

Consolidated Financial Report for the First Quarter ended June 30, 2016

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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(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 income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2016	82,734	(7.5)	4,602	3.1	3,411	(21.4)	2,430	5.7
2015	89,454	7.9	4,464	11.4	4,337	23.9	2,299	9.5

(Note) Comprehensive income: First quarter ended June 30, 2016: ¥ (445) million (- %),

First quarter ended June 30, 2015: ¥ 2,934 million (2.5%),

	Net income per share	Net income per share after dilution
	Yen	Yen
2016	2.74	—
2015	2.59	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
June 30, 2016	431,956	156,548	35.5
March 31, 2016	444,587	160,101	35.3

(Reference) Total shareholders' equity: June 30, 2016: ¥153,442 million, March 31, 2016: ¥156,915 million

2. Dividends

Record date	Dividends per share				
	1st Quarter	2nd Quarter	3rd Quarter	Year-end	Total
	Yen	Yen	Yen	Yen	Yen
FY 3/2016	—	0.00	—	3.50	3.50
FY 3/2017	—				
FY 3/2017 (Forecast)		0.00	—	3.50	3.50

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

1. Qualitative Information and Financial Statements

(1) Qualitative Information on Consolidated Results

During the first quarter of the fiscal year ending March 31, 2017, from April 1, 2016 through June 30, 2016, the business environment for the Toyobo Group (hereinafter referred to as the “Group”) was characterized by continued uncertainty about the future of the global economy due to issues pertaining to the United Kingdom’s decision to leave the European Union in Europe, deepening economic slowdown in China and other factors while the economy in the United States maintained a moderate recovery backed by strong consumer spending. Meanwhile, in Japan, the economy enjoyed a mild recovery along with the postponement of consumption tax hike.

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. Also, during the first quarter of the fiscal year under review, the Group promoted business activities in accordance with the five action plans set forth in the Medium-Term Management Plan for the four years covering the period through the fiscal year ending March 2018, namely “accelerating overseas business development,” “developing new products and creating new businesses,” “increasing competitiveness of domestic businesses,” “improving asset efficiency,” and “strengthening global Group management.”

In “accelerating overseas business development,” in the engineering plastics business, Toyobo worked to expand sales in overseas markets, primarily in the United States. Also, in the airbag fabrics business, the Group made efforts to strengthen its production sites in Thailand, China and the United States, taking advantage of the acquisition, jointly done with another company, of an airbag fiber manufacturer based in Germany, and focused on sales expansion targeting new users to promote the building of systems aimed at expansion from the second half of the fiscal year under review.

In “developing new products and creating new businesses,” the Group worked to further expand sales of “COSMOSHINE SRF” polarizer protective films for LCDs in Japan and overseas with the official adoption by a major polarizer manufacturer. Meanwhile, as for “Nerbridge,” a conduit for peripheral nerve regeneration, the Group pursued preparations for future overseas development through achieving FDA 510(k) clearance for the U.S. marketing and further enhancing capacities of manufacturing facilities and other initiatives, while striving to enhance its sales structure in Japan.

As a result of these various activities, consolidated net sales for the first quarter decreased ¥6.7 billion (7.5%) over the same quarter of the previous fiscal year, to ¥82.7 billion. Operating income increased ¥0.1 billion (3.1 %), to ¥4.6 billion, ordinary income decreased ¥0.9 billion (21.4 %) to ¥3.4 billion, and profit attributable to owners of parent increased ¥0.1 billion (5.7 %), to ¥2.4 billion.

Results by business segment were as follows:

Films and Functional Polymers

Within this segment, sales decreased but operating income increased from the same period of the previous fiscal year despite the impact of adjustments in the LCDs market and the slump in Japanese automobile production, etc. because of a sales growth of new products in the films business in addition to the further sales expansion of some functional polymers products.

In the films business, sales of packaging film for summer seasonal products were robust. Meanwhile, as for the industrial film, sales of "COSMOSHINE SRF" grew significantly centered on the shipments for the major polarizer manufacturer.

In the functional polymers business, the market environment for industrial adhesive "VYLON" for can coatings, IT and electronic uses was difficult. However, sales of the adhesion promoter for polyolefin "HARDLEN" grew for automobile coatings and ink applications. Sales of engineering plastics were steady due to the aggressive sales promotion efforts outside Japan, despite struggling in Japan due to a continued shift in automobile production to overseas.

As a result, sales in this segment decreased ¥3.3 billion (8.6%) from the same period of the previous fiscal year to ¥35.5 billion, and operating income rose ¥0.7 billion (32.6%) to ¥2.8 billion.

Industrial Materials

Sales and operating income fell in this segment from the same period of the previous fiscal year despite robust sales of some high-performance fibers because sales of the airbag fabrics and life and industrial materials were weak.

