November 8, 2018

Consolidated Financial Report for the First Half ended September 30, 2018

Toyobo Co., Ltd. Listed on the First Section of the TSE

Stock Code: 3101 URL http://www.toyobo-global.com/ir/

Representative: Seiji Narahara, President & Representative Director

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

Quarterly report filing date (Planned): November 14, 2018

(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance

(1) Consolidated Operating Results

Six months ended September 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	164,728	2.1	10,601	0.9	8,738	(3.7)	3,918	(35.2)
2017	161,400	(2.0)	10,506	(1.5)	9,078	3.8	6,047	65.3

(Note) Comprehensive profit: First half ended September 30, 2018: ¥5,573 million (35.8%)

First half ended September 30, 2017: ¥ 8,676 million 438.3%

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2018	44.13	—
2017	68.11	—

※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
September 30, 2018	453,669	187,757	40.2	2,055.60
March 31, 2018	445,495	184,515	40.5	2,034.04

(Reference) Total shareholders' equity: September 30, 2018: ¥182,472 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	–	0.00			
FY 3/2019 (Forecast)			–	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	23,000	(3.9)	18,000	(11.8)

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal year	–	–	–

(Note) Revision of earnings forecast for this period: Yes

Regarding the consolidated earnings forecast, since it is currently difficult to estimate the appropriate impact on operating results, profit attributable to owners of parent and net profit per share are yet to be determined.

Please refer to “Toyobo Announces Revision to Earnings Forecasts,” which was announced today, on November 8, 2018.

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):
      September 30, 2018: 89,048,792 shares March 31, 2018: 89,048,792 shares
   2) Number of treasury stock
      September 30, 2018: 280,517 shares March 31, 2018: 279,146 shares

3) Average number of shares outstanding for each period (cumulative term):

Six months ended September 30	2018: 88,769,014 shares
	2017: 88,777,427 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.

For matters regarding the earnings forecasts, please refer to “Toyobo Announces Revision to Earnings Forecasts,” which was announced today, on November 8, 2018.

(How to obtain supplementary document on earnings)

The Company plans to hold a financial results presentation to analysts and institutional investors on November 9, 2018. The presentation materials distributed at this presentation meeting shall be posted on the Company’s website after the meeting has been held.

1. Qualitative Information and Financial Statements

(1)Qualitative Information on Consolidated Results

We sincerely apologize to nearby residents, concerned government ministries and agencies, and other concerned parties for all the great concerns and inconvenience caused by a fire accident that occurred at Tsuruga Research and Production Center on September 6, 2018. We are currently investigating the cause and implementing accident-prevention measures, and will make company-wide efforts for early recovery.

As for the business environment for the Toyobo Group (hereinafter referred to as the "Group") in the six months ended September 30, 2018, in the global economy, although the economy slowed in China due to a decrease in infrastructure investments, business sentiment in the United States remained strong amid firm capital spending and robust consumer spending. In the Euro area the economy expanded gradually backed by brisk domestic demand. Meanwhile in Japan, the economy continued a moderate recovery amid increasing capital spending, despite a slowdown in inbound demand affected by disasters. Nevertheless, as raw materials and fuel prices remained to be at a high level, and with concerns that impact of the trade friction between the United States and China could reach Japan, the business environment remained unclear.

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 six months ended September 30, 2018, the Group has been carrying out the following three key initiatives cited in the 2018 Medium-Term Management Plan: "prioritizing businesses and harvesting crops," "enhancing development of new products and business in mid- and long-term," and "strengthening business base."

The industrial film business, growth driver, generated an increase in sales centered on polarizer protective films for LCDs "COSMOSHINE SRF" and mold releasing film for MLCC. While sales of these products grew as planned, soaring raw material and fuel prices affected sales of airbags, packaging film and other products.

For the heat-resistant polyimide film "XENOMAX" used in products such as electronic paper displays, with the completion of a new plant, preparations for expanding the business were completed.

In the healthcare field, sales of the clinical testing devices "GENECUBE," which automatically conducts genetic testing, and "USCANNER (E)", which analyzes urine formed elements, to China were newly launched.

In addition, as one of efforts to "strengthening business base," the Group vigorously promoted initiatives in order to bring about transformation in terms of approaches to work, company systems and awareness in the KAERU Project, which was launched in April.

