX*[®] meta-aramid fibers also remained firm. As well, we saw steadily increasing results for *Tenax*[®] carbon fibers, owing to rising demand for use in industrial materials and aircraft. A new production line for *Tenax*[®] carbon fibers in Germany was completed in September 2006 and production commenced as scheduled. We are also in the process of building a large-scale carbon fibers production line in Japan, which we expect to bring on line in April 2008.

Films and Plastics

In the Films and Plastics segment, sales increased 8.8%, to ¥287.9 billion. Nonetheless, operating income fell 17.2%, to ¥33.9 billion.

In the area of films, sales of polyethylene terephthalate (PET) were favorable, particularly in Asian markets, while sales of PEN films were firm for high-density data backup tapes. In plastics, despite a sharp increase in sales for use in industrial materials, operating income fell as a consequence of, among others, declining of sales prices, and persistently high raw material prices

Films

Our global films joint ventures with E.I. du Pont de Nemours and Company (DuPont) currently have operations in six countries. In the period under review, sales of mainstay PET film were firm, particularly in Asian markets, despite a harsh operating environment characterized by rising raw materials prices and fuel costs.

In Japan, brisk sales of products for general industrial applications, notably flat panel display (FPD)-related materials, and an improved product mix supported favorable profit gains. In response to rising demand, we brought newly constructed facilities for clear, thick PET film on line in January 2007.

In the United States, competition is intensifying, owing to an influx of low-priced imported products. As a consequence, results were somewhat soft despite an improved product mix and ongoing rationalization efforts.

In Europe, we are taking decisive steps to counter intensified competition—exacerbated by a sharp decrease in demand for magnetic applications and an increase in imports prompted by a strong euro—and improve profits.

In the area of *Teonex*[®] PEN film, sales remained solid for use in high-density data backup tapes. PEN film sales also increased for automotive- and electronics-related applications.

In summary, our global films joint ventures—which include unconsolidated subsidiaries and affiliates—reported increases in sales from the previous fiscal year, although operating income remained flat.

Plastics

We took decisive steps to expand sales of *Panlite*[®] polycarbonate resin, particularly to the PRC market, and succeeded in boosting shipments for general industrial applications,

including office automation (OA) equipment and electrical and electronics equipment. We continue to work to reinforce our supply capabilities in Asian markets, especially in the PRC. In December 2006, we commenced commercial production on a second line at our polymer plant in Zhejiang Province, in the PRC, on schedule and made the decision to construct a third line. Currently, we are proceeding with the third phase of construction in a project to expand production capacity at our compounding plant in Shanghai. On another front, prices for polycarbonate resin, on a downswing since the second half of 2005, bottomed out in mid-2006, but fell short of a full recovery. Despite efforts to improve our product mix and extensive cost-cutting measures, the impact of rising raw materials prices meant we were unable to avoid a decline in operating income from the previous fiscal year.

Sales of *Panlite*[®] sheet polycarbonate resin sheets rose significantly, particularly for use in diffusion plates for backlights used in liquid crystal displays (LCDs) for large-screen televisions. With demand expected to increase further, we completed new facilities for extruding sheet for use in diffusion plates in March 2007. Going forward, we will strive to ensure solid supply capabilities and attract a wider range of customers.

Pharmaceuticals and Home Health Care

The Pharmaceuticals and Home Health Care segment posted sales of ¥113.1 billion, an increase of 7.1%, and operating income of ¥21.2 billion, up 9.7%.

In the pharmaceuticals business, we reported solid results, led by drugs used in the treatment of osteoporosis, including the newly launched once-weekly formulation Bonalon[®] 35mg tablet. In the home health care business, rental volume for home oxygen therapy (HOT) equipment rose steadily, while results for continuous positive airway pressure (CPAP) ventilators and other home health care equipments were favorable. Progress was also reported in R&D.

Pharmaceuticals

In the area of osteoporosis treatments, a key focus, we launched *Bonalon*^{®*1} 35mg tablet^{*2}, a new, once-weekly formulation of bisphosphonate *Bonalon*[®], in September 2006. Combined shipments of the new formulation and the standard *Bonalon*[®] 5mg tablet rose. We also continued to record firm sales of active vitamin D₃-based *Onealfa*[®], human immunoglobulin preparation *Venilon*[®], expectorant *Mucosolvan*[®] and active vitamin D₃-based psoriasis treatment *Bonalfa*[®] *High Lotion* 20 µg/g, launched in June 2006.

