

Consolidated Financial Report for the Third Quarter ended December 31, 2018**Toyobo Co., Ltd.**

Listed on the First Section of the TSE

Stock Code: 3101

URL <http://www.toyobo-global.com/ir/>

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Quarterly report filing date (Planned): February 14, 2019

(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance**(1) Consolidated Operating Results**

Nine months ended December 31

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	249,927	3.4	15,345	(4.4)	12,669	(8.2)	(300)	-
2017	241,690	(0.2)	16,048	2.0	13,796	1.1	15,799	142.8

(Note) Comprehensive profit: Third Quarter ended December 31, 2018: ¥ (1,159) million - %,

Third Quarter ended December 31, 2017: ¥ 20,572 million 132.8%

	Net profit per share	Net profit per share after dilution
	Yen	Yen
2018	(3.38)	—
2017	177.97	—

※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
December 31, 2018	453,665	180,979	38.8	1,981.10
March 31, 2018	445,495	184,515	40.5	2,034.04

(Reference) Total shareholders' equity: December 31, 2018: ¥ 175,858 million, March 31, 2018: ¥180,561 million

2. Dividends

Year ended/ ending March 31

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	21,000	(12.2)	16,000	(21.6)

	Profit attributable to owners of parent		Net profit per share
	Millions of yen	%	Yen
Fiscal Year	0	(100.0)	0.00

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

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):

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

December 31, 2018: 280,879 shares March 31, 2018: 279,146 shares
 - 3) Average number of shares outstanding for each period (cumulative term):

Nine months ended December 31 2018: 88,768,700 shares
2017: 88,776,316 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 "1. Qualitative Information and Financial Statements (3) Qualitative Information on Consolidated Forecasts".

(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 nine months ended December 31, 2018, in the global economy, although the economy in the United States continued to expand gradually amid the favorable employment situation and steady consumer spending, the economy slowed in China due to increasing overcapacity. In the Euro area a slowdown in the economy became stronger as exports and capital spending decreased. Meanwhile in Japan, despite a decline in exports, business sentiment modestly improved backed by a pickup in inbound demand after natural disasters and robust capital spending. Nevertheless, with concerns over a further slowdown in the global economy due to the trade friction between the United States and China, the United Kingdom’s exit from the EU and other issues, there was greater uncertainty about the future of the business environment.

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 nine months ended December 31, 2018, the Group worked on the creation of value that contributes to society in the three growth fields cited in the 2018 Medium-Term Management Plan: “Films & Coatings,” “Mobility,” and “Healthcare & Wellness” as well as in the “Environment” field leading to them.

In “Films & Coatings,” the industrial film business generated a steady increase in sales centered on polarizer protective films for LCDs “COSMOSHINE SRF” and mold releasing film for MLCC. As for packaging film, the Group decided to newly establish manufacturing facilities for biaxially oriented polypropylene film, based on background of brisk domestic demand.

In “Mobility,” while sales of airbag fabrics to domestic and overseas customers were maintained, the airbag fabrics business faced challenges due to the fluctuating raw material prices and the fire accident at a plant. In addition, although sales of engineering plastics increased particularly for the automobile industry both in Japan and overseas, results were affected by the fluctuations in raw material prices.

In “Healthcare & Wellness,” sales of enzymes for diagnostic reagents were expanded for overseas customers. In “Environment,” sales of volatile organic compound (VOC) emissions treatment equipment related business were strong.

With regard to the costs related to procurement of replacement materials for airbag yarn, etc. due to the fire accident, ¥12.0 billion was recorded as extraordinary losses in the nine months ended December 31, 2018.

As a result, consolidated net sales in the nine months ended December 31, 2018 increased ¥8.2 billion (3.4%) over the same period of the previous fiscal year, to ¥249.9 billion. Operating profit decreased ¥0.7 billion (4.4%), to ¥15.3 billion, ordinary profit decreased ¥1.1 billion (8.2%) to ¥12.7 billion, and loss attributable to owners of parent was ¥0.3 billion (Compared with profit attribute to owners of parent of ¥15.8 billion for the same period of the previous fiscal year.).

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.

The films business, although healthy demand underpinned growth in sales of packaging film, was struggling due to the effects of fluctuating raw material prices. The industrial film business achieved the expansion of sales of "COSMOSHINE SRF," marketed as polarizer protective films for LCDs for LCD televisions in overseas markets, and sales of mold releasing film for MLCC grew for automobile use.

