

Consolidated Financial Report for the First Quarter ended June 30, 2018

Toyobo Co., Ltd.

Listed on the First Section of the TSE

Stock Code: 3101 URL <http://ir.toyobo.co.jp/en/ir.html>

Representative: Seiji Narahara, President & Representative Director

Contact Person: Fuyuhiko Kubota, General Manager, Corporate Communication Department TEL: +81-6-6348-3044

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(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance

(1) Consolidated Operating Results

First quarter ended June 30

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2018	80,762	2.9	5,347	7.3	4,794	10.6	3,073	9.5
2017	78,474	(5.1)	4,983	8.3	4,337	27.2	2,805	15.4

(Note) Comprehensive profit: First quarter ended June 30, 2018: ¥ 3,453 million (17.2%),

First quarter ended June 30, 2017: ¥ 4,170 million - %,

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2018	34.61	—
2017	31.60	—

※The Company consolidated shares on the basis of one new common share for every 10 common shares with an effective date of October 1, 2017. As a result, net profit per share is calculated assuming the consolidation took place at the beginning of the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2018	444,096	185,457	41.0	2,031.87
March 31, 2018	445,495	184,515	40.5	2,034.04

(Reference) Total shareholders' equity: June 30, 2018: ¥180,368 million, March 31, 2018: ¥180,561 million

2. Dividends

Record date	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY 3/2018	—	0.00	—	40.00	40.00
FY 3/2019	—				
FY 3/2019 (Forecast)		0.00	—	40.00	40.00

(Note) Revision of dividends forecast for this period: None

3. Forecasts for Fiscal Year ending March 31, 2019

Percentages indicate year-on-year increase/ (decrease)

	Net sales		Operating profit		Ordinary profit	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal year	340,000	2.7	25,000	4.5	21,500	5.3

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal year	13,000	(0.3)	146.44

(Note) Revision of earnings forecast for this period: None

4. Other

1. Significant changes in subsidiaries during the subject fiscal year (Transfer of particular subsidiaries following a change in the scope of consolidation): None
2. Adoption of simplified and special accounting methods: None
3. Changes from accounting methods, procedures and the presentation of the consolidated financial statements:
 - 1) Changes based on revision of accounting standards : None
 - 2) Changes other than 1) above : None
 - 3) Changes due to accounting estimation change : None
 - 4) Error correction : None
4. Number of shares issued and outstanding (common share)
 - 1) Number of shares outstanding (including treasury stock):

June 30, 2018: 89,048,792 shares	March 31, 2018: 89,048,792 shares
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 - 2) Number of treasury stock

June 30, 2018: 279,652 shares	March 31, 2018: 279,146 shares
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 - 3) Average number of shares outstanding for each period (cumulative term):

Three months ended June 30	2018: 88,769,370 shares	
	2017: 88,777,666 shares	

※The Company consolidated shares on the basis of one new common share for every 10 common shares with an effective date of October 1, 2017. As a result, average number of shares outstanding for each period is calculated assuming the consolidation took place at the beginning of the previous fiscal year.

※ Quarterly Financial Results reports are exempt from Quarterly review.

※ Explanation regarding the appropriate use of forecasts of business results

The forward-looking statements made in this document, including the aforementioned forecasts, are based on all information available to the management at the time of this document's release. Actual results may differ from the results anticipated in the statements.

(How to obtain supplementary document on earnings)

The supplementary document on earnings is disclosed on the same day as the Quarterly Financial Results report, and it is made available on the Company's website.

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Results

As for the business environment for the Toyobo Group (hereinafter referred to as the “Group”) in the three months ended June 30, 2018, in the global economy, business circumstances in the United States were favorable amid firm capital spending, and in the Euro area the economy continued to expand. In China the economy was buoyed by domestic and foreign demand. Meanwhile in Japan, the economy remained on a moderate recovery trend amid increasing capital spending. Nevertheless, there are persisting concerns that protectionist trade policy in the United States could affect respective countries.

Amid this operating environment, the Group continued its activities aimed at becoming “The category leader, continuing to create new value that contributes to society in the environment, healthcare, and high-function products fields.” Accordingly, the Group is expanding its businesses in Japan and overseas markets through developing specialty products. During the three months ended June 30, 2018, the Group has been carrying out the following three key initiatives cited in the 2018 Medium-Term Management Plan: “thorough business operation appropriate for each business,” “enhance the development of new products and new businesses in the mid-and long-term,” and “strengthen the business base.”