The airbag fabrics business struggled affected by the drop in Japanese automobile production. As for high-performance fibers, although sales of "IZANAS" remained favorable for ropes, nets and fishing line applications, sales of "ZYLON" were sluggish. In products for consumer and industrial uses, although polyester staple fibers remained favorable, sales of the PPS fiber material for filter bags "PROCON" were weak, owing to deteriorating market conditions.

As a result, sales in this segment decreased ¥1.6 billion (9.1%) from the same period of the previous fiscal year to ¥16.2 billion, and operating income declined ¥0.7 billion (56.7%) to ¥0.5 billion.

Healthcare

In this segment, sales and operating income increased from the same period of the previous fiscal year because sales in the bioproducts and medical products business were steady.

In the bioproducts business, although mainstay enzymes for diagnostic reagents have been affected by the fluctuation of exchange rates, sales of reagents for life sciences and diagnostic systems increased. With regard to the medical products business, the contract manufacturing business of pharmaceuticals remained robust. Meanwhile, in the functional membranes business, sales of Reverse Osmosis (RO) membrane elements for seawater desalination plants remained weak.

As a result, sales in this segment increased ¥0.5 billion (7.2%) from the same period of the previous fiscal year to ¥7.1 billion, but operating income rose ¥0.2 billion (19.2%) to ¥1.1 billion.

Textiles and Trading

In this segment, sales and operating income decreased from the same period of the previous fiscal year as conditions for acrylic fiber were difficult even though sales of textiles continued to be strong.

Sales of sports apparel and nylon fabrics for export grew steadily. Meanwhile, sales of materials for uniforms remained firm, despite sales of materials for inner wear struggled.

Sales of textile products were favorable despite the effects of the fluctuation of exchange rates on exports of materials for traditional Arabic menswear. Acrylic fiber business struggled as exports for China have been affected by anti-dumping policies.

As a result, sales in this segment decreased ¥1.1 billion (5.4%) from the same period of the previous fiscal year to ¥20.1 billion, and operating income declined ¥0.3 billion (58.7%) 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 in line with plans.

As a result, total sales in these businesses decreased ¥1.1 billion (22.0%) over the same period of the previous year, to ¥3.9 billion, and operating income rose ¥0.2 billion (48.9%), to ¥0.7 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets decreased ¥12.6 billion (2.8%) over the end of the previous fiscal year, to ¥432.0 billion. This was due mainly to decrease in notes and accounts receivable - trade.

Total liabilities decreased ¥9.1 billion (3.2%), to ¥275.4 billion. This was due mainly because of a decrease in other non-current liabilities.

Total net assets decreased ¥3.6 billion (2.2%) to ¥156.5 billion. This was due mainly because of a decrease in retained earnings by paying dividends and the valuation difference on available-for-sale securities decreased.

(3) Qualitative Information on Consolidated Forecasts

The performance of the Toyobo Group during the first quarter was generally as forecast. Regarding the outlook for performance through the end of the second quarter (interim period) and the forecast for the full fiscal year, no changes have been made in the outlook announced on May 12, 2016.

2. Matters Concerning Summary Information (Notes to Financial Statements)

Additional Information

(Change in Fiscal Year-end, Etc. of Consolidated Subsidiaries)

In preparing its financial statements, the Company had used the financial statements prepared as of December 31 with respect to those consolidated subsidiaries whose fiscal year ends on December 31, and accordingly had made the necessary adjustments to consolidated accounts thereof with respect to any material transactions that occurred between December 31 and the date of the consolidated financial statements. However, in order to ensure more appropriate disclosure in the consolidated financial statements, beginning in the first quarter of fiscal 2016, TOYOBO U.S.A., INC. and four other companies changed their respective fiscal year-end dates to March 31, and TOYOBO (SHANGHAI) CO., LTD. and four other companies changed to a method of using financial statements prepared on the basis of a provisional accounts settlement conforming to the accounts settlement performed as of the date of the consolidated financial statements. In line with the changes, the consolidated financial statements reflect the business results of the aforementioned consolidated subsidiaries for the six months from January 1, 2016, to June 30, 2016.

(Implementation Guidance on Recoverability of Deferred Tax Assets)

The “Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016) has been applied from the first quarter of fiscal 2016.

3. Consolidated Financial Statements

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2016) (Condensed)	Current First Quarter (As of June 30, 2016)
Assets		
Current assets		
Cash and deposits	20,258	16,036
Notes and accounts receivable - trade	81,176	73,595
Merchandise and finished goods	44,416	45,027
Work in process	15,498	15,722
Raw materials and supplies	15,424	15,309
Other	10,253	10,842
Allowance for doubtful accounts	(390)	(355)
Total current assets	186,633	176,176
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,966	48,946
Machinery, equipment and vehicles, net	44,105	45,478
Land	106,025	105,915
Other, net	9,842	8,253
Total property, plant and equipment	208,937	208,592
Intangible assets	3,860	3,722
Investments and other assets		
Other	46,020	44,288
Allowance for doubtful accounts	(863)	(822)
Total investments and other assets	45,157	43,466
Total non-current assets	257,954	255,780
Total assets	444,587	431,956