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 fluctuations 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 ¥7.5 billion (6.8%) from the same period of the previous fiscal year to ¥118.4 billion, and operating profit increased ¥0.3 billion (2.8%) to ¥10.1 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 fire accident and the fluctuations in raw material prices, despite growth in sales of the life and industrial materials business.

Although maintained the sales of airbag fabrics to domestic and overseas customers, the airbag fabrics business faced challenges due to the fluctuating raw material prices and the fire accident. In the high-performance fibers business, despite steady demand for "Tsunoooga" and "IZANAS," sales of "ZYLON" were sluggish.

In the life and industrial materials business, with regard to the polyester staple fibers for use in hygiene products, while sales to overseas markets increased, results were affected by the fluctuations in raw material prices. In addition, sales of a functional cushion material "BREATHAIR" decreased in the aftermath of the fire accident.

As a result, sales in this segment increased ¥3.5 billion (7.6%) from the same period of the previous fiscal year to ¥49.8 billion, and operating profit decreased ¥0.5 billion (16.5%) to ¥2.6 billion.

Healthcare

In this segment, sales and operating profit decreased from the same period of the previous fiscal year due to the difficult condition for the contract manufacturing business of pharmaceuticals in the bio-science & medical business, despite strong sales of volatile organic compound (VOC) emissions treatment equipment recovering solvent related business in the membranes & environment business.

In the bio-science & medical business, while achieving significant growth in sales of enzymes for diagnostic reagents to overseas markets, the contract manufacturing business of pharmaceuticals faced challenges in winning new contracts and piled up costs for compliance with GMP (standards for manufacturing and quality control of pharmaceuticals and others).

In the membranes & environment business, sales of volatile organic compound (VOC) emissions treatment equipment related business were healthy, but sales of automobile cabin filters and other products decreased. In addition, the orders of Reverse Osmosis (RO) membrane elements for seawater

desalination plants were delayed.

As a result, sales in this segment decreased ¥0.9 billion (3.6%) from the same period of the previous fiscal year to ¥24.3 billion, and operating profit decreased ¥0.2 billion (4.9%) to ¥3.1 billion.

Textiles and Trading

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

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

As a result, sales in this segment decreased ¥2.0 billion (4.1%) from the same period of the previous fiscal year to ¥46.4 billion, and operating loss decreased ¥0.3 billion to ¥0.0 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 ¥0.1 billion (1.3%) over the same period of the previous fiscal year to ¥11.0 billion, and operating profit decreased ¥0.4 billion (17.4%) to ¥1.7 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 ¥11.7 billion (4.5%) from the end of the previous fiscal year to ¥272.7 billion. This was mainly because of an increase in bonds payable.

Total net assets decreased ¥3.5 billion (1.9%) to ¥181.0 billion. This was due mainly because of a decrease in retained earnings.

(3) Qualitative Information on Consolidated Forecasts

The Company has revised its consolidated earnings forecast for the fiscal year ending March 31, 2019 from the forecast for the full fiscal year announced on November 8, 2018 in light of the recent trend of business performance and the effect of a fire accident that occurred at Tsuruga Research and Production Center on September 6, 2018.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets (Millions of yen)

	Previous Fiscal Year (As of March 31, 2018) (Condensed)	Current Third Quarter (As of December 31, 2018)
Assets		
Current assets		
Cash and deposits	26,006	18,428
Notes and accounts receivable - trade	82,727	84,601
Merchandise and finished goods	43,059	46,729
Work in process	13,007	14,356
Raw materials and supplies	15,230	18,621
Other	6,771	9,289
Allowance for doubtful accounts	(229)	(211)
Total current assets	186,571	191,813
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,049	47,705
Machinery, equipment and vehicles, net	44,738	43,284
Land	98,971	98,744
Other, net	12,692	17,612
Total property, plant and equipment	203,451	207,345
Intangible assets	3,985	3,690
Investments and other assets		
Other	52,068	51,348
Allowance for doubtful accounts	(578)	(531)
Total investments and other assets	51,489	50,817
Total non-current assets	258,924	261,852
Total assets	445,495	453,665