In R&D, we proceeded with development efforts for new drugs in line with themes developed in-house as well as themes introduced from outside sources. In November 2006, we began phase II clinical trials for a new treatment for acromegaly licensed-in from Beaufour Ipsen S.A. of France.

Home Health Care

Rental volume for mainstay HOT equipment in Japan remained firm despite increasingly intense competition. Rental volume for *NIP NASAL*[®], Non-invasive Positive Pressure Ventilation Devices, CPAP ventilators for sufferers of sleep apnea syndrome (SAS) and *SAFHS*[®] (Sonic Accelerated Fracture Healing System) also rose favorably. Overseas, we commenced rentals of HOT equipment in the Republic of Korea (ROK) in a joint venture

with a local company.

Note:

*1 *Bonalon*[®] is the registered trademark of Merck & Co., Inc., Whitehouse Station, NJ, USA.

*2. Unlike *Bonalon*[®] 5mg, which must be taken daily, *Bonalon*[®] 35mg is a tablet-form osteoporosis treatment that needs to be taken only once weekly.

Trading and Retail

In the Trading and Retail segment, sales rose 2.6%, to ¥266.5 billion, and operating income edged up 1.5%, to ¥5.4 billion. In textiles and apparel, we expanded our mainstay OEM business but faced a harsh environment as a result of higher costs. The industrial textiles and materials business registered brisk results for high performance fibers.

Textiles and Apparel

Successful measures were implemented to reinforce our production base, which centered on apparel sewing factories in the PRC and Vietnam. We also narrowed our customer focus and strengthened our sales organization in the area of casual apparel. These efforts led to the expansion of our mainstay OEM business. Nonetheless, rising raw materials prices and a strong Chinese currency drove up costs, resulting in a harsh operating environment.

Industrial Textiles and Materials

Sales of high performance fibers for rubber reinforcements used in automotive applications in the domestic and overseas markets, and for bag filters and other products for environmental applications, were solid. Efforts to reinforce local sourcing capabilities overseas to meet the needs of customers in the automotive industry establishing production facilities abroad proceeded apace. We also recorded an increase in sales of *AEROSHELTER*[®] II, a large, ultralight tent used as, among others, temporary shelter in the aftermath of disasters.

IT and New Products, etc.

Sales in the IT and New Products, etc., segment rose 3.5%, to ¥48.8 billion, and operating income rose 14.9%, to ¥4.3 billion. In IT, sales were up although operating income declined. In new products, etc., business, both sales and operating income increased.

IT

The IT business is divided into IT solutions and Services, both provided by subsidiary Infocom Corporation. IT solutions include *GRANDIT*[®], an enterprise resource planning (ERP) software package for medium-sized enterprises, and solutions for medical care facilities, while Services include data center management, the provision of ring tones and other content for mobile phones, and e-commerce sites management. In IT solutions, orders for *GRANDIT*[®] were firm, while we also enhanced the performance and commenced sales of software packages that assist in the establishment of internal control systems. We also took steps to improve the quality of our other software packages. In Services, we implemented decisive measures aimed at improving results.

New Products, etc.

In light of a persistently harsh operating environment for *Aramica*[®] para-aramid film, at the end of March 2007, we dissolved *Aramica*[®] production and sales subsidiary Teijin Advanced Films Limited. Increases in operating income at other subsidiaries, including Teijin Engineering Limited, supported increases in sales and operating income.

With the aim of developing new businesses, we have selected three key themes—highly thermally conductive materials, bioplastics and high-performance electronics materials—in which we intend to focus our R&D efforts. We are actively conducting R&D in all three areas with a view to commercialization before the conclusion of our STEP UP 2006 medium-term management plan.

Outlook for Fiscal 2007

Outlook for Operating Results (Billions of yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
FY2007 (forecast)	1,030.0	80.0	69.0	39.0
FY2006	1,009.6	75.1	60.5	34.1
Amount change	+20.4	+4.9	+8.5	+4.9
Percentage change	+2.0%	+6.6%	+14.1%	+14.3%

In fiscal 2007, aggressive investment interest is expected to continue driving brisk economic growth in the PRC, despite policy-tightening measures. Growth in the U.S. and European economies is expected to remain strong. Japan's economy is projected to continue expanding at a leisurely pace, supported by steady capital investment and consumer spending. Given concerns that oil prices may rebound from the recent adjustment phase, however, the outlook for our operating environment continues to warrant caution.