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2016) (Condensed)	Current First Quarter (As of June 30, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	43,441	41,127
Short-term loans payable	40,586	39,789
Current portion of long-term loans payable	20,091	19,520
Provision	4,305	2,174
Other	22,268	19,517
Total current liabilities	130,690	122,126
Non-current liabilities		
Bonds payable	25,000	25,000
Long-term loans payable	78,697	78,717
Provision for directors' retirement benefits	317	297
Provision for environmental measures	945	935
Net defined benefit liability	20,192	20,288
Other	28,644	28,043
Total non-current liabilities	153,795	153,281
Total liabilities	284,486	275,407
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,239	32,239
Retained earnings	39,540	38,899
Treasury shares	(389)	(389)
Total shareholders' equity	123,119	122,479
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,847	4,136
Deferred gains or losses on hedges	(162)	(198)
Revaluation reserve for land	44,578	44,542
Foreign currency translation adjustment	(10,748)	(12,195)
Remeasurements of defined benefit plans	(5,719)	(5,322)
Total accumulated other comprehensive income	33,796	30,963
Non-controlling interests	3,186	3,106
Total net assets	160,101	156,548
Total liabilities and net assets	444,587	431,956

(Millions of yen)

	Previous First Quarter (From April 1, 2015 To June 30, 2015)	Current First Quarter (From April 1, 2016 To June 30, 2016)
Net sales	89,454	82,734
Cost of sales	70,485	63,188
Gross profit	18,969	19,546
Selling, general and administrative expenses	14,505	14,944
Operating income	4,464	4,602
Non-operating income		
Dividend income	340	307
Foreign exchange gains	279	—
Other	430	486
Total non-operating income	1,049	793
Non-operating expenses		
Interest expenses	459	386
Foreign exchange losses	—	731
Other	717	867
Total non-operating expenses	1,177	1,984
Ordinary income	4,337	3,411
Extraordinary income		
Gain on sales of non-current assets	18	—
Gain on sales of investment securities	18	—
Total extraordinary income	36	—
Extraordinary losses		
Loss on disposal of non-current assets	46	65
Loss on litigation	152	179
Loss on valuation of investment securities	64	—
Other	—	24
Total extraordinary losses	262	268
Profit before income taxes	4,111	3,143
Income taxes	1,750	706
Profit	2,361	2,437
Profit attributable to non-controlling interests	62	7
Profit attributable to owners of parent	2,299	2,430

(Millions of yen)

	Previous First Quarter (From April 1, 2015 To June 30, 2015)	Current First Quarter (From April 1, 2016 To June 30, 2016)
Profit	2,361	2,437
Other comprehensive income		
Valuation difference on available-for-sale securities	2,189	(1,664)
Deferred gains or losses on hedges	(8)	(36)
Foreign currency translation adjustment	(1,423)	(1,383)
Remeasurements of defined benefit plans, net of tax	211	399
Share of other comprehensive income of entities accounted for using equity method	(396)	(197)
Total other comprehensive income	573	(2,881)
Comprehensive income	2,934	(445)
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	2,877	(366)
Comprehensive income attributable to non-controlling interests	57	(78)

(3) Note to Going Concern:

Not applicable

(4) Notes on Significant Changes in Shareholders' Equity

Not applicable

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

(i) Previous first quarter (from April 1, 2015 to June 30, 2015)

(Millions of yen)

	Segment to be reported						Other Business- 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	38,827	17,778	6,619	21,235	1,075	85,533	3,921	89,454	—	89,454
(2) Inter-segment sales and transfers	0	22	26	66	253	368	2,076	2,444	(2,444)	—
Total	38,827	17,800	6,645	21,301	1,328	85,901	5,997	91,898	(2,444)	89,454
Operating Income (loss)	2,120	1,148	916	545	585	5,315	(114)	5,201	(737)	4,464

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

2. Includes segment income adjustment of (¥737) million, eliminations of intersegment transactions of (¥29) million, and companywide expenses that are not allocated across reporting segments of (¥707) million. The principal components of companywide expenses are those related to basic research and development.

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

(ii) Current first quarter (from April 1, 2016 to June 30, 2016)

(Millions of yen)

	Segment to be reported						Other Business- 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	35,482	16,166	7,099	20,089	1,189	80,024	2,709	82,734	—	82,734
(2) Inter-segment sales and transfers	—	25	33	29	254	341	2,275	2,616	(2,616)	—
Total	35,482	16,191	7,132	20,118	1,443	80,366	4,984	85,350	(2,616)	82,734
Operating Income (loss)	2,812	497	1,092	225	677	5,303	24	5,328	(726)	4,602

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

5. Includes segment income adjustment of (¥726) million, eliminations of intersegment transactions of (¥18) million, and companywide expenses that are not allocated across reporting segments of (¥707) million. The principal components of companywide expenses are those related to basic research and development.

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