With regard to the amount of losses including loss on extinguishment of non-current assets and fixed costs during a shutdown period due to the fire accident, ¥2.1 billion was recorded as extraordinary losses in the six months ended September 30, 2018.

As a result, consolidated net sales in the six months ended September 30, 2018 increased ¥3.3 billion (2.1%) over the same period of the previous fiscal year, to ¥164.7 billion. Operating profit increased ¥0.1 billion (0.9%), to ¥10.6 billion, ordinary profit decreased ¥0.3 billion (3.7%) to ¥8.7 billion, and profit attributable to owners of parent decreased ¥2.1 billion (35.2%), to ¥3.9 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 significant growth in sales of industrial film in the films business.

In the films business, although healthy demand underpinned growth in sales of packaging film, results were affected by the effects of soaring raw material prices. The industrial film business achieved the expansion of sales of “COSMOSHINE SRF,” marketed as polarizer protective films for LCDs for televisions in overseas markets, and sales of mold releasing film for MLCC were favorable 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. Industrial adhesives “Vylon” faced challenges due to sluggish sales for use in adhesive applications particularly involving electronic materials.

As a result, sales in this segment increased ¥4.5 billion (6.2%) from the same period of the previous fiscal year to ¥77.7 billion, and operating profit increased ¥0.5 billion (8.2%) to ¥6.9 billion.

Industrial Materials

In this segment, sales increased but operating profit decreased from the same period of the previous fiscal year amid the effects of the rise in raw material prices, despite growth in sales of airbag fabrics and the life and industrial materials business.

Sales of airbag fabrics to overseas customers increased yet were otherwise affected by the rise in raw material prices. In the high-performance fibers business, although “Tsunooga” achieved growth in sales primarily for gloves, sales of “IZANAS” and “ZYLON” were struggling. In the life and industrial materials business, sales of PPS fibers for bagfilters “PROCON” expanded with China strengthening environmental regulations, and “BREATHAIR,” a functional cushion material, achieved strong sales for bedding applications. Meanwhile, sales of polyester staple fibers for use in hygiene products and spunbond long-filament non-woven fabrics were struggling due to the effects of the rise in raw material prices.

As a result, sales in this segment increased ¥2.2 billion (7.1%) from the same period of the previous fiscal year to ¥32.7 billion, and operating profit decreased ¥0.3 billion (14.7%) to ¥1.9 billion.

Healthcare

In this segment, sales decreased but 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.

The bio-science & medical business achieved significant growth in sales of enzymes for diagnostic reagents to overseas markets, yet contract manufacturing business of pharmaceuticals faced challenges in gaining the FDA’s approval and winning new contracts.

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

As a result, sales in this segment decreased ¥0.4 billion (2.4%) from the same period of the previous fiscal year to ¥15.9 billion, and operating profit increased ¥0.2 billion (12.1%) to ¥1.9 billion.

Textiles and Trading

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

Although sales volume of materials for traditional Arabic menswear decreased owing to deteriorating market conditions and sales of materials for uniforms slowed, sales of materials for underwear were strong and sports apparel achieved recovery in sales.

As a result, sales in this segment decreased ¥2.0 billion (6.0 %) from the same period of the previous fiscal year to ¥31.7 billion, and operating profit was ¥0.1 billion. (Compared with operating loss of ¥0.2 billion for the same period of the previous fiscal year.)

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 decreased ¥1.0 billion (12.9%) over the same period of the previous fiscal year to ¥6.7 billion, and operating profit decreased ¥0.4 billion (26.2%) to ¥1.1 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥8.2 billion (1.8%) from the end of the previous fiscal year, to ¥453.7 billion. This was due mainly to an increase in property, plant and equipment resulting from a rise in capital spending.

Total liabilities increased ¥4.9 billion (1.9%) to ¥265.9 billion. This was mainly because of an increase in bonds payable.

Total net assets increased ¥3.2 billion (1.8%) to ¥187.8 billion. This was due mainly because of an increase in non-controlling interests and valuation difference on available-for-sale securities.

Cash Flows

Net cash provided by operating activities amounted to ¥5.2 billion in the subject first half period. This was due mainly to a cash increase from depreciation of ¥7.8 billion and profit before income taxes of ¥5.6 billion, and a cash decrease of ¥4.9 billion resulting from an increase in inventories.

Net cash used in investing activities amounted to ¥11.0 billion. This was due mainly to ¥13.0 billion in purchase of property, plant and equipment and intangible assets.