During the current period, the second year of STEP UP 2006, we will respond to this environment by striving to manifest the results of concentrated investments in growth SBUs prior to and in fiscal 2006. At the same time, we will work to restore the polyester fibers business to profitability. With the aim of ensuring sustainable growth in corporate value, in line with this medium-term management plan we are planning on capital investment of ¥89.0 billion, most of which will be allocated to growth SBUs, ¥26.0 billion higher than depreciation and amortization. We also plan to invest ¥37.0 billion in R&D, particularly in pharmaceuticals and home health care and new businesses.

As a consequence of these and other factors, we currently forecast consolidated net sales of ¥1,030.0 billion, operating income of ¥80.0 billion, ordinary income of ¥69.0 billion and net income of ¥39.0 billion, all record highs. The increase in net sales is expected to be driven by higher sales in all segments, led primarily by Synthetic Fibers and Trading and Retail, while

higher operating income is projected to reflect operating income gains, particularly in the polyester fibers and high performance fibers businesses. These forecasts assume an exchange rate of ¥110 to US\$1.00.

Outlook for Segment Results

(Billions of yen)

	FY2006	FY2007 (forecast)		Amount change (Annual)
		(Interim)	(Annual)	
Net sales				
Synthetic Fibers	293.3	150.0	300.0	+6.7
Films and Plastics	287.9	140.0	290.0	+2.1
Pharma. &H.H.C.	113.1	55.0	115.0	+1.9
Trading and Retail	266.5	135.0	275.0	+8.5
IT and New Products, etc.	48.8	20.0	50.0	+1.2
Total	1,009.6	500.0	1,030.0	+20.4
Operating income				
Synthetic Fibers	17.3	11.5	25.0	+7.7
Films and Plastics	33.9	15.0	34.0	+0.1
Pharma. &H.H.C.	21.2	9.5	21.0	-0.2
Trading and Retail	5.4	2.5	6.0	+0.6
IT and New Products, etc.	4.3	0.5	4.0	-0.3
Elimination and corporate	-7.1	-4.5	-10.0	-2.9
Total	75.1	34.5	80.0	+4.9

Growth SBUs

Invest resources decisively and with a long-term outlook

In the high performance fibers business—part of the Synthetic Fibers segment—we continue to see sustained growth in the market for para-aramid fibers, particularly for automotive and safety-related applications. The market for carbon fibers also continues to grow, notably for use in industrial materials and aircraft, and the supply–demand situation remains tight. As a consequence, we are striving to cultivate new applications for *Twaron*[®] para-aramid fibers, including *SULFRON*[®], developed for use in tire reinforcements, and are proceeding with the next phase of construction to expand production facilities. With the aim of reinforcing our standing in the market, we have commenced production of *Tenax*[®] carbon fibers on a new production line in Germany completed in 2006 and proceeded with construction of a new line in Japan.

Demand for *Panlite*[®] polycarbonate resin—part of the Films and Plastics segment—is

expected to continue expanding in Asia, with interest particularly strong in the PRC for use in industrial materials. Accordingly, we will focus on expanding sales to customers in growth areas, including OA equipment, electrical and electronics equipment, and automobiles. In response to rising raw materials prices, an issue since 2006, we will strive to ensure profitability by improving our product mix and achieving decisive cost reductions, as well as by revising sales prices. We will also take advantage of our new Plastic Processing Techniques & Products Business Division, established in 2006, to reinforce our downstream products including plastic sheets, films and molded products, and to create added value and stabilize profitability.

In the area of PEN products (film, plastic and fibers) sold under the *Teonex*[®] name, which are accounted for in the Films and Plastics and Synthetic Fibers segments, we will take decisive steps to expand sales to manufacturers of high-density data backup tapes, currently the principal customers for these products, as well as sales for automotive and other industrial applications.

