Financial Section

TOYOBO CO., LTD.
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2018 and 2017

Disclaimer Regarding Forward-Looking Statements

This report not only describes the past and present facts about Toyobo Co., Ltd. and its affiliates (together, the "Toyobo Group") but also projects future business performance and forecasts the future business environment. Such projections include assumptions and evaluations that were developed based on information that Toyobo was able to obtain as of the time this report was prepared and, thus, contain unknown as well as known risks and uncertainties. Consequently, there is a possibility that these risks and uncertainties will render the projections and forecast inaccurate and result in actual future business performance and a future business environment significantly different from the projections and forecast presented in this report. Readers are thus advised to exercise caution. The projections of future business performance and forecast of the future business environment that are found in this report were developed based on information that our corporation was able to obtain at the time the descriptions were written. These projections and forecast, therefore, contain elements of uncertainty. Moreover, there is a possibility that latent risks that have the potential of rendering such projections and forecasts inaccurate will materialize. Please be fully advised that, in the future, actual business performance and the actual business environment could turn out to be different from the projections and forecast presented in this report.

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Management's Discussion and Analysis

Overview of Fiscal Year Ended March 31, 2018

As for the business environment for the Toyobo Group (hereinafter referred to as the "Group") in the fiscal year ended March 31, 2018, in the global economy, the economy in the United States was steady backed by job growth, and the economy in the Euro area expanded supported by favorable business circumstances. However, in China, the economy continued to slow gradually. Meanwhile, in Japan, the economy remained on a recovery trend based on background of strong demand overseas and capital spending. On the other hand, it continued to be necessary to be mindful of rising trends, etc. in raw material and fuel prices, packing material costs, and logistics costs.

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 fiscal year ended March 31, 2018, the Group promoted business activities in accordance with the five action plans set forth in the Medium-Term Management Plan, 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 airbag fabrics business, as a global manufacturer engaged in integrated production from yarn to fabrics, the Group went into full-scale production at overseas production sites and expanded sales to overseas customers. In addition, the Group established a joint venture in Indonesia to produce packaging film for sales expansion of transparent vapor-deposited film "ECOSYAR."

In "developing new products and creating new businesses," sales of polarizer protective films for LCDs "COSMOSHINE SRF" increased considerably, and the Group decided to newly establish manufacturing facilities with an eye to further expansion in the future. Furthermore, the Group decided to establish a joint venture for the commercialization of heat-resistant polyimide film "XENOMAX" used in products such as electronic paper displays.

In "increasing competitiveness of domestic businesses," the Group decided to increase mold releasing film manufacturing facilities in response to expansion of the ceramic capacitors market.

In "improving asset efficiency," the Group transferred the trust beneficiary rights in Toyobo Building held by the Company to improve the efficiency of assets and the financial standing by making effective use of managerial resources and promoting working style reform.

In the fiscal year ended March 31, 2018, the "Gain on sales of property, plant and equipment" accompanying the transfer of trust beneficiary rights for Toyobo Building of ¥10.4 billion was recorded under other income. In addition, with regard to a litigation filed by the U.S. government in association with the bullet resistant vests that were manufactured and sold by a U.S.-based bullet resistant vest maker, a settlement was reached with the plaintiff, and settlement money, etc. of ¥7.4 billion was recorded under other losses.

As a result, consolidated net sales in the fiscal year ended March 31, 2018, increased ¥1.7 billion (0.5%) over the previous fiscal year, to ¥331.1 billion. Operating profit increased ¥0.6 billion (2.5%), to ¥23.9 billion, and profit attributable to owners of parent increased ¥3.6 billion (38.1%), to ¥13.0 billion.

Results by business segment were as follows:
The Company changed its reporting segment classification from the fiscal year ended March 31, 2018. Accordingly, in the following segment information, the figures for the previous fiscal year ended March 31, 2017, have been restated in accordance with the method of classification existing after the aforesaid change for the purpose of comparing them with those of the fiscal year ended March 31, 2018.

Films and Functional Polymers

Within this segment, sales and operating profit increased from the previous fiscal year because of the further sales expansion in both films business and functional polymers business, despite the effects of the rise in raw material and fuel prices.

In the films business, sales of packaging film were struggling due to the effects of the rise in raw material and fuel prices. Meanwhile, as for the industrial film business, sales of "COSMOSHINE SRF" grew centered on the shipments for major polarizer manufacturers, and sales of mold releasing film for ceramic capacitors were also strong.

In the functional polymers business, sales of engineering plastics were expanded further for automobile industry both in Japan and overseas. Sales of the industrial adhesives “VYLON” and sales of the adhesion promoter for polyolefin “HARDLEN” were robust primarily for use in electronic materials and for automobile coatings and construction, respectively. In addition, sales of photo functional materials, which are water-wash photo-sensitive printing plates, progressed overseas. As a result, sales in this segment increased ¥10.1 billion (7.3%) from the previous fiscal year to ¥148.7 billion, and operating profit increased ¥1.0 billion (7.6%) to ¥13.7 billion.

Industrial Materials

In this segment, sales and operating profit increased from the previous fiscal year because of a recovery in sales of life and industrial materials, despite the rise in raw material and fuel prices.

In high-performance fibers, although sales of “ZYLON” remained sluggish, “TSUNOOGA” remained favorable primarily for gloves. Meanwhile, as for life and industrial materials, sales of PPS fibers for bagfilters “PROCON” recovered. Sales of airbag fabrics were affected by the rise in raw material and fuel prices, but increased due to the full-scale production at overseas production sites. As a result, sales in this segment increased ¥3.5 billion (5.9%) from the previous fiscal year to ¥63.5 billion, and operating profit increased ¥0.4 billion (10.0%) to ¥4.3 billion.

Healthcare

In this segment, sales and operating profit decreased from the previous fiscal year, despite the further sales expansion overseas in the bio-science & medical business, due to the difficult condition for the contract manufacturing business of pharmaceuticals.

In the bio-science & medical business, sales of enzymes for diagnostic reagents and reagents for life sciences increased overseas, but the contract manufacturing business of pharmaceuticals was affected by lump-sum recording of cost for compliance with Good Manufacturing Practice (GMP; standards for manufacturing and quality control of pharmaceuticals and others). As for “Nerbridge,” nerve regeneration inducing materials, the number of cases of successful applications increased steadily in Japan.

In the membranes & environment business, sales of volatile organic compound (VOC) emissions treatment equipment recovering solvent expanded primarily in the Chinese market. As a result, sales in this segment decreased ¥0.7 billion (1.9%) from the previous fiscal year to ¥35.7 billion, and operating profit decreased ¥0.1 billion (1.2%) to ¥5.2 billion.

Textiles and Trading

In this segment, sales and operating profit decreased from the previous fiscal year. Although sales of materials for uniforms remained firm, sales of sports apparel were flagging due to disposal of stock and a decrease in sales volume. Sales volume of materials for traditional Arabic menswear declined owing to deteriorating market conditions. Furthermore, revenue declined significantly mainly as a result of the termination of the textile business in Brazil, which was conducted in the previous fiscal year. As a result, sales in this segment decreased ¥9.2 billion (11.9%) from the previous fiscal year to ¥68.3 billion, and operating profit decreased ¥0.4 billion (39.5%) to ¥0.6 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 generally in line with plans. As a result, total sales in these businesses decreased ¥2.0 billion (11.9%) from the previous fiscal year to ¥15.0 billion, and operating profit decreased ¥0.5 billion (15.7%) to ¥2.8 billion.

Cash Flows

Net cash provided by operating activities amounted to ¥22.4 billion at the end of the subject fiscal year. This was due mainly to a cash increase from profit before income taxes of ¥18.2 billion and depreciation of ¥15.7 billion, and payments of ¥7.7 billion for loss on litigation.

Net cash used in investing activities amounted to ¥1.2 billion. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥20.7 billion, purchase of shares of subsidiaries and associates of ¥2.0 billion, and proceeds from sale of property, plant and equipment and intangible assets of ¥21.3 billion.

Net cash used in financing activities amounted to ¥27.8 billion. This was due mainly to repayments of long-term loans payable of ¥38.1 billion, redemption of bonds of ¥10.0 billion, and proceeds from long-term loans payable of ¥31.8 billion.

As a result, the balance of cash and cash equivalents at the end of the subject fiscal year (March 31, 2018) stood at ¥25.9 billion, a decrease of ¥6.3 billion from the end of the previous fiscal year

(March 31, 2017).

Assets, Liabilities and Net Assets
Total assets at the end of the subject fiscal year (March 31, 2018) decreased ¥4.6 billion (1.0%) from the end of the previous fiscal year (March 31, 2017) to ¥446.2 billion. This was due mainly to decreases of ¥6.3 billion in cash and deposits and ¥4.5 billion in property, plant and equipment accompanying the transfer of trust beneficiary rights for Toyobo Building held by the Company, and an increase of ¥5.1 billion in investment securities.

Total liabilities decreased ¥18.2 billion (6.5%) to ¥261.6 billion. This was due mainly to redemption of bonds of ¥10.0 billion and a decrease of ¥6.2 billion in long-term loans payable including current portion of long-term loans payable.

Total net assets at the end of the fiscal year under review increased ¥13.6 billion (8.0%) compared to the previous fiscal year to ¥184.5 billion due to increases in retained earnings and valuation difference on available-for-sale securities.

Forecast for Fiscal Year Ending March 31, 2019
The outlook for the business environment during the fiscal year ending March 31, 2019 overseas is that the economy in the United States and the Euro area will remain firm, and the economy in China will show sustainable, stable growth due to fiscal and monetary policies, despite a slowdown in the growth rate. On the other hand, in Japan, the domestic economy is expected to remain steady backed by a continued modest recovery in demand both in Japan and overseas. However, it is still necessary to be mindful of the cost of raw materials and fuels and other price trends as well as fluctuations in exchange rates.

In view of these prospects for the business environment, the Group will work to build an earnings generating capacity that will be strong in the face of changes in the environment. In addition, the Group will aim to become “The category leader, continuing to create new value that contributes to society in the environment, healthcare, and high-function products fields” as it focuses its corporate resources in highly profitable growth businesses. In addition, through activities including improving asset efficiency and strengthening financial position, the Group will endeavor to become a “strong company,” with growth power and stable profitability.

As a result of these activities, for the fiscal year ending March 31, 2019, the Group is forecasting net sales of ¥340.0 billion (an increase of ¥8.9 billion year on year), operating profit of ¥25.0 billion (an increase of ¥1.1 billion), and profit attributable to owners of parent of ¥13.0 billion (an decrease of ¥0.0 billion).

Management Policy, Business Environment, Issues to Be Addressed
(1) Basic Management Policy
The basic philosophy of the Toyobo Group in Japanese is Jun-Ri-Soku-Yu (**順理則裕**), which means “adhering to reason leads to prosperity.” Following this philosophy, the Group continues to create new value that contributes to society in the environment, healthcare, and high-function products fields (creating shared value, CSV), regarding corporate social responsibility (CSR) as the cornerstone of its business activities.