Net cash used in financing activities for the six months under review amounted to ¥3.9 billion. This was due mainly to ¥10.0 billion in proceeds from issuance of bonds, and ¥6.2 billion in repayments of long-term loans payable.

As a result, the balance of cash and cash equivalents at the end of the subject first half (September 30, 2018) stood at ¥24.3 billion, a decrease of ¥1.6 billion from the end of the previous fiscal year (March 31, 2018).

(3) Qualitative Information on Consolidated Forecasts

In light of the impact of raw material and fuel prices and the fire accident occurred at Tsuruga Research and Production Center, operating profit and ordinary profit are revised in the consolidated earnings forecast for the fiscal year ending March 31, 2019, although industrial film and other business are expected to expand sales.

There are currently a lot of uncertainties and it is difficult to reasonably estimate the total amount of loss caused by the fire accident. Also, while an appropriate insurance policy against loss or damage was taken out, the insurance amount to be received has not been determined and it will take some time for it to be determined. Due to the reasons provided above, profit attributable to owners of parent is yet to be determined.

Please refer to “Toyobo Announces Revision to Earnings Forecasts,” which was announced today, on November 8, 2018.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets (Millions of yen)

	Previous Fiscal Year (As of March 31,2018) (Condensed)	Current First Half (As of September 30, 2018)
Assets		
Current assets		
Cash and deposits	26,006	24,459
Notes and accounts receivable - trade	82,727	83,832
Merchandise and finished goods	43,059	44,990
Work in process	13,007	14,238
Raw materials and supplies	15,230	17,512
Other	6,771	6,425
Allowance for doubtful accounts	△229	△221
Total current assets	186,571	191,235
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,049	47,196
Machinery, equipment and vehicles, net	44,738	43,803
Land	98,971	98,747
Other, net	12,692	17,749
Total property, plant and equipment	203,451	207,495
Intangible assets	3,985	3,752
Investments and other assets		
Other	52,068	51,726
Allowance for doubtful accounts	△578	△540
Total investments and other assets	51,489	51,186
Total non-current assets	258,924	262,434
Total assets	445,495	453,669

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2018) (Condensed)	Current First Half (As of September 30,2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	45,311	45,569
Short-term loans payable	32,682	34,137
Current portion of long-term loans payable	23,962	26,963
Provision	4,576	6,357
Other	18,580	12,933
Total current liabilities	125,110	125,959
Non-current liabilities		
Bonds payable	30,000	40,000
Long-term loans payable	58,188	52,624
Provision for directors' retirement benefits	300	226
Provision for environmental measures	749	534
Net defined benefit liability	18,222	17,675
Other	28,412	28,894
Total non-current liabilities	135,870	139,953
Total liabilities	260,980	265,912
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,240	32,224
Retained earnings	56,117	56,379
Treasury shares	△411	△413
Total shareholders' equity	139,676	139,920
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,040	9,099
Deferred gains or losses on hedges	△49	△2
Revaluation reserve for land	44,467	44,483
Foreign currency translation adjustment	△9,947	△9,871
Remeasurements of defined benefit plans	△1,625	△1,156
Total accumulated other comprehensive income	40,885	42,552
Non-controlling interests	3,954	5,285
Total net assets	184,515	187,757
Total liabilities and net assets	445,495	453,669

(Millions of yen)

	Previous First Half (From April 1, 2017 To September 30, 2017)	Current First Half (From April 1, 2018 To September 30, 2018)
Net sales	161,400	164,728
Cost of sales	122,537	124,676
Gross profit	38,863	40,052
Selling, general and administrative expenses	28,358	29,451
Operating profit	10,506	10,601
Non-operating income		
Dividend income	394	452
Other	746	989
Total non-operating income	1,140	1,441
Non-operating expenses		
Interest expenses	652	628
Other	1,916	2,676
Total non-operating expenses	2,568	3,303
Ordinary profit	9,078	8,738
Extraordinary income		
Gain on sales of investment securities	71	184
Gain on bargain purchase	—	175
Other	533	211
Total extraordinary income	604	571
Extraordinary losses		
Loss on disposal of non-current assets	1,447	978
Loss due to fire	—	2,146
Other	488	560
Total extraordinary losses	1,935	3,683
Profit before income taxes	7,747	5,626
Income taxes	1,726	1,759
Profit	6,020	3,867
Loss attributable to non-controlling interests	△27	△50
Profit attributable to owners of parent	6,047	3,918