In pharmaceuticals and home health care, we are focusing on responding to demand created by the rapid aging of Japan's population and the rising prevalence of lifestyle-related diseases, and will strive to boost sales of pharmaceuticals—notably *Bonalon*[®] 35mg tablet, a new once-weekly formulation of osteoporosis treatment *Bonalon*[®] and hyperlipidemic drug *Tricor*[®]—as well as expand rentals of home health care equipment. We will also continue to prepare for the launch of *Alvesco*[®], an inhaled corticosteroid agent for the treatment of asthma in adults that was recently approved in Japan. In R&D, we will proceed with development efforts for new drugs in line with themes developed in-house as well as themes introduced from outside sources.

Stable-profit SBUs

Secure stable profits and cash flows

Sharp growth in the market for PET films—part of the Films and Plastics segment—is forecast in Asia, with growth in demand for display and electronics-related applications in Japan, the ROK and Taiwan expected to be particularly strong. Accordingly, we will concentrate the allocation of management resources in these growth areas. At the same time we will work to further reduce costs and strengthen product development and marketing capabilities with the aim of bolstering our stable profit base in this business. We will also endeavor to reach capacity at our new production facility for thick, clear PET film, which came on line in January 2007.

In the Trading and Retail SBU, we will continue to focus on selective, concentrated business development in our core business area in textiles and apparel, as well as on enhancing the performance and added value of our products. We will also endeavor to expand our business in the European and North American markets by capitalizing on our production capabilities including sewing in the PRC and Vietnam. In industrial textiles and materials, we will focus on business development in global markets, as well as on increasing the scope of our business in such areas as functional materials and environmental products. In the IT business, which is accounted for in the IT and New Products, etc., segment, we will allocate management resources to growth drivers in the area of IT solutions, including health

care solutions and *GRANDIT*[®], as well as focus on expanding data center management services and other businesses in the area of Services.

Restructuring SBUs

Overhaul according to fundamental policies

In polyester fibers—part of the Synthetic Fibers segment—the current glut of products in the market, a consequence of an increased volume of products in the PRC, is expected to continue. Recognizing the early restoration of profitability in this business as an urgent task, we will implement a thorough reengineering of business structure. Concrete measures will include fortifying sales of superior-quality, highly functional products, scaling back production of products that are less commercially viable, reducing costs and enhancing cooperation with our subsidiaries in Thailand and Indonesia—measures that we expect will support improved profitability for the entire polyester fibers business.

What are Teijin’s SBUs?

To optimize our business portfolio, we have reorganized our operations into strategic business units (SBUs), based on the extent of their contribution to corporate value and prospects for sustainable growth. SBUs within each operating segment are further divided into “Growth SBUs,” “Stable-profit SBUs” or “Restructuring SBUs.” The table below shows the positioning of these SBUs under the STEP UP 2006 medium-term management plan, as well as the businesses included in each.

Currently we have only one remaining “Restructuring SBU,” polyester fibers, which we are working to grow into a “Stable-profit SBU.” Similarly, we are working to transform our IT SBU, currently a “Stable-profit SBU,” into a “Growth SBU.”

	Growth SBUs	Stable-profit SBUs	Restructuring SBUs
	Invest resources decisively and with a long-term outlook	Secure stable profits and cash flows	Overhaul according to fundamental policies
Synthetic Fibers	Para-aramid fibers Carbon fibers PEN fibers		Polyester fibers
Films and Plastics	Polycarbonate resin PEN film and PEN resin	Polyester film and polyester resin	
Pharma. & H.H.C	Pharmaceuticals and home health care		
Trading and Retail		Trading and retail	
IT		IT	

Note: An SBU is a business unit that can be clearly classified according to, for example, its mission, management resources, products and services, customers and competitors, and for which independent strategies and plans should be proposed.

(2) Analysis of Financial Position

Analysis of Assets, Liabilities, Net Assets and Cash Flows

Assets, Liabilities and Net Assets

Despite a downward revaluation of marketable securities, in line with a drop in stock prices, total assets as of March 31, 2007, amounted to ¥999.9 billion, up ¥55.9 billion from the end of fiscal 2005. This reflected increases in trade notes and accounts receivable and inventories, owing to the increasingly diverse nature of our business, higher raw materials prices and fuel costs and a rise in tangible fixed assets, a consequence of aggressive advance capital investment, as well as to an increase in goodwill resulting from the purchase of shares in subsidiaries.