The industrial film business, a driver of growth, generated an increase in sales centered on polarizer protective films for LCDs “COSMOSHINE SRF” and mold releasing film for ceramic capacitors. In the engineering plastics business the Group established its second business location in India and progressed toward laying the infrastructure for overseas operations. Moreover, the Group established manufacturing and sales company Xenomax – Japan Co., Ltd. with the aim of expanding business involving the heat-resistant polyimide film “XENOMAX” used in products such as electronic paper displays. The Group also made headway in preparing for sales to the United States, having clinched U.S. partner with respect to “Nerbridge,” a conduit for peripheral nerve regeneration. Meanwhile, the Group embarked on initiatives that involved launching the KAERU Project which is geared to bringing about transformation in terms of approaches to work, company systems and awareness.

As a result, consolidated net sales in the three months ended June 30, 2018 increased ¥2.3 billion (2.9%) over the same period of the previous fiscal year, to ¥80.8 billion. Operating profit increased ¥0.4 billion (7.3%), to ¥5.3 billion, ordinary profit increased ¥0.5 billion (10.6%) to ¥4.8 billion, and profit attributable to owners of parent increased ¥0.3 billion (9.5%), to ¥3.1 billion.

Results by business segment were as follows:

Films and Functional Polymers

In this segment, sales and operating profit increased from the same period of the previous fiscal year despite challenges faced by the functional polymers business, due to strong performance in the films business with respect to both packaging film and industrial film.

In the films business, healthy demand underpinned growth in sales of packaging film, despite having incurred effects of the rise in raw material prices. The industrial film business achieved growth in sales of “COSMOSHINE SRF,” marketed as polarizer protective films for LCDs, on the shipments for major polarizer manufacturers, along with higher sales of mold releasing film for ceramic capacitors, particularly for applications involving electronic components.

In the functional polymers business, although sales of engineering plastics increased for the automobile industry both in Japan and overseas, results were affected by the rise in raw material prices overseas. Industrial adhesives “Vylon” generated sluggish sales for use in adhesive applications particularly involving electronic materials.

As a result, sales in this segment increased ¥1.9 billion (5.1%) from the same period of the previous fiscal year to ¥38.8 billion, and operating profit increased ¥0.5 billion (18.1%) to ¥3.6 billion.

Industrial Materials

In this segment, sales and operating profit increased from the same period of the previous fiscal year amid growth in sales of airbag fabrics and products for consumer and industrial uses, despite having incurred effects of the rise in raw material prices.

Sales of airbag fabrics to overseas customers increased yet were otherwise affected by the rise in raw material prices. As for high-performance fibers, “Tsunoooga” achieved growth in sales primarily for gloves, which was in contrast to flagging sales of “IZANAS” and “ZYLON.” As for products for consumer and industrial uses, the rise in raw material prices affected sales of polyester staple fibers for use in hygiene products and spunbond long-filament non-woven fabrics. Meanwhile, “BREATHAIR,” a functional cushion material, achieve strong sales for bedding applications, while PPS materials for filter bag “PROCON” remained on track to recovery with China strengthening environmental regulations.

As a result, sales in this segment increased ¥1.7 billion (11.4%) from the same period of the previous fiscal year to ¥16.1 billion, and operating profit increased ¥0.2 billion (20.4%) to ¥1.0 billion.

Healthcare

In this segment, sales and operating profit increased from the same period of the previous fiscal year, amid favorable sales of enzymes for diagnostic reagents in the bio-science & medical business, and strong sales of volatile organic compound (VOC) emissions treatment equipment recovering solvent in the membranes & environment business.

In the bio-science & medical business, contract manufacturing business of pharmaceuticals faced delays in its projects, and the “Nerbridge” conduit for peripheral nerve regeneration faced

challenges yet efforts are underway in the United States to prepare for sales expansion. Enzymes for diagnostic reagents achieved growth to overseas market.

The membranes & environment business grappled with delays in orders of Reverse Osmosis (RO) membrane elements for seawater desalination plants, but volatile organic compound (VOC) emissions treatment equipment recovering solvent achieved an increase in sales, primarily in the Chinese market.

As a result, sales in this segment increased ¥0.0 billion (0.1%) from the same period of the previous fiscal year to ¥7.6 billion, and operating profit increased ¥0.1 billion (10.3%) to ¥1.0 billion.

Textiles and Trading

In this segment, sales decreased but operating profit increased from the same period of the previous fiscal year.

