

Consolidated Financial Report for the Third Quarter ended December 31, 2019

Toyobo Co., Ltd.

Stock Code: 3101

Listed on the First Section of the TSE

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

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 | % |
| 2019 | 248,018 | (0.8) | 15,968 | 4.1 | 13,439 | 6.1 | 5,881 | - |
| 2018 | 249,927 | 3.4 | 15,345 | (4.4) | 12,669 | (8.2) | (300) | - |

(Note) Comprehensive profit: Third Quarter ended December 31, 2019: ¥ 4,200 million - %,
Third Quarter ended December 31, 2018: ¥ (1,159) million - %

| | Net profit per share | Net profit per share after dilution |
|------|----------------------|-------------------------------------|
| | Yen | Yen |
| 2019 | 66.23 | — |
| 2018 | (3.38) | — |

(2) Consolidated Financial Position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|-------------------|-----------------|-----------------|--------------|----------------------|
| | Millions of yen | Millions of yen | % | Yen |
| December 31, 2019 | 488,405 | 182,400 | 36.3 | 1,997.65 |
| March 31, 2019 | 461,047 | 181,226 | 38.3 | 1,989.29 |

(Reference) Total shareholders' equity: December 31, 2019: ¥ 177,414 million, March 31, 2019: ¥176,585 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 3/2019 | — | 0.00 | — | 40.00 | 40.00 |
| FY 3/2020 | — | 0.00 | — | | |
| FY 3/2020 (Forecast) | | | | 40.00 | 40.00 |

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

3. Forecasts for Fiscal Year Ending March 31, 2020

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

| | Net sales | | Operating profit | | Ordinary profit | |
|-------------|-----------------|-----|------------------|-----|-----------------|-----|
| | Millions of yen | % | Millions of yen | % | Millions of yen | % |
| Fiscal Year | 350,000 | 4.0 | 22,000 | 1.3 | 18,000 | 1.2 |

| | Profit attributable to owners of parent | | Net profit per share |
|-------------|---|---|----------------------|
| | Millions of yen | % | Yen |
| Fiscal Year | 14,000 | - | 157.69 |

(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): Yes
 - 1) New companies: 2
(TOYOBO FILM SOLUTIONS LIMITED, PT. INDONESIA TOYOBO FILM SOLUTIONS)
 - 2) Excluded company: 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 : 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, 2019: 89,048,792 shares | March 31, 2019: 89,048,792 shares |
|--------------------------------------|-----------------------------------|
 - 2) Number of treasury stock

| | |
|-----------------------------------|--------------------------------|
| December 31, 2019: 237,268 shares | March 31, 2019: 281,342 shares |
|-----------------------------------|--------------------------------|
 - 3) Average number of shares outstanding for each period (cumulative term):

| | |
|---|-------------------------|
| Nine months ended December 31 2019: 88,789,605 shares | |
| | 2018: 88,768,700 shares |

※ 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 global economy surrounding the TOYOBO Group (hereinafter referred to as the “Group”) in the nine months ended December 31, 2019, a sense of uncertainty has intensified and the economy slowed due to the trade friction between the United States and China, the situation in the Middle East, and the issue of the United Kingdom’s exit from the EU. In Japan, the economy was at a continuous standstill mainly due to the impact of stagnant exports with the global economic slowdown and consumption tax hike.

Amid this operating environment, the Group has focused on “Films & Coatings,” “Mobility,” and “Healthcare & Wellness,” which were set as the growth field targets in the 2018 Medium-Term Management Plan. In the nine months ended December 31, 2019, in “Films & Coatings,” the Group steadily expanded the sales of polarizer protective films for LCDs “COSMOSHINE SRF” as a result of improved productivity. As for mold releasing film for MLCC “COSMOPEEL,” new processing equipment was put into operation and the Group proceeded with the increase in production capacity. The Group also acquired all stocks of two subsidiaries held by TEIJIN LIMITED as of October 1, 2019, and commenced integrated management aiming at further solidifying the foundation of the films business.

Manufacturing facilities for airbag yarn and functional cushion material “BREATHAIR,” etc., were lost due to the fire accident in September 2018, but the new plant started up from September 2019, and manufacture and sales of “BREATHAIR” steadily resumed. As for airbag fabrics, the Group continues to conduct sales with procurement of replacement materials for airbag yarn.