Total liabilities, at ¥592.2 billion, were up ¥23.8 billion from the same point a year earlier. This was attributable to an increase in trade notes and accounts payable, again owing to the increasingly diverse nature of our business and higher raw materials prices and fuel costs.

Total net assets were ¥407.7 billion, up ¥32.1 billion from the fiscal 2005 year-end. Shareholders' equity and valuation and translation adjustments and others, together accounted for ¥366.8 billion of this total, an increase of ¥28.1 billion from the same point a year earlier. Increases in retained earnings and foreign currency translation adjustments, the result of a weak yen, countered a decline in net unrealized holding gains on securities. As a consequence, the equity ratio was 36.7%.

Cash Flows

Net cash and cash equivalents provided by operating activities in fiscal 2006 amounted to ¥96.5 billion, as an increase in payables and higher contributions from income before income taxes and depreciation and amortization offset the impact of negative factors, including increases in receivables and inventories.

The application of ¥70.0 billion to the purchase of property, plant and equipment and other factors contributed to net cash and cash equivalents used in investing activities of ¥87.1 billion. During the period, we invested primarily in growth businesses to, among others, expand production facilities for para-aramid fibers in the Netherlands, augment production facilities for carbon fibers in Germany and Japan and build new lines for polycarbonate resin in the PRC and thick, clear PET film for FPDs in Japan.

Operating and investing activities during the period under review thus provided a net total of ¥9.4 billion in cash and cash equivalents.

Net cash and cash equivalents used in financing activities amounted to ¥19.1 billion. This result reflected the issue and redemption of corporate bonds, repayment of short- and long-term debt and payment of dividends, as well as proceeds from the issue of commercial paper and other moves aimed at securing stable financing.

Owing to the Company's operating, investing and financing activities during the period, cash and cash equivalents as of March 31, 2007, after factoring in the impact of exchange rate changes, decreased ¥9.3 billion.

Outlook for Financial Position for Fiscal 2007

As in the period under review, in fiscal 2007 we will continue to invest management

resources in a high level with a medium-term perspective, we will seek to maintain a sound financial base by further shrinking working capital and implementing Companywide programs aimed at lowering costs, thereby enabling us to secure a stable cash flow. Through these and other efforts, we are targeting a return on assets (ROA) of 8%, a return on equity (ROE) of 10% and a debt-to-equity ratio of less than 0.8 times for the period.

Key Indicators

	FY2002 (As of March 31, 2003)	FY2003 (As of March 31, 2004)	FY2004 (As of March 31, 2005)	FY2005 (As of March 31, 2006)	FY2006 (As of March 31, 2007)
ROA (%)	3.3	4.0	5.9	8.5	7.7
ROE (%)	-7.5	3.0	3.1	7.9	9.7
Debt-to-equity ratio (times)	1.59	1.21	0.95	0.88	0.81
Equity ratio (%)	26.9	32.1	34.1	35.9	36.7
Equity ratio (market value basis) (%)	24.6	34.4	44.7	56.1	51.0
Debt pay back period (years)	7.6	7.9	3.8	4.0	3.1
Interest coverage ratio (times)	5.3	5.8	11.1	11.3	11.5

Note: Calculations are based on consolidated figures.

ROA	Operating income ÷ Average* total assets *([Beginning balance + Ending balance] ÷ 2)
ROE	Net income ÷ Average* total shareholders' equity *([Beginning balance + Ending balance] ÷ 2)
Debt-to-equity ratio	Interest-bearing debt ÷ Total shareholders' equity
Equity ratio	Total net assets (ending balance) – [Stock acquisition rights (ending balance) – Minority interests in consolidated subsidiaries (ending balance)] ÷ Total assets Note: Figures for FY2005 and prior years are shareholders' equity ratios (Total shareholders' equity ÷ Total assets).
Equity ratio (market value basis)	Market value of equity* ÷ Market value of total assets** *Ending price × Number of shares issued at end of period (excluding treasury stock) **Total shareholders' equity recalculated at market value
Debt pay back period (years)	Interest-bearing debt ÷ Cash provided by operating activities* *As in Consolidated Statements of Cash Flows
Interest coverage ratio	Cash provided by operating activities ÷ Interest expense* *As in Consolidated Statements of Cash Flows

(3) Policy Regarding the Payment of Dividends, Dividends Declared for Fiscal 2006 and Dividends Forecast for Fiscal 2007

Policy Regarding the Payment of Dividends

Our basic policy is to ensure dividends are in line with consolidated operating results. Under our current medium-term management plan, STEP UP 2006, which commenced in fiscal

2006 and will end in fiscal 2008, we are placing a high priority on strategic investment aimed at realizing our long-term vision. Accordingly, we will aim for a payout ratio of between 20% and 30% for the duration of this plan.