The Group’s management policy is “continuous reform of business portfolio.” Under this policy, the Group aims to be a “strong and good Toyobo Group” with growth power and stable profitability achieved by focusing its corporate resources in highly profitable growth businesses, aggressively expanding its business activities in domestic and overseas markets while increasing its asset efficiency and strengthening its financial position.

(2) Target Managerial Indicators, etc.
The Group is focusing on operating profit and return on invested capital (ROA), which serve as its quantitative targets and managerial indicators contained in its 2018 Medium-Term Management Plan, effective from the fiscal year ending March 31, 2019 through the end of the fiscal year ending March 31, 2022. Accordingly, the Group aims to achieve operating profit amounting to no less than ¥30.0 billion, and ROA of at least 7%. The Group aims to attain these targets through efforts that involve evaluating operations of its respective business departments and Group companies on the basis of uniform criteria encompassing gains and losses, ROA and cash flow and accordingly taking steps to reform its business portfolio.

In assessing its financial position the Group focuses on a “ratio of total liabilities and net assets (excluding non-controlling interests) (D/E Ratio)” and has accordingly set the objective of reducing its D/E ratio to 1.0. The Group achieved a D/E ratio of 0.81, below 1.0, as of the end of the fiscal year (March 31, 2018) and will persist with its efforts to hold the ratio to less than 1.0.

(3) Medium- to Long-Term Business Strategies and Issues to Be Addressed

The Group set the five action plans under the 2014 Medium-Term Management Plan of “accelerating overseas business development,” “developing new products and creating new businesses,” “increasing competitiveness of domestic businesses,” “improving asset efficiency” and “strengthening global Group management” based on Group’s engaging in efforts that include developing business overseas involving airbag fabrics and expanding sales of polarizer protective films for LCDs “COSMOSHINE SRF.” Under the 2018 Medium-Term Management Plan, the Group aims further to become a “strong and good Toyobo Group” with growth power and stable profitability and has accordingly set the following three key initiatives: (1) thorough business operations appropriate for each business, (2) enhance the development of new products and new businesses in the mid- and long-term, and (3) strengthen the business base. The Group will carry out the key initiatives under the “3 piece pie philosophy,” which includes working to resolve short-term issues while focusing on medium- to long-term issues and progressing with business base enhancements such as reforming the corporate culture.

(a) Thorough business operations appropriate for each business

Although the ¥30.0 billion operating profit target was unfortunately not achieved under the 2014 Medium-Term Management Plan, the Group’s business structure now generates consistent profits as a result of having heightened stability of its financial base through business operations focused on the action plans. The Group has numerous businesses subject to varying operating environments. It is important that the Group takes appropriate measures geared to changes in the relevant operating environment and set targets suitable with respect to each of its businesses premised on the aims of increasing rates of growth and achieving profit targets. As such, the Group is promoting a prioritized approach to business operations which involves setting key performance indicators (KPIs) tailored to circumstances facing the respective businesses. The Group will also aggressively invest corporate resources into businesses in fields of growth.

The Group has designated Films & Coatings, Mobility, and Healthcare & Wellness as fields of growth going forward under its 2018 Medium-Term Management Plan. In the Films & Coatings field, the Group has been pursing expansion with respect to polarizer protective films for LCDs “COSMOSHINE SRF” and mold releasing film for ceramic capacitors and overseas development with respect to transparent vapor-deposited film “ECOSYAR.” Meanwhile in the Mobility field, the Group has been concentrating corporate resources mainly on airbag fabrics and engineering plastics.

(b) Enhance the development of new products and new businesses in the mid- and long-term

With respect to “developing new products and creating new businesses,” whereas the Group has been focusing on creating “new” products up to this point, the Group feels it is necessary to further lay the groundwork for business involving growth materials, looking toward the future in order to achieve medium- to long-term growth. The Group’s efforts undertaken with its sights set on the future will involve outlays of strategic growth funds in addition to its existing capital spending and R&D expenditure. Particularly in the Healthcare & Wellness field, which promises future growth, the Group is already engaging in commercial operations with respect to the nerve regeneration inducing materials “Nerbridge” and is taking steps toward commercializing bone regeneration materials. The Group is also actively promoting “open innovation” that incorporates knowledge and technology from outside the Company with the aim of leveraging product development platforms of such products while accelerating the development of new products.

(c) Strengthen the business base

On the basis of its “Jun-Ri-Soku-Yu (**順理則裕**)” corporate philosophy, the Group has been working to develop its business base, acting as a company that adheres to rules of the world community as a good community member and a company that meets the expectations of society. Meanwhile, under the 2018 Medium-Term Management Plan, the Group will redouble efforts that involve building a compliance oriented corporate culture that places top priority on safety. Furthermore, the Group has been raising awareness with respect to achieving growth, which has involved fostering an organizational atmosphere in which employees set about “winning a neck-and-neck race.” In order to reform the organizational atmosphere in this way, the Group has launched the “KAERU Project,” which will involve overhauling prevailing systems and approaches to work and promoting various initiatives geared to creating a better corporate atmosphere, culture and talent pool.

The Group will contribute to developing a healthy and sustainable society by steadily implementing these key initiatives and through efforts that involve providing socially beneficial products and services.

Risk Factors

The Group is exposed to the following risks that may affect its operating results and financial status. The future matters specified in the following are based on information that was available as of the end of the fiscal year and certain assumptions that serve as the basis for its judgments.

(1) Worsening Political & Economic Situations

The Group produces and sells in Japan and overseas a wide range of products in the films and functional polymers, industrial materials, healthcare and textiles and trading fields. Political turmoil or a serious economic recession in the countries in which our production bases are located or in major markets could seriously affect our operating results or financial status through the impact on our production and sales.

(2) Decline in Retail Prices

The wide range of products sold by the Group in Japan and overseas in the films and functional polymers, industrial materials, healthcare and textiles and trading fields are in competition with the products of other companies. Price cuts by our competitors may cause a decline in our retail prices or a decrease in our sales volume. In our medical business, our retail prices may drop due to lower official price standards. Our operating results or financial status may be seriously affected by such circumstances through a decrease in sales.

(3) Business Downturn or Retreat by Major Customers

Although the Group sells a wide range of products in the films and functional polymers, industrial materials, healthcare and textiles and trading to a variety of customers both in Japan and overseas, certain products are sold to specific significant customers. In the event that such customers face a downturn in business, retreat from business, cut back inventories significantly, demand drastic rate reductions or request substantial production adjustments, our operating results or financial status may be seriously affected by such events through a decrease in sales.

(4) Tariff Hikes and Import Regulations in Overseas Major Markets

Because the Group sells a wide range of products in the films and functional polymers, industrial materials, healthcare and textiles and trading in Japan and overseas, tariff hikes or import regulations on quantity limits might be imposed under antidumping laws in major overseas markets and could seriously affect our business and financial condition.

(5) Alteration of Credit

The Group has made provisions for bad debt losses based on past default ratios and strives to minimize its credit risk under its credit management regulations by setting credit limits for each customer and other means. However, in the event of the bankruptcy of major customers due to economic recession or other reasons, our operating results or financial status could be seriously affected by bad debt loss that substantially exceeds the amount of provisions made.

(6) Product Defects

To prevent product defects, the Group produces its products in the films and functional polymers, industrial materials, healthcare and textiles and trading fields in accordance with specific quality control standards under the control of the Global Environment and Safety Committee and Product Liability Prevention/Quality Assurance Committee and is covered by product liability insurance. However, we cannot guarantee that all of our current products are free from all defects, that there will be no defective products in the future or that compensatory payment will be fully covered by insurance. In the occurrence of material product defects, our operating results or financial status could be seriously affected by large liability payments or loss of credit.

(7) Purchases of Raw Materials

The Group purchases raw materials from various suppliers in order to produce its wide range of products in the films and functional polymers, industrial materials, healthcare and textiles and trading fields. Although major materials are provided by a number of suppliers due in part to risk management considerations, there remains a risk that we may not be able to purchase a sufficient volume of raw materials should suppliers fail, withdraw from the business, etc. Even if we can purchase such materials, purchase prices may rise suddenly. In either event, our operating results or financial status could be seriously affected by the cost increases or production cutbacks.

(8) Intellectual Property

The Group works to actively expand the scale of its businesses for highly functional products for which we enjoy a strong competitive advantage, drawing on our core technologies of polymerization, modification, processing and biotechnology. For this reason, we endeavor to build and protect technology and know-how differentiated from those of our competitors’ products in fibers and textiles, polymer and bio-medical fields. However, there is a risk in certain areas that we may not be able to prevent the production and sale of similar products, the violation of a patent or the use of confidential business information by a third party. Although we observe the intellectual property rights of other companies, we are not free from the possibility that we might infringe the intellectual property rights of other companies as we develop our products and technology. In the event that our intellectual property rights are infringed or we infringe the rights of other companies, our operating results or financial status could be seriously influenced by a resulting sales decrease or liability payments.

(9) Development of New Products and New Uses

As part of the Group’s commitment to being a speciality business conglomerate, our research and development investment targets high functional products for which we have a strong competitive advantage, including products in the films and functional polymers, industrial materials, healthcare and textiles and trading fields, drawing on our core technologies of polymerization, modification, processing and biotechnology. However, it is not guaranteed that our investment will always lead to the successful development of new products or new uses for existing products. Our operating results or financial status could be seriously affected by unsuccessful circumstances by a decline in our future growth and profitability.

(10) Laws and Regulations

The Group conducts production activities and other corporate activities in various locations in Japan and abroad and operates its business under various laws and regulations on business licensing, tax, the environment, chemical use related issues, etc. If water restrictions or other regulations related to the environment become tighter in areas where our major business sites are located, substances currently being used become prohibited or regulations regarding usage levels are implemented, our operating results or financial status could be seriously affected by restrictions imposed on our production activities or other corporate activities or by being forced to make large capital investments, tax payments or other expenditures in order to comply with the regulations.

(11) Business Management

The Group conducts business activities in a way that pays suitable attention to the related laws and regulations by practicing fair and free competition, conducting appropriate transactions and so forth. However, there is a possibility that our operating results and financial status could be seriously affected by an incident such as one where a problem arises from illegal acts of an employee, supplier or customer.

(12) Litigation

The Group conducts production and other corporate activities in various domestic and overseas locations. In this process, there is a possibility that lawsuits may be brought against us in connection with product liability, the environment, labor, intellectual property or other areas. If a major lawsuit is filed against the Group, our operating results and financial status could be seriously affected. The major lawsuit that was pending in the previous fiscal year was settled in the current fiscal year.

(13) Foreign Exchange Rate Fluctuation

The Group’s operations include the production and sale of products in foreign markets and require the use of foreign currency. Substantial fluctuations in foreign exchange rates could negatively affect operating results or financial status by causing a decrease in sales, an increase in costs or a reduction in price competitiveness after a conversion to the yen.

(14) Major Interest Rate Fluctuations

The Group strives to reduce its interest-bearing debt and arranges for borrowings at fixed interest rates. However, if interest rates rise substantially above current levels, the consequences would include a corresponding rise in interest payable and could have a material effect on our operating results and financial status.

