

Consolidated Financial Report for the Third Quarter ended December 31, 2014

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 13, 2015

Start of dividend payments (Planned): -

(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 income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2014	255,419	(0.8)	12,524	(18.3)	8,471	(41.0)	5,870	(9.0)
2013	257,478	3.3	15,327	41.8	14,360	51.9	6,451	43.1

(Note) Comprehensive income: Third Quarter ended December 31, 2014: ¥ 9,008 million (-17.7%),

Third Quarter ended December 31, 2013: ¥ 10,945 million (91.6%),

	Net income per share	Net income per share after dilution
	Yen	Yen
2014	6.61	—
2013	7.26	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2014	466,564	151,911	31.9
March 31, 2014	456,256	145,115	31.2

(Reference) Total shareholders' equity: December 31, 2014: ¥148,962 million, March 31, 2014: ¥142,310 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
2014	—	0.00	—	3.50	3.50
2015	—	0.00			
2015 (Forecast)			—	3.50	3.50

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

3. Forecasts for Fiscal Year Ending March 31, 2015

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year	360,000	2.4	21,000	(0.0)	15,500	(15.9)

	Net income		Net income per share
	Millions of yen	%	Yen
Fiscal Year	8,000	(1.9)	9.01

(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):

Deletion: One company (TC Preferred Capital Limited)

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 : Yes
- 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, 2014: 890,487,922 shares

March 31, 2014: 890,487,922 shares

2) Number of treasury stock

December 31, 2014: 2,646,064 shares

March 31, 2014: 2,623,596 shares

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

Nine months ended December 31 2014: 887,854,395 shares

2013: 888,564,261 shares

※ Implementation status of Quarterly review

This Financial Results report for the Third Quarter was exempt from Quarterly review which was based on Financial Instruments and Exchange Law of Japan. As of the Third Quarter disclosing, Quarterly review for the quarterly financial statements are under 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.

1. QUALITATIVE INFORMATION AND FINANCIAL STATEMENTS

(1) Qualitative Information on Consolidated Results

Through the third quarter of the fiscal year ending March 31, 2015, from April 1, 2014 through December 31, 2014, the business environment for the Toyobo Group was characterized by continuing recovery trends against a background of monetary easing in the United States through the third quarter. However, the emerging countries of Asia, including China, continued to experience sluggish conditions. On the other hand, in Japan, although the economy was experiencing a moderate recovery following the economic and monetary policies implemented by the government, against a background of a weaker yen, conditions were sluggish as a result of the decline in consumer confidence following the increase in the consumption tax.

Amid this operating environment, the Toyobo Group continued its activities aimed at becoming “The category leader, continuing to create new value that contributes to society in the environment, life science, and high-function products fields.” Accordingly, Toyobo is proceeding with activities targeted at further growth by expanding its businesses in Japan and overseas markets through developing specialty products and expanding their sales. Through the third quarter of the fiscal year in progress, Toyobo announced a new Medium-Term Management Plan for the four years ending March 2018. This plan sets forth five action plans: 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.” During the third quarter as well, Toyobo implemented business plans to realize these five objectives.

In “accelerating overseas business development,” in the airbag fabrics business, Toyobo strengthened its production systems in the United States and elsewhere overseas, taking advantage of the acquisition, jointly done with another company, of an airbag fiber manufacturer based in Germany. Toyobo also strengthened its marketing activities with the aim of expanding its customer base beyond domestic automobile parts manufacturers to include overseas automobile parts manufacturers. In addition, in the engineering plastics business, Toyobo is accelerating its sales activities in Central America in anticipation of future growth in the market for automobile parts and established a new company in Mexico.

In the area of “developing new products and creating new businesses,” Toyobo focused on expanding sales of “COSMOSHINE SRF” polarizer protective films for LCDs and, in Japan, on increasing sales of its “Nerbridge” conduits for nerve regeneration. Regarding “COSMOSHINE SRF,” Toyobo expanded sales mainly to overseas customers for use in TV applications, and sales rose substantially over the same period of the previous year. Also, with regard to “Nerbridge,” as the number of applications of these conduits and the cases of successful treatment are growing in Japan, Toyobo is moving forward with preparations to begin sales of this product in the United States.

On the other hand, as Toyobo implements these action plans aimed at future growth, expenses are being incurred temporarily preceding this growth as it develops markets for new products, prepares product prototypes as new capacity goes into operation, and undertakes other activities.

As a consequence of these various activities, consolidated net sales through the third quarter decreased

¥2.1 billion (0.8%) compared with the same quarter of the previous fiscal year, to ¥255.4 billion. Operating income declined ¥2.8 billion (18.3%), to ¥12.5 billion, ordinary income contracted ¥5.9 billion (41.0%), to ¥8.5 billion, and net income decreased ¥0.6 billion (9.0%), to ¥5.9 billion.