With the aim of improving the competitiveness of the entire Teijin Group, we continue to fund investments aimed at enhancing and expanding our sales, R&D and production organizations from internal reserves. Accordingly, for the time being we have no plans to acquire or dispose of treasury stock.

Dividends Declared for Fiscal 2006 and Dividends Forecast for Fiscal 2007

In line with this policy, year-end dividends for fiscal 2006 were declared at ¥5.5 per share, up from ¥1.5 for the fiscal 2005 year-end, bringing dividends for the full term to ¥10.0 per share, including interim dividends of ¥4.5 per share. On the assumption that we will meet our targets for the period, we forecast dividends of ¥10.0 per share for fiscal 2007, comprising interim dividends of ¥4.5 per share and year-end dividends of ¥5.5 per share.

We intend in principle to maintain our schedule of dividend payments twice annually, at the interim and fiscal year-end.

(4) Risk Factors

The Teijin Group has implemented organizational and systematic responses to various risks inherent in its operations. As of the date of this document, the Group recognized the following risks as having the potential to affect its operating results and/or financial position and thus to impact investment decisions.

Market-related risk

The Teijin Group manufactures and sells products the sales of which may be affected by market conditions and competition with other companies, and by price fluctuations arising thereof, as well as by such market factors as fluctuations in foreign exchange and interest rates. The Group's materials businesses—notably the polyester fibers business of its synthetic fibers segment and the polyester film and polycarbonate resin businesses of its films and plastics segment—are particularly vulnerable to fluctuations in selling prices and procurement costs for raw materials and fuel related to market conditions and competition with other companies.

The Teijin Group's pharmaceuticals and home health care segment is vulnerable to changes in drug reimbursement prices under Japan's National Health Insurance (NHI) system, as well as to increasingly intense competition, both of which may have a negative impact on selling prices.

In terms of foreign exchange risk, the impact on operating results of a short-term small range of fluctuations in U.S. dollar rates are negligible as revenues and expenditures denominated in these currencies are approximately equivalent.

Product quality risk

Teijin Pharma Limited, the principal subsidiary in the Teijin Group's Pharmaceuticals and Home Health Care segment, has established its own product reliability assurance function in the form of a compliance division. This division, which functions independently of other

Group businesses, is charged with quality assurance in all aspects of the pharmaceuticals and home health care business. The Group maintains insurance coverage against product liability.

However, as this business involves products that may affect the lives of users, quality issues have the potential to negatively affect, among others, the Group's operating results, financial position and public reputation.

R&D-related risk in the pharmaceuticals business

R&D in the pharmaceuticals business is characterized by significant investments of funds and time. Pharmaceutical discovery research has a high incidence of failure. In the initial stages, there is a high risk that researchers will fail to discover a promising drug. Even if a promising drug is discovered, clinical trials may prove it not to be as effective as anticipated, or to have unexpected adverse effects, thereby forcing the abandonment of plans to apply for approval. There is also a risk that a new drug candidate may not receive regulatory approval as a result of the examination process that follows application, or that approval may be rescinded as a result of research conducted subsequent to launch.

Disclaimer Regarding Forward-Looking Statements

This document contains forward-looking statements. These statements are based on internal projections and estimates and should not be interpreted as representation that quantitative or qualitative objectives therein will be fulfilled.

2. Management Policies

(1) Basic Management Principles

The Teijin Group is committed to the objectives outlined in its corporate philosophy, “Enhancing the quality of life of people everywhere through a deep insight into human nature and the application of our creative abilities.” Accordingly, the Group promises to continue developing chemical technologies that are friendly to both people and the global environment, and to keep providing solutions that deliver the real value that society and its customers expect.