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2018) (Condensed)	Current Third Quarter (As of December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	45,311	47,386
Short-term loans payable	32,682	34,054
Current portion of bonds	—	10,000
Current portion of long-term loans payable	23,962	26,521
Provision	4,576	2,488
Other	18,580	19,861
Total current liabilities	125,110	140,310
Non-current liabilities		
Bonds payable	30,000	30,000
Long-term loans payable	58,188	55,296
Provision for directors' retirement benefits	300	241
Provision for environmental measures	749	491
Net defined benefit liability	18,222	17,616
Other	28,412	28,733
Total non-current liabilities	135,870	132,376
Total liabilities	260,980	272,686
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,240	32,241
Retained earnings	56,117	52,161
Treasury shares	(411)	(414)
Total shareholders' equity	139,676	135,718
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	8,040	6,951
Deferred gains or losses on hedges	(49)	(37)
Revaluation reserve for land	44,467	44,483
Foreign currency translation adjustment	(9,947)	(10,339)
Remeasurements of defined benefit plans	(1,625)	(918)
Total accumulated other comprehensive income	40,885	40,140
Non-controlling interests	3,954	5,120
Total net assets	184,515	180,979
Total liabilities and net assets	445,495	453,665

(2) Consolidated Statements of Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2017 To December 31, 2017)	Current Third Quarter (From April 1, 2018 To December 31, 2018)
Net sales	241,690	249,927
Cost of sales	182,702	190,139
Gross profit	58,989	59,788
Selling, general and administrative expenses	42,941	44,442
Operating profit	16,048	15,345
Non-operating income		
Dividend income	597	637
Other	1,147	1,415
Total non-operating income	1,744	2,052
Non-operating expenses		
Interest expenses	981	960
Other	3,015	3,768
Total non-operating expenses	3,996	4,728
Ordinary profit	13,796	12,669
Extraordinary income		
Gain on sales of investment securities	78	195
Gain on liquidation of subsidiaries and associates	—	125
Gain on bargain purchase	—	175
Other	11,386	110
Total extraordinary income	11,464	605
Extraordinary losses		
Loss due to fire	—	12,044
Other	2,662	1,923
Total extraordinary losses	2,662	13,967
Profit (loss) before income taxes	22,598	(693)
Income taxes	6,866	(277)
Profit (loss)	15,733	(416)
Loss attributable to non-controlling interests	(66)	(116)
Profit (loss) attributable to owners of parent	15,799	(300)

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2017 To December 31, 2017)	Current Third Quarter (From April 1, 2018 To December 31, 2018)
Profit (loss)	15,733	(416)
Other comprehensive income		
Valuation difference on available-for-sale securities	2,893	(1,083)
Deferred gains or losses on hedges	19	12
Foreign currency translation adjustment	954	(270)
Remeasurements of defined benefit plans, net of tax	866	707
Share of other comprehensive income of entities accounted for using equity method	107	(108)
Total other comprehensive income	4,839	(743)
Comprehensive income	20,572	(1,159)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	20,574	(1,061)
Comprehensive income attributable to non-controlling interests	(2)	(97)

(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) Nine months ended December 31, 2017 (from April 1, 2017 to December 31, 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	110,933	46,297	25,210	48,380	3,190	234,010	7,680	241,690	-	241,690
(2) Inter-segment sales and transfers	1	181	1,488	233	739	2,642	7,907	10,549	(10,549)	-
Total	110,934	46,477	26,698	48,614	3,929	236,653	15,587	252,240	(10,549)	241,690
Operating Profit (loss)	9,862	3,068	3,275	(356)	1,652	17,500	371	17,870	(1,822)	16,048

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

2. Includes segment pprofit adjustment of (¥1,822) million, eliminations of intersegment transactions of ¥44 million, and companywide expenses that are not allocated across reporting segments of (¥1,866) 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) Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 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	118,430	49,812	24,294	46,393	3,163	242,082	7,845	249,927	-	249,927
(2) Inter-segment sales and transfers	41	224	1,770	269	337	2,641	9,486	12,127	(12,127)	-
Total	118,471	50,037	26,064	46,652	3,500	244,723	17,331	262,054	(12,127)	249,927
Operating Income (loss)	10,134	2,562	3,114	(31)	1,252	17,031	419	17,450	(2,104)	15,345

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

5. Includes segment profit adjustment of (¥2,104) million, eliminations of intersegment transactions of (¥36) million, and companywide expenses that are not allocated across reporting segments of (¥2,069) million. The principal components of company wide expenses are those related to basic research and development.

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