(15) Substantial declines in stock prices

The Group holds a significant volume of stocks that are traded on exchange markets. If the prices of these stocks decline by a large margin, net unrealized holding gains on securities may decrease and losses may be recorded when these stocks are sold. These circumstances could have a material effect on our operating results and financial status.

(16) Substantial Decline in Land Prices

The Group owns a great deal of land, most of which has already been revaluated pursuant to the Land Revaluation Law. If land prices decline substantially, our operating results or financial status could be seriously affected by a loss in value or losses incurred when selling.

(17) Severance and Retirement Benefit Obligations and Expenses

The Group calculates severance and retirement benefit obligations and expenses by using various standard rates of return on pension assets and other indicators. If assumptions for pension actuarial calculations are altered, changes could result in the market value of pension assets, interest rates could fluctuate, changes could be made in the retirement and pension systems or other circumstances could occur. Such changes could result in increases in severance and retirement benefit obligations and/or increases in severance and pension expenses (the portion of actuarial differences that are treated as expenses). These circumstances could have a material effect on the Group’s operating results and financial status.

(18) Lowering of Credit Ratings

The Group raises funds by borrowing from financial institutions and issuing bonds, among other means. If credit rating agencies lower credit ratings for the Company’s previously issued bonds or the like, this could have a major effect on our ability to raise funds or otherwise have a material effect on our finances, including our operating results and financial status.

(19) Deferred Income Tax Assets

The Group reports certain deferred income tax assets on its balance sheets, including losses carried forward for tax purposes and temporary differences to be deducted from tax liabilities in future periods. Deferred income tax assets are reported after consideration for the possibility of recovery based on forecasts of future taxable income. However, when it becomes necessary to reconsider the possibility of recovery of deferred income tax assets because of changes in the outlook for future taxable income and/or when there are revisions in the taxation system, including changes in the tax rates, and/or deferred income tax assets are exercised to reduce tax liabilities, these circumstances could have a material effect on our operating results and financial status.

(20) Accidents and Disasters

The Group conducts production activities and other corporate activities at various domestic and overseas locations. We carry out strict plant controls and strive to prevent damage caused by accidents and disasters at these production facilities and business sites. However, if a massive earthquake, wind and flood damage, snow damage, other natural disaster, incidence of an infectious disease such as pandemic flu occurs at production facilities, a business site or the site of a business partner, our operating results or financial status may be seriously affected as production activities may be interrupted.

(21) Overseas Business Activities

The Group is driving to expand its business activities globally. At the same time, we are guarding against the risks associated with overseas business activities by developing the risk management system overseas. However, if any country in which we operate experiences unforeseen events, including unexpected changes in laws, regulations or policies or social unrest as a result of terrorism, war, political upheaval or any other cause, this could have a material effect on our operating results and financial status.

(22) Information Security

The Group manages a lot of important information such as customer information and confidential information related to the execution of business. To handle this information, the Group has put in place ample security measures, such as physical measures to be taken when constructing and operating information systems and employee education relating to the management of information. However, there is a possibility that our operating results and financial status could be seriously affected if information was leaked or used improperly as a result of unforeseen circumstances.

Consolidated Financial Highlights

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars *1
	2018	2017	2018
Net sales	¥331,148	¥329,487	$3,116,980
Cost of sales	250,042	249,940	2,353,558
Profit before income taxes and non-controlling interests	18,225	13,940	171,546
Profit attributable to owners of parent	13,044	9,444	122,779
Total assets	446,156	450,790	4,199,511
Total net assets	¥184,515	¥170,910	$1,736,775

	Yen		U.S. dollars *1
Net profit per share *2	¥146.93	¥106.38	$1.383

*1 The U.S. dollar amounts in this report represent translations of yen for convenience only at the rate of ¥106.24 to U.S.$1.00.
*2 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 April 1, 2017.

Financial Section

CONSOLIDATED FIVE-YEAR SUMMARY

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Fiscal years ended March 31, 2018, 2017, 2016, 2015 and 2014

	Millions of yen, except per share information				
	2018	2017	2016	2015	2014
For the year:					
Net sales	¥331,148	¥329,487	¥347,763	¥351,279	¥351,577
Cost of sales	250,042	249,940	268,069	274,504	274,603
Selling, general and administrative expenses	57,183	56,215	56,571	56,195	55,968
Operating profit	23,923	23,332	23,123	20,580	21,006
Other expenses	5,698	9,392	6,898	8,264	7,135
Profit before income taxes and non-controlling interests	18,225	13,940	16,225	12,316	13,871
Provision for income taxes	5,243	4,913	5,959	4,024	4,721
Profit attributable to owners of parent	13,044	9,444	10,150	8,117	8,154
Comprehensive income	¥15,611	¥13,519	¥2,147	¥18,182	¥12,988
Net profit per share (yen) *1	¥146.93	¥106.38	¥11.43	¥9.14	¥9.18
At the end of the year:					
Total current assets	¥190,806	¥196,292	¥186,633	¥196,607	¥184,630
Property, plant and equipment	203,451	207,906	208,937	209,289	209,620
Total assets	446,156	450,790	444,587	465,809	456,256
Total long-term liabilities	136,531	143,015	153,796	158,472	150,558
Total net assets	¥184,515	¥170,910	¥160,101	¥161,087	¥145,115

*1 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 (yen) is calculated assuming the consolidation took place April 1, 2017.

Consolidated Balance Sheets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2018	2017	2018
Current assets:			
Cash and cash equivalents (Note 3, 11 and 18)	¥26,006	¥32,329	$244,785
Notes and accounts receivable:			
Trade (Note 3)	82,727	81,407	778,680
Other	4,502	2,803	42,376
Allowance for doubtful receivables	(229)	(309)	(2,155)
	87,000	83,901	818,901
Inventories (Note 6)	71,296	72,769	671,084
Deferred income tax assets (Note 8)	4,236	4,616	39,872
Other current assets	2,268	2,677	21,348
Total current assets	190,806	196,292	1,795,990
Investments and other assets:			
Investment securities (Note 3 and 4)			
Unconsolidated subsidiaries and affiliates	10,044	8,067	94,541
Other	22,581	19,756	212,547
Deferred income tax assets (Note 8)	11,633	11,673	109,497
Other	4,234	3,731	39,853
Allowance for doubtful accounts	(578)	(821)	(5,441)
	47,914	42,406	450,998
Property, plant and equipment (Note 7, 11 and 23):			
Land (Note 16)	98,971	105,578	931,579
Buildings and structures	137,663	140,671	1,295,774
Machinery and equipment	343,259	346,180	3,230,977
Tools, furniture and fixtures	21,009	20,847	197,750
Lease assets	2,688	2,604	25,301
Construction in progress	8,126	5,292	76,487
	611,716	621,172	5,757,869
Less accumulated depreciation	408,265	413,266	3,842,856
	203,451	207,906	1,915,013
Other assets:			
Other	3,985	4,186	37,509
	3,985	4,186	37,509
Total assets (Note 15)	¥446,156	¥450,790	$4,199,511

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2018	Millions of yen 2017	Thousands of U.S. dollars (Note 1) 2018
Current liabilities:			
Short-term borrowing (Note 3 and 9)	¥32,682	¥39,989	$307,624
Long-term debt due within one year (Note 3, 9 and 11)	23,962	32,916	225,546
Notes and accounts payable:			
Trade (Note 3 and 11)	45,311	42,721	426,497
Other	9,925	9,356	93,421
	55,236	52,077	519,917
Accrued employees' bonuses	4,412	4,313	41,529
Other current liabilities (Note 11)	8,818	7,570	83,001
Total current liabilities	125,110	136,865	1,177,617
Long-term liabilities:			
Long-term debt due after one year (Note 3, 9 and 11)	88,188	95,440	830,083
Deferred income tax liabilities on land revaluation (Note 8 and 16)	21,280	21,280	200,301
Defined benefit liability (Note 10)	18,222	18,331	171,517
Directors' and statutory auditors' retirement benefits	300	322	2,824
Provision for environmental measures	749	791	7,050
Other long-term liabilities (Note 8)	7,792	6,851	73,343
Total long-term liabilities	136,531	143,015	1,285,119
Contingent liabilities (Note 13)			
Net assets (Note 12):			
Common stock			
Authorized - 200,000,000 shares in 2018 and 2,000,000,000 shares in 2017			
Issued - 89,048,792 shares in 2018 and 890,487,922 shares in 2017	51,730	51,730	486,916
Capital surplus	32,240	32,239	303,464
Retained earnings	56,117	45,919	528,210
Less treasury stock, at cost (2,791 thousand shares in 2018 and 2,709 thousand shares in 2017)	(411)	(393)	(3,869)
Shareholders' equity	139,676	129,495	1,314,721
Valuation difference on available-for-sale securities	8,040	6,388	75,678
Deferred losses on hedges	(49)	(58)	(461)
Land revaluation (Note 16)	44,467	44,467	418,552
Foreign currency translation adjustments	(9,948)	(10,268)	(93,637)
Accumulated remeasurements of defined benefit plans	(1,625)	(2,251)	(15,296)
Total accumulated other comprehensive income	40,885	38,278	384,836
Non-controlling interests	3,954	3,137	37,218
Total net assets	184,515	170,910	1,736,775
Total liabilities and net assets	¥446,156	¥450,790	$4,199,511

	Yen		U.S. dollars (Note 1)
Net assets per share (Note 2)	¥2,034.04	¥1,889.81	$19.146

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Net sales (Note 15)	¥331,148	¥329,487	$3,116,980
Cost of sales	250,042	249,940	2,353,558
Gross profit	81,106	79,547	763,422
Selling, general and administrative expenses	57,183	56,215	538,244
Operating profit (Note 15)	23,923	23,332	225,179
Other income (expenses)			
Dividend income	667	576	6,278
Interest expense	(1,270)	(1,408)	(11,954)
Gain on sales of property, plant and equipment (Note 23)	11,327	269	106,617
Loss on disposal of property, plant and equipment	(4,699)	(2,311)	(44,230)
Loss on realized foreign currency translation adjustments due to liquidation of foreign subsidiary	-	(1,084)	-
Impairment loss (Note 7 and 15)	-	(2,005)	-
Equity in income of unconsolidated subsidiaries and affiliates	305	351	2,871
Contribution for equipments	300	580	2,824
Loss on suspension of production	(955)	(556)	(8,989)
Salaries paid to dispatched employees	(1,205)	(951)	(11,342)
Losses on lawsuits (Note 21)	(7,970)	(582)	(75,019)
Other, net	(2,198)	(2,271)	(20,689)
	(5,698)	(9,392)	(53,633)
Profit before income taxes and non-controlling interests	18,225	13,940	171,546
Provision for income taxes (Note 8)			
Current	5,281	4,013	49,708
Deferred	(38)	900	(358)
	5,243	4,913	49,351
Profit	12,982	9,027	122,195
Profit attributable to non-controlling interests	62	417	584
Profit attributable to owners of parent	¥13,044	¥9,444	$122,779
	Yen		U.S. dollars (Note 1)
Net profit per share			
Basic (Note 2)	¥146.93	¥106.38	$1.383
Cash dividends applicable to the year	¥40.00	¥3.50	$0.377