Guided by this philosophy, the Teijin Group aims to achieve sustainable growth in corporate value by pursuing an integrated management approach based on three core elements: business strategies, corporate governance and corporate social responsibility (CSR). Through these efforts, the Group also endeavors to build solid relationships, based on trust, with all of its stakeholders.

The Group implements business strategies aimed at enabling it to respond promptly and appropriately to changes in the business environment, as well as to evolve its corporate structure and improve profitability. These strategies reflect the Group’s basic management policies, which are to achieve consistently profitable growth, develop its business globally and strengthen Group management.

Notes:

1. The Teijin Group is guided by three philosophies—its core “Quality of Life” philosophy, as well as supporting philosophies “In Harmony with Society” and “Empowering Our People.”
2. CSR refers to how a company takes account of its impact on society in the way it operates and encompasses environmental concerns, occupational safety and health, compliance (with social norms, ethical standards and legal requirements) and social contributions.
3. A company’s stakeholders include its shareholders, employees, creditors, customers, end users, suppliers and local communities.

(2) Principal Management Goals and Medium- to Long-Term Business Strategies

As no significant changes have been made to the Teijin Group’s principal management goals and medium- to long-term business strategies since publication of its Consolidated Financial Results for the First Half of FY2006 (date of publication: November 1, 2006), this information has been excluded from this document. The Teijin Group’s Consolidated Financial Results for the First Half of FY2006 is available at:

(Teijin Group web site) (English)

<http://www.teijin.co.jp/english/ir/ir07.html>

(3) Tasks Ahead

Strengthen the profitability of businesses through “creative management,” that is, management that emphasizes innovation

In accordance with our shift in management focus from stable growth to innovation and new business development, individual strategic business units (SBUs) will endeavor to enhance

the competitiveness of our various businesses by reinforcing core competencies, i.e., those capabilities that are the source of our competitiveness and innovation, as well as by allocating management resources as appropriate and reviewing the results of such allocations.

We will strive to accelerate growth by selectively allocating management resources to fund capital investment and R&D in growth SBUs. At the same time, we will reinforce efforts to strengthen risk management to counter the anticipated increase in risk resulting from the expansion of investment, thereby enabling us to select investment targets.

In the polyester fibers SBU, which remains in need of restructuring, we will take steps to maximize the benefits of the April 1, 2006, business integration that created this SBU, as well as accelerate efforts to revamp this SBU and achieve profitability at the earliest possible date by scaling back or terminating production of certain unprofitable items and promoting a shift in the focus of our endeavors, including R&D, to high-performance products, thereby establishing a sustainable business structure.

In addition, we will continue to make significant investments while at the same time striving to promote the efficient use of working capital and ensure a solid financial base.

Reinforce cross-business corporate functions

Having adopted a holding company system, we continue to strengthen the profitability of its individual businesses by spinning them off into independent companies. Going forward, we will augment these efforts by reinforcing cross-sectional corporate functions, thereby facilitating greater coordination between the holding company and individual businesses and enhancing our collective strength.

In line with the shift in our focus to the strategic fields of “automobiles and aircraft,” “information and electronics,” “health care,” and “environment and energy,” the Teijin Group will strengthen ties with key customers under the guidance of corporate officers assigned to oversee efforts in each of these fields.

On another front, we will continue to explore the potential of India and Russia, both of which are expected to see outstanding market growth in the years ahead, as locations for manufacturing, sales and R&D activities. We have already gained an initial foothold by establishing bases in both countries.

In R&D, the Group will continue to focus on identifying market needs promptly and accurately, prioritizing research in crucial areas and expanding the allocation of management resources to R&D on key themes. As well, the Group will step up efforts to effectively manage and assess the progress of R&D efforts to accelerate commercialization.

In new businesses, we will promote R&D on three key themes (highly thermally conductive materials, bioplastics and high-performance electronics materials) and the commercialization of achievements. At the same time, we will step up efforts to create new businesses, including taking advantage of opportunities to conclude merger and acquisition (M&A) deals and enter alliances.

Additionally, we will promote greater awareness of corporate ethics, environment, safety and health (ESH)-related issues, internal controls and other aspects of risk management in all areas of corporate endeavor and, through the examination and improvement of business

processes, build a solid and effective system for responding to the various risks we encounter.