Sales of sports apparel and materials for uniforms were sluggish. Materials for traditional Arabic menswear also faced challenges owing to deteriorating market conditions. Meanwhile, materials for underwear achieved growth in sales amid a strong market for shirt products.

As a result, sales in this segment decreased ¥1.3 billion (8.0%) from the same period of the previous fiscal year to ¥14.8 billion, and operating profit increased ¥0.0 billion (11.0%) to ¥0.2 billion.

Real Estate and Other Business

This segment includes infrastructure-related businesses, such as real estate, engineering, information processing services, and logistics services. Results in these businesses were generally in line with plans.

As a result, total sales in these businesses increased ¥0.0 billion (0.7%) over the same period of the previous fiscal year to ¥3.4 billion, and operating profit decreased ¥0.3 billion (38.7%) to ¥0.4 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥5.4 billion (1.2%) over the end of the previous fiscal year, to ¥440.1 billion. This was due mainly to decrease in notes and accounts receivable - trade.

Total liabilities decreased ¥6.3 billion (2.4%), to ¥254.6 billion. This was due mainly because of a decrease in long-term loans payable.

Total net assets increased ¥0.9 billion (0.5%) to ¥185.5 billion. This was due mainly because of an increase in non-controlling interests and valuation difference on available-for-sale securities .

(3) Qualitative Information on Consolidated Forecasts

The performance of the Toyobo Group in the three months ended June 30, 2018 was generally as forecast. Regarding the forecast for the full fiscal year, no changes have been made in the outlook announced on May 10, 2018.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2018) (Condensed)	Current First Quarter (As of June 30, 2018)
Assets		
Current assets		
Cash and deposits	26,006	21,863
Notes and accounts receivable - trade	82,727	77,424
Merchandise and finished goods	43,059	45,573
Work in process	13,007	13,746
Raw materials and supplies	15,230	16,150
Other	6,771	7,498
Allowance for doubtful accounts	(229)	(238)
Total current assets	186,571	182,016
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,049	46,823
Machinery, equipment and vehicles, net	44,738	44,057
Land	98,971	98,749
Other, net	12,692	13,607
Total property, plant and equipment	203,451	203,236
Intangible assets	3,985	3,902
Investments and other assets		
Other	52,068	51,528
Allowance for doubtful accounts	(578)	(586)
Total investments and other assets	51,489	50,942
Total non-current assets	258,924	258,079
Total assets	445,495	440,096

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2018) (Condensed)	Current First Quarter (As of June 30, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	45,311	46,002
Short-term loans payable	32,682	33,422
Current portion of long-term loans payable	23,962	25,825
Provision	4,576	2,406
Other	18,580	15,254
Total current liabilities	125,110	122,908
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	58,188	54,538
Provision for directors' retirement benefits	300	199
Provision for environmental measures	749	537
Net defined benefit liability	18,222	17,683
Other	28,412	28,773
Total non-current liabilities	135,870	131,731
Total liabilities	260,980	254,639
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,240	32,240
Retained earnings	56,117	55,528
Treasury shares	(411)	(412)
Total shareholders' equity	139,676	139,086
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,040	8,613
Deferred gains or losses on hedges	(49)	(33)
Revaluation reserve for land	44,467	44,489
Foreign currency translation adjustment	(9,947)	(10,396)
Remeasurements of defined benefit plans	(1,625)	(1,391)
Total accumulated other comprehensive income	40,885	41,282
Non-controlling interests	3,954	5,089
Total net assets	184,515	185,457
Total liabilities and net assets	445,495	440,096

(Millions of yen)

	Previous First Quarter (Three months ended June 30, 2017)	Current First Quarter (Three months ended June 30, 2018)
Net sales	78,474	80,762
Cost of sales	59,471	60,785
Gross profit	19,003	19,977
Selling, general and administrative expenses	14,019	14,630
Operating profit	4,983	5,347
Non-operating income		
Dividend income	346	350
Other	353	514
Total non-operating income	698	863
Non-operating expenses		
Interest expenses	356	295
Salaries paid to dispatched employees	314	300
Other	675	821
Total non-operating expenses	1,345	1,416
Ordinary profit	4,337	4,794
Extraordinary income		
Gain on sales of non-current assets	36	104
Gain on liquidation of subsidiaries and associates	—	106
Gain on extinguishment of tie-in shares	28	—
Total extraordinary income	64	210
Extraordinary losses		
Loss on disposal of non-current assets	188	195
Loss on valuation of investment securities	—	90
Loss on litigation	113	—
Other	1	111
Total extraordinary losses	302	396
Profit before income taxes	4,098	4,608
Income taxes	1,257	1,527
Profit	2,841	3,082
Profit attributable to non-controlling interests	36	9
Profit attributable to owners of parent	2,805	3,073