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Profit	¥12,982	¥9,027	$122,195
Other comprehensive income (Note 19)			
Valuation difference on available-for-sale securities	1,800	542	16,943
Deferred gains and losses on hedges	9	104	85
Land revaluation	-	(70)	-
Foreign currency translation adjustments	42	748	395
Accumulated remeasurements of defined benefit plans	627	3,471	5,902
Share of other comprehensive income of associates accounted for using equity method	151	(303)	1,421
Total other comprehensive income	2,629	4,492	24,746
Comprehensive income	15,611	13,519	146,941
Comprehensive income attributable to			
Owners of the parent	15,650	13,968	147,308
Non-controlling interests	(¥39)	(¥449)	($367)

Consolidated Statements of Changes in Net Assets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥51,730	¥51,730	$486,916
Changes in items during the period			
Total changes in items during the period	-	-	-
Balance at the end of current period	51,730	51,730	486,916
Capital surplus			
Balance at the beginning of current period	32,239	32,239	303,454
Changes in items during the period			
Disposal of treasury stock	1	0	9
Total changes in items during the period	1	0	9
Balance at the end of current period	32,240	32,239	303,464
Retained earnings			
Balance at the beginning of current period	45,919	39,539	432,220
Changes in items during the period			
Dividends from surplus	(3,107)	(3,107)	(29,245)
Profit attributable to owners of parent	13,044	9,444	122,779
Reversal of land revaluation	-	42	-
Change in scope of consolidation	261	1	2,457
Total changes in items during the period	10,198	6,380	95,990
Balance at the end of current period	56,117	45,919	528,210
Treasury stock			
Balance at the beginning of current period	(393)	(389)	(3,699)
Changes in items during the period			
Purchase of treasury stock	(19)	(4)	(179)
Disposal of treasury stock	1	0	9
Total changes in items during the period	(18)	(4)	(169)
Balance at the end of current period	(411)	(393)	(3,869)
Total shareholders' equity			
Balance at the beginning of current period	129,495	123,119	1,218,891
Changes in items during the period			
Dividends from surplus	(3,107)	(3,107)	(29,245)
Profit attributable to owners of parent	13,044	9,444	122,779
Reversal of land revaluation	-	42	-
Change in scope of consolidation	261	1	2,457
Purchase of treasury stock	(19)	(4)	(179)
Disposal of treasury stock	2	0	19
Total changes in items during the period	10,181	6,376	95,830
Balance at the end of current period	¥139,676	¥129,495	$1,314,721

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥6,388	¥5,847	$60,128
Changes in items during the period			
Net changes in items other than shareholders' equity	1,652	541	15,550
Total changes in items during the period	1,652	541	15,550
Balance at the end of current period	8,040	6,388	75,678
Deferred gains and losses on hedges			
Balance at the beginning of current period	(58)	(162)	(546)
Changes in items during the period			
Net changes in items other than shareholders' equity	9	104	85
Total changes in items during the period	9	104	85
Balance at the end of current period	(49)	(58)	(461)
Land revaluation			
Balance at the beginning of current period	44,467	44,578	418,552
Changes in items during the period			
Net changes in items other than shareholders' equity	-	(111)	-
Total changes in items during the period	-	(111)	-
Balance at the end of current period	44,467	44,467	418,552
Foreign currency translation adjustments			
Balance at the beginning of current period	(10,268)	(10,748)	(96,649)
Changes in items during the period			
Net changes in items other than shareholders' equity	320	480	3,012
Total changes in items during the period	320	480	3,012
Balance at the end of current period	(9,948)	(10,268)	(93,637)
Remeasurements of defined benefit plans			
Balance at the beginning of current period	(2,251)	(5,719)	(21,188)
Changes in items during the period			
Net changes in items other than shareholders' equity	626	3,468	5,892
Total changes in items during the period	626	3,468	5,892
Balance at the end of current period	(1,625)	(2,251)	(15,296)
Total accumulated other comprehensive income			
Balance at the beginning of current period	38,278	33,796	360,297
Changes in items during the period			
Net changes in items other than shareholders' equity	2,607	4,482	24,539
Total changes in items during the period	2,607	4,482	24,539
Balance at the end of current period	40,885	38,278	384,836
Non-controlling interests			
Balance at the beginning of current period	3,137	3,186	29,527
Changes in items during the period			
Net changes in items other than shareholders' equity	817	(49)	7,690
Total changes in items during the period	817	(49)	7,690
Balance at the end of current period	3,954	3,137	37,218
Total net assets			
Balance at the beginning of current period	170,910	160,101	1,608,716
Changes in items during the period			
Dividends from surplus	(3,107)	(3,107)	(29,245)
Profit attributable to owners of parent	13,044	9,444	122,779
Reversal of land revaluation	-	42	-
Change in scope of consolidation	261	1	2,457
Purchase of treasury stock	(19)	(4)	(179)
Disposal of treasury stock	2	0	19
Net changes in items other than shareholders' equity	3,424	4,433	32,229
Total changes in items during the period	13,605	10,809	128,059
Balance at the end of current period	¥184,515	¥170,910	$1,736,775

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2018 and 2017

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2018	2017	2018
Cash flows provided by operating activities:			
Profit before income taxes and non-controlling interests	¥18,225	¥13,940	$171,546
Depreciation and amortization	15,666	14,939	147,459
Allowance for doubtful receivables, net	(325)	(106)	(3,059)
Increase (decrease) in net defined benefit liability	(215)	884	(2,024)
Interest and dividend income	(822)	(755)	(7,737)
Interest expense	1,270	1,408	11,954
Equity in gains of unconsolidated subsidiaries and affiliates	(305)	(351)	(2,871)
Loss on impairment of fixed assets	-	2,005	-
Loss on sale and disposal of property, plant and equipment, net	(6,444)	2,085	(60,655)
Write-down and gain on sale of securities, net	(134)	(193)	(1,261)
Losses related to lawsuits	7,970	582	75,019
Increase in trade notes and accounts receivable	(1,591)	(2,447)	(14,976)
Decrease in inventories	1,895	1,247	17,837
Increase in trade notes and accounts payable	1,919	908	18,063
Decrease in net defined benefit asset	961	2,430	9,046
Other, net	(3,533)	(5,444)	(33,255)
Total	34,537	31,132	325,085
Payments related to lawsuits	(7,739)	(632)	(72,845)
Income taxes paid	(4,445)	(3,628)	(41,839)
Net cash flows provided by operating activities	22,353	26,872	210,401
Cash flows used in investing activities:			
Purchase of property, plant and equipment and intangibles	(20,694)	(17,152)	(194,785)
Proceeds from sale of property, plant and equipment and intangibles	21,271	362	200,216
Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation	-	567	-
Purchase of shares of subsidiaries and associates	(1,979)	(35)	(18,628)
Collections of long-term loans receivable	73	851	687
Payments of long-term loans receivable	(245)	(252)	(2,306)
Interest and dividends received	908	923	8,547
Other, net	(508)	604	(4,782)
Net cash flows used in investing activities	(1,174)	(14,132)	(11,050)
Cash flows used in financing activities:			
Cash dividends	(3,111)	(3,112)	(29,283)
Cash dividends to non-controlling interests	(3)	(5)	(28)
Increase (decrease) in short-term bank loans	(7,386)	95	(69,522)
Proceeds from long-term loans payable	31,848	9,890	299,774
Repayments of long-term loans payable	(38,107)	(20,315)	(358,688)
Proceeds from issuance of bonds	-	15,000	-
Payments of bonds	(10,000)	-	(94,127)
Payments of interest	(1,325)	(1,394)	(12,472)
Proceeds from sales of treasury shares	1	-	9
Payments for purchase of treasury stock	(21)	(5)	(198)
Other, net	273	(478)	2,570
Net cash flows used in financing activities	(27,831)	(324)	(261,963)
Adjustments for foreign currency translation	110	(351)	1,035
Net increase (decrease) in cash and cash equivalents	(6,542)	12,065	(61,578)
Cash and cash equivalents at beginning of year	32,179	20,101	302,890
Increase resulting from changes in consolidated subsidiaries	211	13	1,986
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	9	-	85
Cash and cash equivalents at end of year (Note 18)	¥25,857	¥32,179	$243,383

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Toyobo Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of major consolidated overseas subsidiaries for the years ended March 31, 2018 and 2017 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles for consolidation purposes, with adjustments for the specified four items as applicable in compliance with ASBJ Practical Solution No. 18, “Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements.” If other GAAP are used in preparing other foreign subsidiaries financial statements for consolidation purposes, appropriate modifications in compliance with ASBJ Practical Solution No. 18 are also made.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Act. Some supplementary information included in the corporate Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. Certain reclassifications have been made in the previous consolidated financial statements to conform to the current presentation.

Translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2018, which was ¥106.24 to U.S. $1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 53 significant, substantially controlled subsidiaries. Investments in 8 affiliates over which the Company has significant influence are accounted for using the equity method. Intercompany transactions and accounts have been eliminated upon consolidation. Any significant difference between the cost of an investment in a consolidated subsidiary and the equity in the net assets at the date of acquisition is amortized over five years. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

For the year ended March 31, 2018, the account of 1 consolidated subsidiary was included based on a fiscal year that ended on December 31. This subsidiary did not prepare for consolidation purposes financial statements that corresponded with the fiscal year of the Company. For the consolidated subsidiary with a fiscal year-end different from that of the Company, if significant transactions occurred between its fiscal year-end and that of the Company, necessary adjustments were made to reflect the transactions in the consolidated financial statements.

From the fiscal year ended March 31, 2018, TOYOBO Chemicals Europe GmbH has been and will be included in the scope of consolidation because the company was newly established, and while Toyobo Techno Service Co., Ltd. and five other companies have been and will be included in the scope of consolidation in consideration of their materiality. TOYOBO G･F･A CO., LTD. has been and will be excluded from the scope of consolidation because this company merged with the Company. Miyuki Hanbai Co., Ltd. has been and will be excluded from the scope of consolidation because this company merged with Miyuki Keori Co., Ltd. Toyobo Fair Tone Co., Ltd. and TOYOBO DO BRASIL IMOVEIS LTDA. have been and will be excluded from the scope of consolidation due to the completion of their liquidation.

In the fiscal year ended March 31, 2018, TOYOBO TEXTILE (MALAYSIA) SDN. BHD. and TOYOBO Korea Co., Ltd. changed their account closing date to March 31, and TOYOBO (SHANGHAI) BIOTECH CO., LTD. changed the method used for its financial statements based on the provisional settlement of accounts conducted on the consolidated account closing date in accordance with the actual settlement of accounts. Therefore, their accounting period for the fiscal year ended March 31, 2018 was 15 months.

Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are calculated using moving average cost. Other securities with no available fair market value are stated at moving average cost.