As a result, consolidated net sales in the nine months ended December 31, 2019 decreased ¥1.9 billion (0.8%) over the same period of the previous fiscal year, to ¥248.0 billion. Operating profit increased ¥0.6 billion (4.1%), to ¥16.0 billion, ordinary profit increased ¥0.8 billion (6.1%) to ¥13.4 billion, and profit attributable to owners of parent was ¥5.9 billion (Compared with loss attributable to owners of parent of ¥0.3 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 decreased but operating profit increased from the same period of the previous fiscal year due to the growth in the films business.

In the films business, the packaging film business achieved growth in sales of the environmentally conscious products as a result of rising eco-consciousness of the world. The industrial film business achieved steady expansion in sales to major polarizer manufacturers as a result of improved productivity of polarizer protective films for LCDs “COSMOSHINE SRF,” despite mold releasing film for MLCC “COSMOPEEL” being affected by production adjustments of electronic-related components.

In the functional polymers business, sales of the adhesion promoter for polyolefin “HARDLEN” grew in overseas markets, but engineering plastics faced challenges due to the impact of global production curtailment in the automotive industry and sluggish sales of polymer for the non-automotive industry to China.

As a result, sales in this segment decreased ¥4.1 billion (3.5%) from the same period of the previous fiscal year to ¥114.3 billion, and operating profit increased ¥1.8 billion (18.1%) to ¥12.0 billion.

Industrial Materials

In this segment, sales and operating profit decreased from the same period of the previous fiscal year owing to the effect of the fire accident and a decrease in demand.

The airbag fabrics business faced challenges due to the fire accident and global production curtailment in the automotive industry. In the high-performance fibers business, sales of "IZANAS" grew primarily for use in ropes, and sales of "ZYLON" expanded for use in bicycle tires and other use. In the life and industrial materials business, the new plant started up and manufacture and sales of functional cushion material "BREATHAIR" resumed.

As a result, sales in this segment decreased ¥0.1 billion (0.2%) from the same period of the previous fiscal year to ¥49.7 billion, and operating profit decreased ¥1.8 billion (70.1%) to ¥0.8 billion.

Healthcare

In this segment, sales and operating profit increased from the same period of the previous fiscal year as the membranes & environment business was favorable.

In the bio-science & medical business, sales of enzymes for diagnostic reagents to overseas markets were steady.

In the membranes & environment business, sales of volatile organic compound (VOC) emissions treatment equipment and replacement elements were solid in Japan and overseas. Sales of Reverse Osmosis (RO) membrane for seawater desalination expanded as replacement elements were shipped ahead of schedule until the previous quarter.

As a result, sales in this segment increased ¥4.3 billion (17.7%) from the same period of the previous fiscal year to ¥28.6 billion, and operating profit increased ¥0.9 billion (29.8%) to ¥4.0 billion.

Textiles and Trading

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

Sales volume of materials for traditional Arabic menswear increased as market conditions recovered, and sales of materials for uniforms grew steadily in those used for business uniforms. On the other hand, sales of acrylic fiber remained sluggish due to the impact of raw material prices though it is being shifted to industrial material applications.

As a result, sales in this segment decreased ¥1.0 billion (2.2%) from the same period of the previous fiscal year to ¥45.3 billion, with an operating loss of ¥0.1 billion. (Compared with operating loss of ¥0.0 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 (8.7%) over the same period of the previous fiscal year to ¥10.1 billion, and operating profit increased ¥0.0 billion (2.9%) to ¥1.7 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥27.4 billion (5.9%) from the end of the previous fiscal year to ¥488.4 billion. This was due mainly to the inclusion of TOYOBO FILM SOLUTIONS LIMITED in the scope of consolidation and an increase in property, plant and equipment resulting from a rise in capital spending.

Total liabilities increased ¥26.2 billion (9.4%) from the end of the previous fiscal year to ¥306.0 billion. This was mainly because of an increase in bonds payable.

Total net assets increased ¥1.2 billion (0.6%) to ¥182.4 billion. This was due mainly because of an increase in retained earnings.