Results by business segment were as follows:

Films and Functional Polymers

Within this segment, in the films business, results were influenced by costs incurred in connection with the transition to new production facilities and expansion in new products. In the functional polymers business, although sales of automobile and electronics related items held strong, overall sales increased, and income declined from the same period of the previous year.

In the films business, sales increased compared with the same period of the previous year despite the adverse impact of the reactionary decline in consumption following the increase in the consumption tax and the effects of unseasonable weather conditions. In the industrial films business, sales rose over the previous year because of expansion in exports and acceleration in sales to the domestic smartphone market. It was not possible to fully absorb the rise in fixed costs accompanying the start-up of new production capacity with increases in sales of new products, and, as a result, income declined substantially from the same period of the previous year.

In the functional polymers business, sales of engineering plastics for automobile use held strong, mainly in overseas markets. In addition, sales of fine chemicals to automobile-related customers were robust, and sales of industrial adhesive "VYLON," which is used in electronics and IT-related applications, expanded steadily.

As a result, sales in this segment increased ¥0.2 billion (0.2%), to ¥111.8 billion, and operating income declined ¥1.2 billion (19.0%), to ¥5.0 billion.

Industrial Materials

Within this segment, sales of products for consumer and industrial uses and Spunbond showed favorable performances, but conditions were difficult in the airbag fabrics business. Performance was also influenced by Toyobo's withdrawal from the tire cord business in the previous fiscal year, and sales of this segment decreased year on year, and operating income decreased.

In the airbag fabrics business, performance was adversely affected by high raw materials prices and lackluster conditions in the domestic automobile market. Among high-performance fibers, conditions were difficult for sales of "Dyneema" for use in cut-resistant gloves, but sales of "Zylon" for use in heat-resistant materials held firm. In the functional filter business, sales to the automobile industry, which is the principal customer for products of this business, declined, but sales to the office machinery, household appliance, and other industries expanded. In addition, demand for VOC emissions treatment equipment, which had been weak, showed some recovery in overseas markets. Among products for consumer and industrial use, sales of "BREATHAIR," a functional cushion material, held firm, and sales of Spunbond to the civil engineering and

construction industries expanded, resulting in higher sales over the same period of the previous year for these products.

As a consequence, sales in this segment declined ¥2.5 billion (4.9%) over the same period of the previous year, to ¥48.9 billion, and operating income decreased ¥0 billion (0.1%), to ¥3.7 billion.

Life Science

In this segment, sales in the bioproducts business were firm, but conditions were difficult in the contract manufacturing business of pharmaceuticals and the medical membrane business. As a result, segment sales increased year on year, and operating income decreased.

In the bioproducts business, sales of diagnostic enzymes, which are mainstay products in the biochemicals business, held strong in Japan and overseas. In the diagnostic systems business, sales of diagnostic equipment expanded in Japan and overseas, and sales of reagents expanded in overseas markets. In the contract manufacturing business of pharmaceuticals, on the one hand, new contracts were received, but, on the other hand, the postponement of some projects had an adverse impact. In the medical devices business, the number of applications of mainstay product “Nerbridge” nerve regeneration conduits increased. In the functional membrane business, sales of medical membranes to overseas markets are on a recovery trend, and sales of reverse osmosis membrane elements for seawater desalination were favorable as demand for the replacement of elements at existing desalination plants held firm.

As a result, sales in this segment rose ¥1.0 billion (5.0%), to ¥20.5 billion, and operating income was down ¥0.5 billion (12.7%), to ¥3.3 billion.

Textiles

In this segment, as sales of textiles continued to be strong, but conditions in the acrylic fiber business were difficult, total sales of this segment decreased, and operating income decreased.

Sales of sports apparel to large apparel manufacturers were steady, and sales of materials for uniforms remained firm overall. Among textile products, sales of materials for traditional Arabic menswear are recovering, and textile sales overall held firm. Performance of acrylic fibers year on year has been affected by high raw materials prices, and deterioration in the market resulted in a decline in sales.

As a consequence, sales in this segment decreased ¥2.7 billion (4.7%), to ¥54.1 billion, and operating income declined ¥1.2 billion (55.2%), to ¥1.0 billion.

Real Estate and Other Businesses

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.

Therefore, total sales in these businesses rose ¥2.0 billion (10.9%), to ¥20.1 billion, and operating income decreased ¥0.3 billion (13.3%), to ¥1.7 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥10.3 billion (2.3%) over the same period of the previous year, to ¥466.6 billion. This was primarily owing to an increase in merchandise and finished goods.