Inventories
Inventories are principally stated at the lower of weighted average cost or net realizable value at the fiscal year-end.

Property, plant and equipment
The Company and its consolidated subsidiaries use the straight-line method for the depreciation of property, plant and equipment.

Lease assets
Lease assets under finance lease transactions that transfer ownership of the lease assets to the lessee are amortized using the same depreciation method applied to tangible fixed assets.

Lease assets under finance lease transactions that do not transfer ownership of the lease assets are amortized using the straight-line method over the lease term, assuming that the useful life coincides with the lease term and the residual value is zero. Finance lease transactions that do not transfer ownership of the lease assets and commenced on or before March 31, 2008 are accounted for as operating leases.

Intangible assets
Other intangible assets, including software, are amortized using the straight-line method over the estimated useful life of five years.

Bond issuance costs
Bond issuance costs are recorded at total cost when expended.

Research and development expenses
Expenses related to research and development are charged to income as incurred. Research and development expenses were ¥10,402 million ($97,910 thousand) and ¥11,114 million for the years ended March 31, 2018 and 2017, respectively.

Allowance for doubtful receivables
With respect to normal trade accounts receivable, an allowance for doubtful receivables is stated based on the actual rate of historical bad debts. For certain other doubtful receivables, the uncollectible amount is individually estimated.

Retirement benefits accounting
1. Attribution method for estimated amounts of retirement benefits
   The benefit formula basis is used for attributing the estimated amount of retirement benefits to the current period in calculating projected benefit obligations.

2. Prior service costs and actuarial differences
   Prior service costs are amortized using the straight-line method over a certain period within the average remaining years of service of the eligible employees (ten years) at the time of recognition. Actuarial differences are amortized using the straight-line method over a certain period within the average remaining years of service of the eligible employees (ten years) at the time of recognition and allocated proportionately from the year following the year of recognition.

3. Unrecognized actuarial gains and losses and unrecognized prior service costs
   Unrecognized actuarial gains and losses and unrecognized prior service costs are reported as accumulated remeasurements of defined benefit plans within other comprehensive income in net assets, after adjusting for tax effects.

Retirement benefits for directors, operating officers and corporate auditors
Some consolidated subsidiaries accrue estimated amounts of retirement benefits for directors, operating officers and corporate auditors equal to management’s estimate of the amounts that would be payable at the balance sheet date if they retired at that date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of the stockholders of the subsidiaries.

Provision for environmental measures
In order to prepare for expenditures related to environmental measures such as the removal of hazardous substances required by laws and regulations, the Company and some consolidated subsidiaries reserve the amount expected to be incurred in future periods.

Translation of foreign currencies
Accounts denominated in foreign currencies, namely cash, receivables and payables are translated at year-end exchange rates. The assets and liabilities in the financial statements of the foreign consolidated subsidiaries are also translated into Japanese yen at year-end exchange rates. Income and expenses are translated at the average exchange rates prevailing during the year. Resulting translation adjustments are reflected in the consolidated financial statements as “Foreign currency translation adjustments” and in non-controlling interests.

Derivatives and hedge accounting

Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. However, when forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign exchange forward contracts and hedged items are accounted for in the following manner:

1. If a foreign exchange forward contract is executed to hedge an existing foreign currency receivable or payable, the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable (translated using the spot rate at the inception date of the contract) and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign exchange contract will be recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Below are the hedging derivative financial instruments used by the Company and its consolidated subsidiaries and the corresponding items hedged:

Hedging instruments:	Hedged items:
Foreign exchange forward contracts	Future transactions denominated in foreign currencies
	Foreign currency receivables and payables
Interest rate swap contracts	Interest expense on borrowings

The Company and certain consolidated subsidiaries evaluate hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items and the corresponding changes in the hedging derivative instruments.

Amortization of goodwill

Goodwill is amortized using the straight-line method over five years.

Impairment of fixed assets

In accordance with the “Accounting Standards for Impairment of Fixed Assets” issued by the Business Accounting Council in Japan, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset or group of assets to the estimated undiscounted future cash flows expected to be generated by the asset or group of assets. If the carrying amount exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the greater of net realizable value or value in use.

Income taxes

Income taxes comprise corporation tax, enterprise tax and prefectural and municipal inhabitants’ taxes.
The Company and its consolidated subsidiaries provide for income taxes at the amounts currently payable and for deferred income taxes pertaining to loss carryforwards, temporary differences between financial and tax reporting and temporary differences in respect to the elimination of unrealized intercompany profits and other adjustments for consolidation purposes. The asset-liability method is used to recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Amounts per share

Computations of net profit per share of common stock are based on the weighted average number of shares outstanding during each period. Diluted net profit per share is not disclosed because the Company had no dilutive shares outstanding. Computations of net assets per share of common stock are based on the number of shares outstanding at year end. Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

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 and net assets per share are calculated assuming the consolidation took place at the beginning of the April 1, 2017.

Net profit per share for the years ended March 31, 2018 and 2017 is calculated based on the following factors.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Profit attributable to owners of parent	Weighted average number of shares	Net profit per share	
For the year ended March 31, 2018:				
Basic	¥13,044	88,774	¥146.93	$1.383

	Millions of yen	Thousands of shares	Yen
	Profit attributable to owners of parent	Weighted average number of shares	Net profit per share
For the year ended March 31, 2017:			
Basic	¥9,444	88,779	¥106.38

Reclassification

Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2017 to conform to the presentation for the year ended March 31, 2018.

Accounting standards issued but not yet effective

“Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018)

“Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, February 16, 2018)

1. Summary

   Treatment of taxable temporary differences pertaining to shares of subsidiaries and associates in nonconsolidated financial statements was reviewed, and treatment of recoverability of deferred tax assets for an entity classified as Category 1 was clarified.

2. Effective date

   The above revisions will be applied from the beginning of the fiscal year ending March 31, 2019.

3. Impact of applying the accounting standards

   The impact of the application of the “Implementation Guidance on Tax Effect Accounting” and the other above on the consolidated financial statements is insignificant.

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 30, 2018)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30, March 30, 2018)

1. Summary

   This is a comprehensive accounting standard on revenue recognition. Revenue is recognized using the following five steps.

   1: Identify the contract(s) with a customer
   2: Identify the performance obligations in the contract
   3: Determine the transaction price
   4: Allocate the transaction price to the performance obligations in the contract
   5: Recognize revenue when, or as, the entity satisfies a performance obligation

2. Effective date

   The above revisions will be applied from the beginning of the fiscal year ending March 31, 2022.

3. Impact of applying the accounting standards

   The impact of the application of the “Accounting Standard for Revenue Recognition” and its guidance on the consolidated financial statements is currently under evaluation.

3. FINANCIAL INSTRUMENTS

1. Overall status of financial instruments

(1) Policy for the use of financial instruments

In the Toyobo Group, cash is managed using only short-term financial instruments after ensuring the collectability of the principal and sufficient liquidity. Funds are raised both through direct access to capital markets such as through the issuance of bonds and through indirect financing in the form of borrowings from banks. As a policy, the Company uses derivative financial instruments only for the purpose of hedging the risk of exchange rate and interest rate fluctuation in the normal course of the Company's business and does not engage in highly leveraged transactions or speculative transactions using these instruments.

(2) Type and risk of financial instruments and related risk management system

Notes and accounts receivable－trade arising in the normal course of the Company's business are exposed to the credit risk of customers. This risk is managed through the monitoring of due dates and balances by customer and by examining the credit standing of major customers in each fiscal period in accordance with the credit management rules of the Company. Most notes and accounts payable －trade arising in the normal course of the Company's business are due in less than one year.

Trade receivables and payables denominated in foreign currencies are exposed to the risk of exchange rate fluctuation. In principle, the receivables and payables are hedged for the net position risk remaining after cross currency netting by using derivative instruments such as foreign exchange forward contracts.

Investment securities consist mainly of stocks of our customers and suppliers held in connection with our ongoing business relationships and are exposed to the risk of market price fluctuation. The Company and its consolidated subsidiaries regularly monitor the current market price of these stocks and the financial conditions of the issuers, i.e., our customers and suppliers, and review the status of our stock holdings on an ongoing basis, taking into consideration our relationship with these customers and suppliers.

Short-term borrowing is used mainly to finance operating transactions. Long-term loans payable and corporate bonds are used mainly to finance capital improvements, other investments and lending. For loans payable exposed to the risk of interest rate fluctuation, derivatives (mainly interest rate swaps) are used as hedging instruments on an individual contract basis to avoid the risk of changes in interest payments. The hedging instruments, hedged items, hedging policy and the method used to assess hedge effectiveness in relation to hedge accounting are described in the Note 2, "Significant Accounting Policies."

In accordance with the internal rules of the Toyobo Group, derivative transactions are executed and managed under a system that segregates functions and promotes mutual checking, including (1) the establishment of risk management policies by the director in charge of finance, (2) the execution of transactions and management of positions by the Finance Department and (3) the valuation of and accounting for financial instruments by the Accounting and Control Department. Overall derivative positions across the Toyobo Group are managed by the Finance Department and reported to the director in charge of finance. The Company and its consolidated subsidiaries deal with highly rated financial institutions as counterparties to these transactions and no counterparty default is expected.

Trade payables and interest bearing debt such as borrowings create exposure to liquidity risk. The liquidity risk arising from these liabilities is managed at the individual company level based on cash flow projections prepared by each group company. In addition, the liquidity risk of the domestic subsidiaries is managed centrally by the Company using a cash management system.

(3) Supplementary explanation on disclosure about fair value of financial instruments

In addition to the fair values determined by market price, the fair value of financial instruments includes a reasonably determined value if no market price is available. Certain assumptions used for such determinations are subject to change. Accordingly, the results of the valuations could change if different assumptions were used. Furthermore, the contractual and other amounts of derivative transactions included in Note 5, "Derivatives and hedge accounting," do not reflect the market risk associated with the derivative transactions themselves.

2. Disclosure about fair value, etc., of financial instruments

The following table summarizes the carrying amounts and the estimated fair values of financial instruments as of March 31, 2018 and 2017. Note that the following table does not include unlisted equity securities and certain other securities whose fair value is extremely difficult to estimate.

	Millions of yen		Thousands of U.S. dollars	
	Book value	Fair value	Book value	Fair value
For the year ended March 31, 2018:				
(1) Cash and cash equivalents	¥26,006	¥26,006	$244,785	$244,785
(2) Notes and accounts receivable - trade	82,727	82,727	778,680	778,680
(3) Investment securities				
Held-to-maturity investments	-	-	-	-
Available-for-sale securities	20,502	20,502	192,978	192,978
Total assets	¥129,235	¥129,235	$1,216,444	$1,216,444
(1) Notes and accounts payable - trade	¥45,311	¥45,311	$426,497	$426,497
(2) Short-term borrowing	32,682	32,682	307,624	307,624
Long-term debt				
(3) Corporate bonds	30,000	30,030	282,380	282,662
(4) Long-term loans payable	82,150	82,708	773,249	778,502
Total liabilities	¥190,143	¥190,731	$1,789,750	$1,795,284
Derivatives (*)	(¥52)	(¥52)	($489)	($489)

(*) Derivative assets and liabilities are presented on a net basis, and an amount enclosed in parentheses ( ) indicates a net liability position.