(3) Qualitative Information on Consolidated Forecasts

There is concern that the expected stagnation of economy caused by the spread of novel coronavirus (2019-nCoV) could affect the performance of Group. However, regarding the forecast for the full fiscal year, no change has been made in the outlook announced on November 7, 2019.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

| | Previous Fiscal Year (As of March 31, 2019) (Condensed) | Current Third Quarter (As of December 31, 2019) |
|---|---|--|
| Assets | | |
| Current assets | | |
| Cash and deposits | 22,318 | 21,558 |
| Notes and accounts receivable - trade | 81,909 | 82,604 |
| Electronically recorded monetary claims - operating | 3,881 | 7,474 |
| Merchandise and finished goods | 45,849 | 54,365 |
| Work in process | 13,704 | 13,282 |
| Raw materials and supplies | 17,247 | 18,463 |
| Other | 8,417 | 8,365 |
| Allowance for doubtful accounts | (199) | (171) |
| Total current assets | 193,125 | 205,941 |
| Non-current assets | | |
| Property, plant and equipment | | |
| Buildings and structures, net | 50,166 | 52,632 |
| Machinery, equipment and vehicles, net | 43,163 | 45,348 |
| Land | 98,199 | 98,338 |
| Other, net | 16,948 | 30,925 |
| Total property, plant and equipment | 208,476 | 227,242 |
| Intangible assets | 3,654 | 3,877 |
| Investments and other assets | | |
| Other | 56,483 | 52,043 |
| Allowance for doubtful accounts | (691) | (699) |
| Total investments and other assets | 55,792 | 51,344 |
| Total non-current assets | 267,922 | 282,463 |
| Total assets | 461,047 | 488,405 |

(Millions of yen)

| | Previous Fiscal Year (As of March 31, 2019) (Condensed) | Current Third Quarter (As of December 31, 2019) |
|--|---|--|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable - trade | 42,736 | 41,763 |
| Electronically recorded obligations - operating | 2,036 | 5,617 |
| Short-term borrowings | 41,882 | 41,896 |
| Current portion of bonds | 10,000 | — |
| Current portion of long-term borrowings | 12,433 | 7,925 |
| Provisions | 4,424 | 2,667 |
| Other | 18,257 | 23,023 |
| Total current liabilities | 131,768 | 122,891 |
| Non-current liabilities | | |
| Bonds payable | 30,000 | 55,000 |
| Long-term borrowings | 69,009 | 77,834 |
| Provision for retirement benefits for directors (and other officers) | 233 | 233 |
| Provision for environmental measures | 419 | 367 |
| Retirement benefit liability | 18,236 | 18,100 |
| Other | 30,156 | 31,580 |
| Total non-current liabilities | 148,053 | 183,113 |
| Total liabilities | 279,821 | 306,005 |
| Net assets | | |
| Shareholders' equity | | |
| Share capital | 51,730 | 51,730 |
| Capital surplus | 32,206 | 32,200 |
| Retained earnings | 51,858 | 54,036 |
| Treasury shares | (415) | (350) |
| Total shareholders' equity | 135,378 | 137,616 |
| Accumulated other comprehensive income | | |
| Valuation difference on available-for-sale securities | 9,071 | 7,892 |
| Deferred gains or losses on hedges | (33) | 15 |
| Revaluation reserve for land | 44,483 | 44,457 |
| Foreign currency translation adjustment | (10,277) | (10,762) |
| Remeasurements of defined benefit plans | (2,038) | (1,804) |
| Total accumulated other comprehensive income | 41,206 | 39,798 |
| Non-controlling interests | 4,641 | 4,986 |
| Total net assets | 181,226 | 182,400 |
| Total liabilities and net assets | 461,047 | 488,405 |