Total liabilities increased ¥3.5 billion (1.1%) over the same period of the previous year, to ¥314.7 billion. This was primarily due to an increase in long-term loans payable.

Net assets increased ¥6.8 billion (4.7%) over the previous year, to ¥151.9 billion. This was primarily the result of additions to retained earnings and the valuation difference on available-for-sale securities.

(3) Qualitative Information on Consolidated Forecasts

As Toyobo develops the markets for new products and commences operations at new facilities, expenses are being incurred temporarily preceding the anticipated growth in sales. In view of this, Toyobo has revised its outlook for consolidated performance for the fiscal year ending March 2015, which was announced on November 4, 2014, as follows:

Year ending March 31, 2015

	Millions of Yen			
	Net Sales	Operating Income	Ordinary Income	Net Income
Previous Forecast (A) (Announced on November 4, 2014)	360,000	22,000	16,500	8,500
Revised Forecast (B)	360,000	21,000	15,500	8,000
Change (B-A)	—	(1,000)	(1,000)	(500)
Percent Change (%)	—	(4.5)	(6.1)	(5.9)

Matters Concerning Summary Information (Notes to Financial Statements)

(1) Developments at Material Subsidiaries through the Third Quarter

The liquidation of TC Preferred Capital Limited was completed, and, beginning with the third quarter, it has been eliminated from the scope of consolidation.

(2) Changes in Accounting Principles, Changes in Accounting Estimates, and Retroactive Restatements

Provisions stated in the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, issued May 17, 2012, and hereinafter referred to as the "Retirement Benefits Accounting Standard"), and the "Guidance on the Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued May 17, 2012, and hereinafter "Guidance on Retirement Benefits"), which are contained in Section 35 of the Retirement Benefits Accounting Standard and Section 67 of the Guidance on Retirement Benefits, have been applied from the first quarter of fiscal 2014. With this application, the Company has reviewed its method for calculating retirement benefit obligations and retirement benefit expenses. Following this review, the calculation method for the annual allocation of expenses for projected benefit obligations has been changed from the straight-line attribution standard, pro-rated on employees' years of service, to a benefit formula standard, pro-rated on employees' benefits. In addition, the Company has changed the method for determining the discount rate from the method based on the average remaining years of service for employees to a method that uses a single weighted average discount rate that reflects the expected periods for payment of retirement obligations and the amount for each payment period.

Regarding the application of standards for retirement benefit accounting: Following the transitional accounting treatment specified in Article 37 of the Accounting Standards for Retirement Benefits, differences arising from changes in accounting methods for retirement benefit obligations and service costs have been added (subtracted) from retained earnings at the beginning of the period through the end of the second quarter.

As a result, obligations for retirement benefits at the beginning of the first quarter under review declined ¥ 2,885 million, other investments reported in other assets decreased ¥ 1,452 million, and retained earnings increased ¥ 917 million. The impact of this change on consolidated operating income, ordinary income, and income before income tax and minority interests for the third quarter of fiscal 2014 was immaterial.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2014) (Condensed)	Current Third Quarter (As of December 31, 2014)
Assets		
Current assets		
Cash and deposits	19,330	20,461
Notes and accounts receivable - trade	76,826	78,313
Merchandise and finished goods	45,680	50,560
Work in process	14,816	17,297
Raw materials and supplies	14,891	16,920
Other	13,454	10,202
Allowance for doubtful accounts	(367)	(364)
Total current assets	184,630	193,389
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	47,612	48,569
Machinery, equipment and vehicles, net	45,480	46,087
Land	106,736	106,620
Other, net	9,792	9,300
Total property, plant and equipment	209,619	210,576
Intangible assets	3,029	3,122
Investments and other assets		
Other	60,287	60,869
Allowance for doubtful accounts	(1,310)	(1,391)
Total investments and other assets	58,977	59,478
Total non-current assets	271,625	273,176
Total assets	456,256	466,564

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2014) (Condensed)	Current Third Quarter (As of December 31, 2014)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	50,106	49,801
Short-term loans payable	45,903	40,881
Current portion of long-term loans payable	31,180	21,562
Provision	4,502	2,043
Other	28,891	38,051
Total current liabilities	160,582	152,337
Non-current liabilities		
Bonds payable	20,000	25,000
Long-term loans payable	70,831	83,217
Provision for directors' retirement benefits	344	313
Provision for environmental measures	1,577	617
Net defined benefit liability	25,227	20,652
Other	32,579	32,518
Total non-current liabilities	150,558	162,317
Total liabilities	311,141	314,653
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,239	32,239
Retained earnings	26,425	30,119
Treasury shares	(378)	(382)
Total shareholders' equity	110,015	113,706
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	3,954	5,422
Deferred gains or losses on hedges	(2)	(34)
Revaluation reserve for land	41,409	41,378
Foreign currency translation adjustment	(8,864)	(8,692)
Remeasurements of defined benefit plans	(4,203)	(2,818)
Total accumulated other comprehensive income	32,295	35,256
Minority interests	2,805	2,949
Total net assets	145,115	151,911
Total liabilities and net assets	456,256	466,564