(Millions of yen)

	Previous First Quarter (Three months ended June 30, 2017)	Current First Quarter (Three months ended June 30, 2018)
Profit	2,841	3,082
Other comprehensive income		
Valuation difference on available-for-sale securities	945	574
Deferred gains or losses on hedges	6	16
Foreign currency translation adjustment	174	(338)
Remeasurements of defined benefit plans, net of tax	291	234
Share of other comprehensive income of entities accounted for using equity method	(87)	(114)
Total other comprehensive income	1,329	371
Comprehensive income	4,170	3,453
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	4,124	3,447
Comprehensive income attributable to non-controlling interests	47	6

(3) Note to Going Concern:

Not applicable

(4) Notes on Significant Changes in Shareholders' Equity

Not applicable

(5) Additional Information

The Group has applied the "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No. 28, February 16, 2018) and relevant Guidances effective from the beginning of the first quarter of the fiscal year ending March 31, 2019. Accordingly, deferred tax assets were presented under "Investments and other assets" and deferred tax liabilities were presented under "Non-current liabilities."

(6) Segment Information**a. Segment information by business type**

(i) Previous first quarter (from April 1, 2017 to June 30, 2017)

(Millions of yen)

	Segment to be reported						Other Business- ses (Note 1)	Total	Adjust ment (Note 2)	Consolidated Statements of Profit (Note 3)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales										
(1) Outside customers	36,928	14,459	7,606	16,138	1,127	76,258	2,215	78,474	—	78,474
(2) Inter-segment sales and transfers	—	7	212	74	256	548	2,030	2,578	(2,578)	—
Total	36,928	14,466	7,818	16,212	1,383	76,807	4,245	81,052	(2,578)	78,474
Operating Profit	3,045	790	912	176	564	5,487	141	5,628	(644)	4,983

Note: 1. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. Includes segment profit adjustment of (¥644) million, eliminations of intersegment transactions of (¥16) million, and companywide expenses that are not allocated across reporting segments of (¥629) million. The principal components of companywide expenses are those related to basic research and development.

3. Segment profit has been adjusted with operating profit on the consolidated financial statements.

(ii) Current first quarter (from April 1, 2018 to June 30, 2018)

(Millions of yen)

	Segment to be reported						Other Business- ses (Note 4)	Total	Adjust ment (Note 5)	Consolidated Statements of Profit (Note 6)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales										
(1) Outside customers	38,822	16,114	7,611	14,849	1,098	78,494	2,268	80,762	—	80,762
(2) Inter-segment sales and transfers	—	47	506	102	106	761	2,183	2,944	(2,944)	—
Total	38,822	16,161	8,117	14,951	1,204	79,254	4,451	83,706	(2,944)	80,762
Operating Profit	3,595	950	1,006	195	390	6,137	42	6,179	(832)	5,347

Note: 4. Other includes design and construction of buildings, equipment, etc., information services, logistics services and other items.

5. Includes segment profit adjustment of (¥832) million, eliminations of intersegment transactions of (¥153) million, and companywide expenses that are not allocated across reporting segments of (¥679) million. The principal components of companywide expenses are those related to basic research and development.

6. Segment profit has been adjusted with operating profit on the consolidated financial statements.

(Significant subsequent events)

At the meeting of the Board of Directors held on July 25, 2018, a comprehensive resolution regarding the issuance of unsecured straight bonds in the Japanese market was passed. The details of this resolution are as follows:

(1) Issue amount: ¥20,000 million or less.

However, multiple issues within the scope of this amount are not ruled out.

(2) Issue price: ¥100 for each bond with par value of ¥100.

(3) Interest rate: Market yield of Japanese government bonds with the same maturities plus 1.0% or less

(4) Payment dates: From July 26, 2018 to March 31, 2019.

However, if the bonds are offered during this period, payments after this period will be accepted.

(5) Maximum maturity: Five years or more, to 10 years

(6) Method of redemption: Full amount on maturity.

However, a retirement by purchase clause may be included.

(7) Uses of funds: For redemption of bonds, repayment of borrowings, and purchases of plant and equipment

(8) Special provisions: These bonds will include a negative pledge clause.

(9) Other: Decisions regarding matters covered in Article 676 of the Companies Act and all other items related to the issuance of bonds will be made within the scope stated above at the discretion of the director in charge of the Finance Department.