(2) Consolidated Statements of Income

(Millions of yen)

| | Previous Third Quarter (From April 1, 2018 To December 31, 2018) | Current Third Quarter (From April 1, 2019 To December 31, 2019) |
|--|--|---|
| Net sales | 249,927 | 248,018 |
| Cost of sales | 190,139 | 186,632 |
| Gross profit | 59,788 | 61,385 |
| Selling, general and administrative expenses | 44,442 | 45,417 |
| Operating profit | 15,345 | 15,968 |
| Non-operating income | | |
| Dividend income | 637 | 580 |
| Other | 1,415 | 2,107 |
| Total non-operating income | 2,052 | 2,687 |
| Non-operating expenses | | |
| Interest expenses | 960 | 1,025 |
| Other | 3,768 | 4,191 |
| Total non-operating expenses | 4,728 | 5,216 |
| Ordinary profit | 12,669 | 13,439 |
| Extraordinary income | | |
| Gain on sales of investment securities | 195 | 440 |
| Gain on liquidation of subsidiaries and associates | 125 | — |
| Gain on bargain purchase | 175 | — |
| Other | 110 | 15 |
| Total extraordinary income | 605 | 455 |
| Extraordinary losses | | |
| Loss on disposal of non-current assets | 1,123 | 2,338 |
| Loss due to fire | 12,044 | 3,040 |
| Other | 799 | 37 |
| Total extraordinary losses | 13,967 | 5,415 |
| Profit (loss) before income taxes | (693) | 8,479 |
| Income taxes | (277) | 2,891 |
| Profit (loss) | (416) | 5,588 |
| Loss attributable to non-controlling interests | (116) | (292) |
| Profit (loss) attributable to owners of parent | (300) | 5,881 |

Consolidated Statements of Comprehensive Income

(Millions of yen)

| | Previous Third Quarter (From April 1, 2018 To December 31, 2018) | Current Third Quarter (From April 1, 2019 To December 31, 2019) |
|---|--|---|
| Profit (loss) | (416) | 5,588 |
| Other comprehensive income | | |
| Valuation difference on available-for-sale securities | (1,083) | (1,179) |
| Deferred gains or losses on hedges | 12 | 48 |
| Foreign currency translation adjustment | (270) | (291) |
| Remeasurements of defined benefit plans, net of tax | 707 | 235 |
| Share of other comprehensive income of entities accounted for using equity method | (108) | (201) |
| Total other comprehensive income | (743) | (1,388) |
| Comprehensive income | (1,159) | 4,200 |
| Comprehensive income attributable to | | |
| Comprehensive income attributable to owners of parent | (1,061) | 4,499 |
| Comprehensive income attributable to non-controlling interests | (97) | (298) |

(3) Note to Going Concern:

Not applicable

(4) Notes on Significant Changes in Shareholders' Equity

Not applicable

(5) Additional Information

Subsidiaries adopting International Financial Standards (IFRS) adopted International Financial Reporting Standard 16 "Lease" (hereinafter "IFRS 16") from the first quarter of this fiscal year. Consequently the lessee of the lease, in principle records all leases as assets and liabilities in the balance sheets.

The effect on consolidated financial statements is immaterial in the subject third quarter of this fiscal year.

(6) Segment Information

a. Segment information by business type

(I) Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

(Millions of yen)

| | Segment to be reported | | | | | | Other Businesses (Note 1) | Total | Adjustment (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 | 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 Profit (loss) | 10,134 | 2,562 | 3,114 | (31) | 1,252 | 17,031 | 419 | 17,450 | (2,104) | 15,345 |

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

2. Segment profit or loss adjustment of (¥2,104) million includes 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 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, 2019 (from April 1, 2019 to December 31, 2019)

(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 | 114,331 | 49,710 | 28,584 | 45,343 | 3,335 | 241,303 | 6,715 | 248,018 | — | 248,018 |
| (2) Inter-segment sales and transfers | 61 | 224 | 1,790 | 399 | 286 | 2,760 | 13,893 | 16,653 | (16,653) | — |
| Total | 114,391 | 49,934 | 30,375 | 45,742 | 3,621 | 244,063 | 20,608 | 264,671 | (16,653) | 248,018 |
| Operating Income (loss) | 11,964 | 766 | 4,043 | (116) | 1,122 | 17,779 | 597 | 18,375 | (2,408) | 15,968 |

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

5. Segment profit or loss adjustment of (¥2,408) million includes eliminations of intersegment transactions of (¥120) million and companywide expenses that are not allocated across reporting segments of (¥2,288) 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.