(2) Consolidated Statements of Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2013 To December 31, 2013)	Current Third Quarter (From April 1, 2014 To December 31, 2014)
Net sales	257,478	255,419
Cost of sales	200,267	200,584
Gross profit	57,211	54,835
Selling, general and administrative expenses	41,884	42,311
Operating income	15,327	12,524
Non-operating income		
Foreign exchange gains	981	1,085
Other	2,770	1,931
Total non-operating income	3,751	3,016
Non-operating expenses		
Share of loss of entities accounted for using equity method	—	1,990
Other	4,717	5,079
Total non-operating expenses	4,717	7,070
Ordinary income	14,360	8,471
Extraordinary income		
Gain on sales of investment securities	17	331
Reversal of provision for environmental measures	—	798
Gain on bargain purchase	595	—
Other	63	27
Total extraordinary income	675	1,156
Extraordinary losses		
Impairment loss	—	751
Loss on disposal of non-current assets	1,116	600
Loss on litigation	1,292	596
Loss on restructuring of Business	1,138	—
Other	719	77
Total extraordinary losses	4,265	2,024
Income before income taxes and minority interests	10,770	7,603
Income taxes	3,558	1,613
Income before minority interests	7,212	5,990
Minority interests in income	761	120
Net income	6,451	5,870

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2013 To December 31, 2013)	Current Third Quarter (From April 1, 2014 To December 31, 2014)
Income before minority interests	7,212	5,990
Other comprehensive income		
Valuation difference on available-for-sale securities	2,016	1,461
Deferred gains or losses on hedges	55	(32)
Foreign currency translation adjustment	1,608	264
Remeasurements of defined benefit plans, net of tax	—	1,378
Share of other comprehensive income of entities accounted for using equity method	55	(53)
Total other comprehensive income	3,733	3,018
Comprehensive income	10,945	9,008
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	10,143	8,862
Comprehensive income attributable to minority interests	803	146

(4) Note to Going Concern

Not applicable

(5) Notes on Significant Changes in Shareholders' Equity

Not applicable

(6) Segment Information

Segment sales and operating income

1) Nine months ended December 31, 2013 (from April 1, 2013 to December 31, 2013)

(Millions of yen)

	Segment to be reported						Other Businesses	Total	Adjustment	Consolidated Statements of Income
	Films and Functional Polymers	Industrial Materials	Life Science	Textiles	Real Estate	Total				
Net Sales										
(1) Outside customers	111,623	51,456	19,563	56,743	2,877	242,262	15,216	257,478	—	257,478
(2) Inter-segment sales and transfers	29	122	74	153	914	1,292	10,934	12,226	(12,226)	—
Total	111,652	51,578	19,637	56,896	3,791	243,555	26,150	269,705	(12,226)	257,478
Operating Income (loss)	6,129	3,710	3,821	2,203	1,347	17,210	599	17,808	(2,482)	15,327

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

2. Includes segment income adjustment of (¥2,482) million, eliminations of inter segment transactions of (¥ 350) million, and companywide expenses that are not allocated across reporting segments of (¥2,132) 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.

2) Nine months ended December 31, 2014 (from April 1, 2014 to December 31, 2014)

(Millions of yen)

	Segment to be reported						Other Businesses	Total	Adjustment	Consolidated Statements of Income
	Films and Functional Polymers	Industrial Materials	Life Science	Textiles	Real Estate	Total				
Net Sales										
(1) Outside customers	111,812	48,922	20,535	54,092	2,702	238,063	17,356	255,419	—	255,419
(2) Inter-segment sales and transfers	14	295	63	73	854	1,300	7,537	8,837	(8,837)	—
Total	111,826	49,217	20,599	54,165	3,556	239,363	24,893	264,256	(8,837)	255,419
Operating Income (loss)	4,966	3,707	3,335	987	1,276	14,271	410	14,682	(2,157)	12,524

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

2. Includes segment income adjustment of (¥2,157) million, eliminations of inter segment transactions of (¥ 80) million, and companywide expenses that are not allocated across reporting segments of (¥2,078) 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.

(7) Impairment Losses on Fixed Assets and Changes in Goodwill by Reporting Segment

Material Impairment Losses on Fixed Assets

In the Films and Functional Polymers segment, impairment losses amounted to ¥701 million. Impairment losses that have not been allocated by segment were ¥50 million.