	Millions of yen	
	Book value	Fair value
For the year ended March 31, 2017:		
(1) Cash and cash equivalents	¥32,329	¥32,329
(2) Notes and accounts receivable - trade	81,407	81,407
(3) Investment securities		
Held-to-maturity investments	6	6
Available-for-sale securities	17,719	17,719
Total assets	¥131,461	¥131,461
(1) Notes and accounts payable - trade	¥42,721	¥42,721
(2) Short-term borrowing	39,989	39,989
Long-term debt		
(3) Corporate bonds	40,000	40,022
(4) Long-term loans payable	88,356	88,958
Total liabilities	¥211,066	¥211,690
Derivatives (*)	(¥81)	(¥81)

(*) Derivative assets and liabilities are presented on a net basis, and an amount enclosed in parentheses ( ) indicates a net liability position.

(Note1) Methods used to determine the fair value of financial instruments and matters concerning marketable securities and derivatives.

Assets

(1) Cash and cash equivalents and (2) Notes and accounts receivable－trade

As cash and cash equivalents and notes and accounts receivable－trade are settled within a short period, their fair value is nearly equal to the carrying amount. Therefore, the carrying amount is reported as the fair value.

(3) Investment securities

The fair value of held-to-maturity securities is calculated as the present value of expected receipts from redemption discounted at an interest rate applicable to safe investments. The fair value of available-for-sale securities is determined based on the price quoted on the exchange (for stocks) or the published net asset value per unit (for investment trusts). For investments in investment partnerships that are deemed to be securities, the proportional equity share in the value of the partnership assets is reported as the fair value. See Note 4, "Securities," for information on securities categorized by the purpose for which they are held.

Liabilities

(1) Notes and accounts payable- trade and (2) Short-term borrowing

As notes and accounts payable- trade and short-term borrowing are settled within a short period, their fair value is nearly equal to the carrying amount. Therefore, the carrying amount is reported as the fair value.

(2) Corporate bonds

The fair value of corporate bonds is based on the market price.

(3) Long-term loans payable

The fair value of long-term loans payable is determined by discounting the sum of the principal and interest payments at an interest rate that is estimated to be applicable to newly arranged debt of similar quality. For variable-rate long-term loans payable, the carrying amount is reported as fair value as it is considered to be a reasonable approximation of fair value because such loans payable reflect the market interest rates in a short period and there has been no significant change in the creditworthiness of the Company. However, the fair value of certain variable-rate, long-term loans payable that qualify for the special treatment of interest rate swaps is determined by discounting the sum of the principal and interest payments net of any cash flows from the interest rate swap at an interest rate that is reasonably estimated to be applicable to similar fixed rate debt.

Derivative transactions

Refer to the Note 5, "Derivatives and hedge accounting."

(Note 2) Financial instruments whose fair value is extremely difficult to estimate

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Non-listed equity securities	¥1,107	¥1,012	$10,420

For the financial instruments shown in the above table, quoted market price was not available. Therefore, the fair value was considered to be extremely difficult to estimate, and the instruments were not included in "Investment securities" in the above table summarizing the carrying amounts and estimated fair values of financial instruments.

(Note 3) Stocks of subsidiaries and affiliates are also not included in "Investment securities" in the above table summarizing the carrying amounts and estimated fair values of financial instruments. For stocks of listed subsidiaries and affiliates, the carrying amount was ¥2,674 million ($25,169 thousand) and ¥2,556 million for the years ended March 31, 2018 and 2017, respectively, the fair value was ¥1,732 million ($16,303 thousand) and ¥1,064 million for the years ended March 31, 2018 and 2017, respectively, and the difference was a negative ¥942 million ($8,867 thousand) and ¥1,492 million for the years ended March 31, 2018 and 2017, respectively. The carrying amount of stocks of unlisted subsidiaries and affiliates was stated at ¥4,716 million ($44,390 thousand) and ¥2,658 million for the years ended March 31, 2018 and 2017, respectively.

4. SECURITIES

The following tables summarize book values and fair values of held-to-maturity investments with available fair values as of March 31, 2018 and 2017.

Held-to-maturity investments

	Millions of yen					
	2018			2017		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Held-to-maturity investments with fair value exceeding book value:						
Corporate bonds	-	-	-	¥6	¥6	¥0
Other	-	-	-	-	-	-
Total	-	-	-	¥6	¥6	¥0

	Thousands of U.S. dollars		
	2018		
	Book value	Fair value	Difference
Held-to-maturity investments with fair value exceeding book value:			
Corporate bonds	-	-	-
Other	-	-	-
Total	-	-	-

The following tables summarize acquisition cost and book value (fair value) of securities with available fair values as of March 31, 2018 and 2017.

Available-for-sale securities

	Millions of yen					
	2018			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥7,632	¥19,604	¥11,972	¥7,604	¥16,783	¥9,179
Other	6	13	7	6	11	5
	¥7,638	¥19,617	¥11,979	¥7,610	¥16,794	¥9,184
Securities with book values not exceeding acquisition costs:						
Equity securities	¥1,021	¥799	(¥222)	¥984	¥836	(¥148)
Other	86	86	-	89	89	-
Total	¥1,107	¥885	(¥222)	¥1,073	¥925	(¥148)

	Thousands of U.S. dollars		
	2018		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$71,837	$184,526	$112,688
Other	56	122	66
	$71,894	$184,648	$112,754
Securities with book values not exceeding acquisition costs:			
Equity securities	$9,610	$7,521	($2,090)
Other	809	809	-
Total	$10,420	$8,330	($2,090)

The following table summarizes sales of available-for-sale securities and the related gains and losses for the years ended March 31, 2018 and 2017.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Total sales of available-for-sale securities	¥113	¥233	$1,064
Related gains	72	18	678
Related losses	¥ -	¥5	$-

5. DERIVATIVES AND HEDGE ACCOUNTING

The Company and some of its consolidated subsidiaries use derivatives to manage risks related to foreign currencies and interest rates. Details of these derivatives are as follows.

Currency related transactions not designated as hedging transactions at March 31, 2018 and 2017 consisted of the following:

	Millions of yen					
	2018			2017		
	Contract amount	Fair value	Revaluation gain (loss)	Contract amount	Fair value	Revaluation gain (loss)
Over the counter						
Forward						
Sold	¥3,011	¥22	¥22	¥3,016	¥7	¥7
Bought	308	(3)	(3)	309	(4)	(4)
Total	¥3,319	¥19	¥19	¥3,325	¥3	¥3

	Thousands of U.S. dollars		
	2018		
	Contract amount	Fair value	Revaluation gain (loss)
Over the counter			
Forward			
Sold	$28,341	$207	$207
Bought	2,899	(28)	(28)
Total	$31,241	$179	$179

(Note) The fair values of the transactions are provided by financial institutions.

Currency related transactions designated as hedging transactions at March 31, 2018 and 2017 consisted of the following:

		Millions of yen					
		2018			2017		
		Contract amount			Contract amount		
	Major hedged items	Total	Maturity over 1 year	Fair value	Total	Maturity over 1 year	Fair value
Deferral hedge accounting (Note 1)							
Forward							
Sold	Accounts receivable - trade	¥108	-	¥3	¥169	-	¥3
Bought	Accounts payable - trade	976	-	(26)	577	-	2
Alternative method (Note 2)							
Forward							
Sold	Accounts receivable - trade	236	-	(Note 3)	236	-	(Note 3)
Bought	Accounts payable - trade	377	-	(Note 3)	330	-	(Note 3)
Total		¥1,697	-	(¥23)	¥1,312	-	¥5

		Thousands of U.S. dollars		
		2018		
		Contract amount		
	Major hedged items	Total	Maturity over 1 year	Fair value
Deferral hedge accounting (Note 1)				
Forward				
Sold	Accounts receivable - trade	$1,017	-	$28
Bought	Accounts payable - trade	9,187	-	(245)
Alternative method (Note 2)				
Forward				
Sold	Accounts receivable - trade	2,221	-	(Note 3)
Bought	Accounts payable - trade	3,549	-	(Note 3)
Total		$15,973	-	($216)

(Notes) 1. The fair values of the transactions are determined by the forward exchange rate.

2. Foreign monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge foreign currency fluctuation are translated at the contracted rate if the forward contract qualifies for hedge accounting.

3. For certain accounts receivable - trade and accounts payable - trade denominated in foreign currencies for which foreign exchange forward contracts are used to hedge foreign currency fluctuations, the fair value of the derivative financial instrument is included in fair value of the account receivable - trade or account payable - trade as a hedged item.

Interest rate related transactions designated as hedging transactions at March 31, 2018 and 2017 consisted of the following:

	Millions of yen					
	2018			2017		
	Contract amount			Contract amount		
Major hedged items	Total	Maturity over 1 year	Fair value	Total	Maturity over 1 year	Fair value
Deferral hedge accounting of interest rate swaps (Note 1)						
Long-term loans payable						
Receive - float / Pay - fixed	¥15,000	¥15,000	(¥48)	¥15,000	¥15,000	(¥89)
Special treatment of interest rate swaps						
Long-term loans payable						
Receive - float / Pay - fixed	1,600	-	(Note 2)	1,600	1,600	(Note 2)
Total	¥16,600	¥15,000	(¥48)	¥16,600	¥16,600	(¥89)

	Thousands of U.S. dollars		
	2018		
	Contract amount		
Major hedged items	Total	Maturity over 1 year	Fair value
Deferral hedge accounting of interest rate swaps (Note 1)			
Long-term loans payable			
Receive - float / Pay - fixed	$141,190	$141,190	($452)
Special treatment of interest rate swaps			
Long-term loans payable			
Receive - float / Pay - fixed	15,060	-	(Note 2)
Total	$156,250	$141,190	($452)

(Notes) 1. The fair value of the transactions is provided mainly by financial institutions.
2. As interest rate swaps subject to the special treatment of interest rate swaps are accounted for as a single item with the underlying long-term loans payable, which are the hedged items, their fair value is included in the long-term loans payable.

6. INVENTORIES

Inventories at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Finished goods	¥43,059	¥43,516	$405,299
Work-in-process	13,007	13,916	122,430
Raw materials	9,758	9,982	91,849
Supplies	5,472	5,355	51,506
	¥71,296	¥72,769	$671,084

7. IMPAIRMENT LOSS

The Toyobo Group recorded impairment loss on the following asset groups for the year ended March 31, 2017.