(2) Consolidated Statements of Income (Millions of yen)

	Previous First Half (From April 1, 2017 To September 30, 2017)	Current First Half (From April 1, 2018 To September 30, 2018)
Profit	6,020	3,867
Other comprehensive income		
Valuation difference on available-for-sale securities	1,328	1,060
Deferred gains or losses on hedges	30	47
Foreign currency translation adjustment	692	325
Remeasurements of defined benefit plans, net of tax	577	469
Share of other comprehensive income of entities accounted for using equity method	28	△195
Total other comprehensive income	2,656	1,706
Comprehensive income	8,676	5,573
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	8,661	5,569
Comprehensive income attributable to non-controlling interests	15	4

(Millions of yen)

	Previous First Half (From April 1, 2017 To September 30, 2017)	Current First Half (From April 1, 2018 To September 30, 2018)
Cash flows from operating activities		
Profit before income taxes	7,747	5,626
Depreciation	7,801	7,824
Loss due to fire	—	2,146
Interest expenses	652	628
Decrease (increase) in notes and accounts receivable - trade	2,695	△537
Decrease (increase) in inventories	1,688	△4,883
Increase (decrease) in notes and accounts payable - trade	△1,422	△6
Other, net	△3,824	△2,330
Subtotal	15,338	8,468
Income taxes (paid) refund	△2,548	△3,240
Net cash provided by (used in) operating activities	12,789	5,228
Cash flows from investing activities		
Purchase of property, plant and equipment and intangible assets	△11,132	△13,048
Other, net	545	2,052
Net cash provided by (used in) investing activities	△10,587	△10,996
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	△6,852	974
Proceeds from long-term loans payable	15,523	3,516
Repayments of long-term loans payable	△14,627	△6,178
Proceeds from issuance of bonds	—	10,000
Cash dividends paid	△3,103	△3,545
Interest expenses paid	△677	△624
Other, net	241	△224
Net cash provided by (used in) financing activities	△9,494	3,919
Effect of exchange rate change on cash and cash equivalents	312	43
Net increase (decrease) in cash and cash equivalents	△6,979	△1,806
Cash and cash equivalents at beginning of period	32,179	25,857
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	211	256
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	9	—
Cash and cash equivalents at end of period	25,420	24,306

(4) Note to Going Concern:

Not applicable

(5) Notes on Significant Changes in Shareholders' Equity

Not applicable

(6) 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.”

(7) Segment Information

a. Segment information by business type

(I) Six months ended September 30, 2017 (from April 1, 2017 to September 30, 2017) (Millions of yen)

	Segment to be reported						Other Busines-ses (Note 1)	Total	Adjust ment (Note 2)	Consolidated Statements of Income (Note 3)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales									—	
(1) Outside customers	73,130	30,506	16,297	33,757	2,241	155,932	5,468	161,400	—	161,.400
(2) Inter-segment sales and transfers	—	125	1,035	147	548	1,856	4,523	6,379	(6,379)	—
Total	73,130	30,632	17,333	33,904	2,789	157,788	9,991	167,780	(6,379)	161,400
Operating Profit (loss)	6,392	2,236	1,738	(176)	1,183	11,373	313	11,686	(1,181)	10,506

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

2. Includes segment profit adjustment of (¥1,181) million, eliminations of intersegment transactions of ¥62 million, and companywide expenses that are not allocated across reporting segments of (¥1,243) 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) Six months ended September 30, 2018 (from April 1, 2018 to September 30, 2018) (Millions of yen)

	Segment to be reported						Other Busines-ses (Note 4)	Total	Adjust ment (Note 5)	Consolidated Statements of Income (Note 6)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales										
(1) Outside customers	77,680	32,679	15,908	31,748	2,110	160,126	4,603	164,728	―	164,728
(2) Inter-segment sales and transfers	―	148	1,124	196	214	1,682	6,594	8,276	(8,276)	―
Total	77,680	32,827	17,032	31,944	2,325	161,808	11,197	173,005	(8,276)	164,728
Operating Profit (loss)	6,916	1,908	1,948	61	845	11,677	260	11,937	(1,336)	10,601

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

5. Includes segment income adjustment of (¥1,336) million, eliminations of intersegment transactions of (¥34) million, and companywide expenses that are not allocated across reporting segments of (¥1,301) million. The principal components of company wide expenses are those related to basic research and development.

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