Establish internal control systems

We have made concerted efforts to enhance our corporate ethics, corporate governance, risk management and corporate social responsibility (CSR), and have implemented numerous measures aimed at ensuring a high level of stakeholder trust.

In March 2006, Teijin's Board of Directors passed a resolution on the establishment of internal control systems. This move came in advance of the May 1, 2006, implementation of Japan's new Company Law. On April 1, 2006, we established an internal controls promotion team, which is overseen by the Chief Financial Officer (CFO) for the Teijin Group. The establishment of an internal control system to evaluate and audit financial reporting is mandated under Japan's new Financial Instruments and Exchange Law, which was approved in June 2006.

Guided by a policy that focuses on ensuring the reliability of financial reporting by exposing risks and inefficiencies in business processes, as well as on establishing a system for effectively controlling such risks and improving business process efficiency, we are proceeding with the development of internal control systems. Our goal is to have these systems in place by fiscal 2008, ending March 31, 2009.

Supplementary Information

1. Capital expenditure, Depreciation & amortization expenses and Reserch & development expenses

(Billions of yen)

	Capital expenditure (CAPEX for tangible assets)	Depreciation & amortization	Research & development
FY04 Actual	54.1 (42.3)	52.3	30.0
FY05 Actual	66.8 (61.9)	50.4	31.2
FY06 Actual	75.7 (73.0)	54.0	35.1
FY07 Outlook	89.0 (87.0)	63.0	37.0

2. Interest-bearing debt & Balance of financial revenues and expenses

(Billions of yen)

	FY04	FY05	FY06
Interest-bearing debt	277.0	298.3	295.5
Balance of financial revenues and expenses (Dividend income)	-5.7 (0.7)	-5.1 (1.4)	-7.8 (1.0)

3. Foreign Exchange Rate

(1) BS exchange rate for overseas subsidiaries

	FY04	FY05	FY06	FY07 (Outlook)
JPY/US\$	104	118	119	110
US\$/EURO	1.36	1.18	1.31	1.32

(2) PL exchange rate for overseas subsidiaries

	FY04	FY05	FY06	FY07 (Outlook)
JPY/US\$	108	110	116	110
US\$/EURO	1.24	1.24	1.26	1.32

4. Number of employees

(Persons)

	FY04	FY05	FY06
Consolidated	18,960	18,819	19,053

5. Movement of Results

(Billions of yen)

	FY03 (Actual)	FY04 (Actual)	FY05 (Actual)	FY06 (Actual)	FY07 (Outlook)
Net sales	874.6	908.4	938.1	1,009.6	1,030.0
Operating income	38.7	51.9	76.8	75.1	80.0
Ordinary income	23.8	43.1	68.2	60.5	69.0
Net income	8.5	9.2	24.9	34.1	39.0

6. Sales of principal pharmaceuticals

(Billions of yen)

Products	Indication	FY05	FY06
Onealfa [®]	Treatment for osteoporosis	12.0	11.8
Bonalon [®]	Treatment for osteoporosis	11.9	13.8
Mucosolvan [®]	Expectorant	11.7	11.5
Venilon [®]	Treatment for severe infectious diseases	9.3	9.4
Laxoberon [®]	Laxative	4.8	4.8
Bonalfa [®]	Treatment for psoriasis	1.8	2.2
Spiropent [®]	Bronchodilator	1.4	1.3

7. Development status of new pharmaceuticals

(As of March 31, 2007)

Products	Indication	Stage
GTH-42W	Osteoporosis	Launched in September 2006
BTR-15	Asthma	New drug application
TMX-67	Gout and hyperuricemia	Under additional clinical trials
TV-02HS	Psoriasis	New drug application
Venilon [®]	New indication as treatment for multiple sclerosis (MS)	Ph III
Venilon [®]	New indication as treatment for Churg-Strauss syndrome	Ph III
TMA-15	O-157 infections	Ph II
TBN-15	Allergic rhinitis	Ph II
ITM-014	Acromegaly	Ph II
LTC-203	Severe sepsis	Ph I
ITM-077	TypeII Diabetes	Ph I
TPC-806	Chymase inhibitor for congestive heart failure	Ph I
TPI-526	Inflammatory diseases	Ph I
GTH-42V	Osteoporosis	Ph I