For the year ended March 31, 2017

Location	Usage	Type
Japan Exlan Co., LTD. (Okayama, Okayama)	Business assets	Buildings and structures Machinery and equipment
TOYOBO Europe GmbH (Bavaria, Germany)	Business assets	Machinery and equipment
TOYOBO DO BRASIL LTDA. (Sao Paulo, Brazil)	Business assets	Machinery and equipment Tangible assets and other
Toyobo Real Estate Co., Ltd. (Omachi, Nagano)	Idle assets	Land

The Toyobo Group's business assets are classified in administrative accounting, and idle assets are grouped together on an individual basis. The recoverable value of the business assets and the idle assets fell below their book value due to the expected retirement of the business assets resulting from decisions made to withdraw from the business and a reduction of the size of the business for the business assets and from the conclusion of a sales contract for the idle assets. Therefore, the book value of these assets has been marked down to the recoverable value, and the write-down was treated as an impairment loss in the amount of ¥2,005 million in extraordinary losses.

	Millions of yen
Buildings and structures	¥117
Machinery and equipment	1,833
Land	35
Tangible assets and other	¥20

In calculating the recoverable value of these assets, the net sale value of land was based on the sales contract, whereas the net sale value of other non-current assets was based on other reasonable estimates.

8. INCOME TAXES

Significant components of the Companies and its consolidated subsidiaries deferred income tax assets and liabilities as of March 31, 2018 and 2017 are set forth below.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Deferred income tax assets:			
Accrued employee bonuses	¥1,594	¥1,492	$15,004
Devaluation loss on inventories	559	559	5,262
Defined benefit liability	6,116	6,092	57,568
Allowance for doubtful receivables	122	512	1,148
Provision for environmental measures	224	239	2,108
Impairment loss	924	1,241	8,697
Write-down of investment securities	646	830	6,081
Depreciation	252	258	2,372
Tax losses carried forward	4,548	5,311	42,809
Unrealized gains	9,248	8,077	87,048
Securities acquired through merger	195	195	1,835
Foreign currency translation adjustments	-	58	-
Tax losses carried forward of subsidiaries	1,358	-	12,782
Other	1,686	1,670	15,870
Subtotal deferred income tax assets	27,472	26,534	258,584
Valuation allowance	(6,616)	(5,584)	(62,274)
Net deferred income tax assets	20,856	20,950	196,310
Deferred income tax liabilities:			
Reserve for deferred gains on sale of property	(445)	(437)	(4,189)
Undistributed earnings of overseas subsidiaries and affiliates	(1,373)	(1,212)	(12,924)
Consolidation adjustment of allowance for doubtful receivables	(3)	(2)	(28)
Valuation difference of subsidiaries	(1,519)	(1,549)	(14,298)
Tax deferred gains on assets transferred to a new company	(1,335)	(1,335)	(12,566)
Tax deferred gains on spin-off	(497)	(497)	(4,678)
Valuation difference on available-for-sale securities	(3,619)	(2,760)	(34,064)
Foreign currency translation adjustments	(12)	-	(113)
Total deferred income tax liabilities	(8,803)	(7,792)	(82,860)
Net deferred income tax assets	¥12,053	¥13,158	$113,451

	2018	2017	2018
Current assets	¥4,236	¥4,616	$39,872
Investments and other assets	11,633	11,673	109,497
Current liabilities	-	-	-
Long-term liabilities	(3,816)	(3,131)	(35,919)
Total	¥12,053	¥13,158	$113,451

Deferred income tax liabilities on land revaluation of ¥21,280 million ($200,301 thousand) and ¥21,280 million for the years ended March 31, 2018 and 2017, respectively, were recognized in long-term liabilities.

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 31.0% for both the years ended March 31, 2018 and 2017.
The effective rate for the years ended March 31, 2018 and 2017 differ from statutory tax rate as follows:

	2018	2017
Statutory tax rate	31.0%	31.0%
Expenses not deductible for tax purposes	0.4	0.6
Nontaxable dividend income	(0.7)	(0.6)
Tax losses carried forward	(4.5)	(2.5)
Tax credits	(1.8)	(2.0)
Valuation allowance	4.9	4.0
Equity in income of unconsolidated subsidiaries and affiliates	(0.5)	(0.7)
Unrealized gains and losses	0.0	(0.3)
Retained earnings of entities such as overseas subsidiaries	0.9	0.7
Difference in tax rate	(0.4)	(0.5)
Goodwill	0.4	0.5
Effect of exclusion of subsidiaries from consolidation	1.2	3.2
Other	(2.1)	1.8
Effective tax rate	28.8%	35.2%

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2018 and 2017 consisted of short-term notes generally due within one year bearing interest at an average rate of 0.68% and 0.60%, respectively.

Long-term debt at March 31, 2018 and 2017 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unsecured:			
0.69% bonds due 2017	¥ -	¥10,000	$ -
0.28% bonds due 2019	10,000	10,000	94,127
0.45% bonds due 2021	5,000	5,000	47,063
0.16% bonds due 2021	5,000	5,000	47,063
0.31% bonds due 2023	10,000	10,000	94,127
Long-term loans payable, principally maturing through 2078 at the weighted average interest rate of 1.16% as of March 31, 2018			
Secured	44	109	414
Unsecured	82,106	88,247	772,835
Lease obligations maturing serially through 2026	763	884	7,182
Total	112,913	129,240	1,062,811
Less amount due within one year	24,266	33,230	228,407
	¥88,647	¥96,010	$834,403

The aggregate annual maturities of long-term debt outstanding as of March 31, 2018 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2019	¥24,266	$228,407
2020	21,784	205,045
2021	7,775	73,183
2022	14,206	133,716
2023	13,097	123,277
Thereafter	31,785	299,181
	¥112,913	$1,062,811

The Company has credit facility commitments with three banks in order to secure financing. The total unused credit available to the Company through these facilities at March 31, 2018 was ¥17,500 million ($164,721 thousand).

10. EMPLOYEES SEVERANCE AND RETIREMENT BENEFITS

Overview of defined benefit plans

The Company and certain consolidated subsidiaries have established funded and unfunded defined benefit plans and defined contribution plans. Under the defined benefit corporate pension plan and lump-sum severance payment plan, a lump-sum payment or pension payment based on the employee's salary at the time of retirement or termination and length of service is provided. During the fiscal year ended March 31, 2017, the Company revised the agreement related to a review of the pension contribution interest rate for the defined benefit corporate pension plan and a review of the transfer rate from a lump-sum severance payment to a defined benefit corporate pension fund. In addition, a corporate-type defined contribution pension system was newly introduced inside the Group in the fiscal year ended March 31, 2018.

In certain cases, the Company pays employees who are retiring additional retirement benefits that are not considered to be retirement benefit obligations as calculated under actuarial methods according to retirement benefit accounting principles. One consolidated subsidiary subscribes to a social welfare fund plan under a multi-employer contributory pension scheme, and as this plan is unable to rationally calculate amounts of pension assets corresponding to the Company's contribution, the Group adopts an accounting procedure that treats the plan as being equivalent to a defined contribution plan.

Defined benefit plans

Reconciliation of the beginning balance and the ending balance of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Retirement benefit obligations at beginning of year	¥61,542	¥63,312	$579,273
Service cost	2,624	2,854	24,699
Interest cost	360	372	3,389
Actuarial differences incurred	1,482	(333)	13,950
Retirement benefits paid	(2,839)	(3,127)	(26,723)
Prior service cost incurred	-	(1,394)	-
Other	47	(142)	442
Retirement benefit obligations at end of year	¥63,216	¥61,542	$595,030

(Note) The above table includes retirement benefit obligations of the consolidated subsidiaries applying the simplified method.

Reconciliation of the beginning balance and the ending balance of plan assets

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Plan assets at beginning of year	¥43,212	¥43,120	$406,739
Expected return on plan assets	840	840	7,907
Actuarial differences incurred	651	1,034	6,128
Employer's contribution	2,303	205	21,677
Retirement benefits paid	(2,011)	(1,987)	(18,929)
Plan assets at end of year	¥44,995	¥43,212	$423,522

Reconciliation of retirement benefit obligations and plan assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Funded retirement benefit obligations	¥59,400	¥57,895	$559,111
Plan assets	(44,995)	(43,212)	(423,522)
	14,405	14,683	135,589
Unfunded retirement benefit obligations	3,817	3,648	35,928
Difference between liability and asset recorded on the consolidated balance sheet	18,222	18,331	171,517
Defined benefit liability	18,222	18,331	171,517
Difference between liability and asset recorded on the consolidated balance sheet	¥18,222	¥18,331	$171,517

Profits or losses related to retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Service cost – benefits earned during the year	¥2,624	¥2,854	$24,699
Interest cost on projected benefit obligation	360	372	3,389
Expected return on plan assets	(840)	(840)	(7,907)
Amortization of prior service cost	(39)	90	(367)
Amortization of actuarial differences	1,785	2,173	16,802
Additional retirement benefits	265	459	2,494
Retirement benefit expenses for defined benefit plans	¥4,155	¥5,108	$39,110

(Note) Profits or losses related to retirement benefit expenses of the consolidated subsidiaries applying the simplified method are included in service costs and amortization of net transition obligation.

Remeasurements of defined benefit plans, before tax effect

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Prior service cost	(¥39)	¥1,485	($367)
Actuarial differences	954	3,541	8,980
Total	¥915	¥5,026	$8,613

Accumulated remeasurements of defined benefit plans, before tax effect

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Unrecognized prior service cost	(¥1,006)	(¥1,046)	($9,469)
Unrecognized actuarial differences	3,360	4,313	31,627
Total	¥2,354	¥3,267	$22,157

Plan assets
Components of plan assets by main categories are as follows:

	2018	2017
Debt securities	24%	28%
Equity securities	24	25
General accounts	35	33
Cash and deposits	4	1
Other	13	13
Total	100%	100%

(Note) The ratio of the plan assets used to fund a retirement benefit trust established for corporate pension plans was 7% for both the years ended March 31, 2018 and 2017.

Method used to determine expected long-term rate of return on plan assets
The expected long-term rate of return on pension plan assets is based on the current and expected allocation of plan assets and the current and expected long-term rate of return on the various plan assets.

Assumptions used for actuarial calculation
The assumptions used for the actuarial calculation at the end of the years ended March 31, 2018 and 2017 were as follows:

	2018	2017
Discount rates	0.6%	0.6%
Expected rates of return on plan assets	2.0%	2.0%

Defined contribution plans
The amount contributed to defined contribution plans by the Company and certain consolidated subsidiaries in the fiscal year ended March 31, 2018 was ¥476 million ($4,480 thousand). The amount contributed to defined contribution plans by certain consolidated subsidiaries during the fiscal year ended March 31, 2017 was ¥238 million.

Multi-employer type employee pension fund plans
The total amount contributed to multi-employer type employee pension fund plans, which are calculated in the same way as defined contribution plans, was ¥9 million ($85 thousand) and ¥18 million for the years ended March 31, 2018 and 2017, respectively.

11. ASSETS PLEDGED AS COLLATERAL

At March 31, 2018 and 2017, assets pledged as collateral for secured long-term debt of ¥44 million ($414 thousand) and ¥109 million, respectively, customers' deposits of ¥128 million ($1,205 thousand) and ¥170 million, respectively, and accounts payable of ¥20 million ($188 thousand) and ¥24 million, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and cash equivalents	¥22	¥26	$207
Property, plant and equipment – net of accumulated depreciation	1,016	985	9,563
	¥1,038	¥1,011	$9,770

12. NET ASSETS

The consolidated financial statements have been reported in accordance with the provisions set forth in the Japanese Companies Act (the "Companies Act"). The significant provisions of the Companies Act that affect financial and accounting matters are summarized below:

1. Dividends:
   The Companies Act allows Japanese companies to pay dividends at any time during the fiscal year, in addition to the year-end dividend, upon resolution at the stockholders meeting. For Japanese companies that meet certain criteria such as having a board of directors, independent auditors, a board of corporate auditors and one-year terms of service for directors rather than the two-year normal term provided by the articles of incorporation, the board of directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Companies Act permits Japanese companies to distribute dividends in kind (noncash assets) to stockholders subject to certain limitations and additional requirements. The Companies Act provides certain limitations on the amounts available for dividends and the purchase of treasury stock. The maximum amount that the Company can distribute as dividends is determined based on the nonconsolidated financial statements of the Company in accordance with the Companies Act and regulations.

2. Increases/decreases in and transfers of common stock, reserve and surplus:
   The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, and are potentially available for dividends. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders. Under the Companies Act, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

3. Treasury stock:
   The Companies Act provides for Japanese companies to repurchase or dispose of treasury stock. The amount of treasury stock purchased, however, cannot exceed the amount available for distribution to the stockholders, an amount which is determined by a specific formula.

13. CONTINGENT LIABILITIES

At March 31, 2018 and 2017, the Company and certain consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
As guarantor of indebtedness			
Unconsolidated subsidiaries and affiliates	2,100	2,611	19,767
Employees (housing loans)	18	23	169
	¥2,118	¥2,634	$19,936

14. LEASES

Lease payments for finance leases which do not transfer ownership of the lease assets to the lessee and do not have bargain purchase provisions were ¥56 million ($527 thousand) and ¥56 million for the years ended March 31, 2018 and 2017, respectively. Future minimum lease payments for the remaining lease periods as of March 31, 2018 and 2017, including interest, were ¥56 million ($527 thousand) and ¥56 million, respectively, for payments due within one year and ¥15 million ($141 thousand) and ¥71 million, respectively, for payments due beyond one year.

Original lease obligations, accumulated payments and remaining payments on leased properties as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of U. S. dollars
	2018	2017	2018
Machinery and equipment:			
Original lease obligations	¥589	¥589	$5,544
Payments made	518	462	4,876
Remaining payments	¥71	¥127	$668

Future minimum lease receipts as lessor under operating leases for the remaining lease periods as of March 31, 2018 and 2017 were ¥7,626 million ($71,781 thousand) and ¥6,778 million, respectively, of which ¥700 million ($6,589 thousand) and ¥626 million, respectively, were due within one year.

15. SEGMENT INFORMATION

1. Overview of reportable segments
   Toyobo's reportable segments allow it to acquire financial data that can be separated into various components of the corporate group. The scope of the segments is reviewed on a regular basis in order to allow the highest decision making body to determine the allocation of management resources and evaluate earnings performance. Toyobo's basic organization comprises business headquarters and business divisions within the head office separated by the type, nature and market for products and services. Each business headquarters and business division formulates comprehensive strategies for its domestic and overseas operations and conducts business activities.

   Accordingly, Toyobo organizes business segments by products and services. Its five reportable segments are "Films and Functional Polymers," "Industrial Materials," "Healthcare," "Textiles and Trading" and "Real Estate." The "Films and Functional Polymers" segment manufactures and sells packaging film, industrial film, industrial adhesives, engineering plastics, photo functional materials and other products. The "Industrial Materials" segment manufactures and sells fiber materials for automotive applications, high-performance fibers, non-woven fabrics and other products. The "Healthcare" segment manufactures and sells bio-products such as enzymes for diagnostic reagents, contract manufacturing of pharmaceuticals, medical-use membranes, medical equipment and equipment devices, functional filters, water treatment membranes and other products. The "Textiles and Trading" segment manufactures and sells functional textiles, apparel products, apparel textiles, apparel fibers and other products. The "Real Estate" segment leases and manages real estate.

   Matters Concerning Changes to Reporting Segments
   Effective from the fiscal year ended March 31, 2018, in order to reinforce business synergies, the Company has implemented organizational changes to consolidate its business related to membranes and release materials, and it has moved the AC business, which was previously included in the "Industrial Materials" business segment, into the "Healthcare" business segment. In accordance with these organizational changes, some business segments of the consolidated subsidiaries were each moved from the "Industrial Materials" business segment to the "Healthcare" business segment. Segment information for the fiscal year ended March 31, 2017 has been prepared in accordance with the method of classification following the changes.

2. The methods of accounting for business segments are the same as those stated in Note 2, "Significant Accounting Policies." Profit of the reporting segments is operating profit. Transfers among segments are based on market prices.

Year ended March 31, 2018	Millions of yen						
	Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit	Identifiable assets	Depreciation and amortization	Capital expenditure
Films and Functional Polymers	¥148,667	¥1	¥148,668	¥13,713	¥140,420	¥6,916	¥5,038
Industrial Materials	63,454	270	63,724	4,262	80,602	2,312	6,750
Helthcare	35,723	2,049	37,772	5,179	42,070	2,825	5,313
Textiles and Trading	68,317	278	68,595	645	70,724	1,365	1,835
Real Estate	4,284	880	5,164	2,023	49,388	698	389
	320,445	3,478	323,923	25,822	383,204	14,116	19,325
Other businesses	10,703	13,847	24,550	795	16,471	286	339
Total	331,148	17,325	348,473	26,617	399,675	14,402	19,664
Elimination or Corporate	-	(17,325)	(17,325)	(2,694)	46,481	1,264	1,595
Consolidated	¥331,148	¥ -	¥331,148	¥23,923	¥446,156	¥15,666	¥21,259

Year ended March 31, 2018	Thousands of U.S. dollars						
	Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit	Identifiable assets	Depreciation and amortization	Capital expenditure
Films and Functional Polymers	$1,399,351	$9	$1,399,360	$129,076	$1,321,724	$65,098	$47,421
Industrial Materials	597,270	2,541	599,812	40,117	758,678	21,762	63,535
Helthcare	336,248	19,287	355,535	48,748	395,990	26,591	50,009
Textiles and Trading	643,044	2,617	645,661	6,071	665,700	12,848	17,272
Real Estate	40,324	8,283	48,607	19,042	464,872	6,570	3,662
	3,016,237	32,737	3,048,974	243,053	3,606,965	132,869	181,899
Other businesses	100,744	130,337	231,081	7,483	155,036	2,692	3,191
Total	3,116,980	163,074	3,280,055	250,537	3,762,001	135,561	185,090
Elimination or Corporate	-	(163,074)	(163,074)	(25,358)	437,509	11,898	15,013
Consolidated	$3,116,980	$ -	$3,116,980	$225,179	$4,199,511	$147,459	$200,104

(Notes) 1. Other businesses include design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. (a) Elimination or Corporate includes segment profit adjustment of ¥-2,694 million ($-25,358 thousand), eliminations of intersegment transactions of ¥-137 million ($-1,290 thousand) and companywide expenses that are not allocated across reportable segments of ¥-2,557 million ($-24,068 thousand). The principal components of companywide expenses are those related to basic research and development.

(b) The intersegment adjustment of ¥46,481 million ($437,509 thousand) is included in companywide assets that are not allocated across reportable segments and amount to ¥74,990 million ($705,855 thousand).

(c) The increase in the adjustment of tangible and intangible fixed assets of ¥1,595 million ($15,013 thousand) is the amount of capital investment related to research and development.

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

Year ended March 31, 2017	Millions of yen: Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit	Identifiable assets	Depreciation and amortization	Loss on impairment	Capital expenditure
Films and Functional Polymers	¥138,574	¥0	¥138,574	¥12,747	¥137,842	¥6,641	¥ -	¥5,546
Industrial Materials	59,925	145	60,070	3,874	72,122	1,939	274	4,710
Helthcare	36,423	1,256	37,679	5,242	41,655	2,727	-	3,751
Textiles and Trading	77,552	283	77,835	1,066	71,312	1,729	1,696	1,872
Real Estate	4,444	1,116	5,560	2,344	50,054	753	35	603
	316,918	2,800	319,718	25,273	372,985	13,789	2,005	16,482
Other businesses	12,569	11,370	23,939	1,000	15,431	326	-	352
Total	329,487	14,170	343,657	26,273	388,416	14,115	2,005	16,834
Elimination or Corporate	-	(14,170)	(14,170)	(2,941)	62,374	824	-	1,526
Consolidated	¥329,487	¥ -	¥329,487	¥23,332	¥450,790	¥14,939	¥2,005	¥18,360

(Notes) 1. Other businesses include design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. (a) Elimination or Corporate includes segment profit adjustment of ¥-2,941 million, eliminations of intersegment transactions of ¥-254 million and companywide expenses that are not allocated across reportable segments of ¥-2,687 million. The principal components of companywide expenses are those related to basic research and development.

(b) The intersegment adjustment of ¥62,374 million is included in companywide assets that are not allocated across reportable segments and amount to ¥91,770 million.

(c) The increase in the adjustment of tangible and intangible fixed assets of ¥1,526 million is the amount of capital investment related to research and development.

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

Sales in Japan, Southeast Asia and other areas were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Japan	¥235,075	¥233,189	$2,212,679
Southeast Asia	62,532	56,600	588,592
Other areas	33,541	39,698	315,710
Total	¥331,148	¥329,487	$3,116,980

Principal countries and areas in each segment are:

Southeast Asia: China, Korea, Taiwan, Malaysia, Indonesia, Thailand, etc.
Other areas: America, Germany, Spain, Brazil, Saudi Arabia, etc.

Impairment loss for each segment

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Films and Functional Polymers	¥ -	¥ -	$ -
Industrial Materials	-	274	-
Helthcare	-	-	-
Textiles and Trading	-	1,696	-
Real Estate	-	35	-
Other businesses	-	-	-
Total	-	2,005	-
Elimination or Corporate	-	-	-
Consolidated	¥ -	¥2,005	$ -

Amortization and balance of goodwill

	Millions of yen				Thousands of U.S. dollars	
	2018		2017		2018	
	Amortization of goodwill	Balance of goodwill	Amortization of goodwill	Balance of goodwill	Amortization of goodwill	Balance of goodwill
Films and Functional Polymers	¥ -	¥ -	¥ -	¥ -	$ -	$ -
Industrial Materials	-	-	-	-	-	-
Helthcare	230	115	209	317	2,165	1,082
Textiles and Trading	-	-	-	-	-	-
Real Estate	-	-	-	-	-	-
Other businesses	-	-	-	-	-	-
Total	230	115	209	317	2,165	1,082
Elimination or Corporate	-	-	-	-	-	-
Consolidated	¥230	¥115	¥209	¥317	$2,165	$1,082

Gain on Negative Goodwill by Reportable Segment

Fiscal year ended March 31, 2018 (April 1, 2017 to March 31, 2018)
Not applicable

Fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017)
Not applicable

16. LAND REVALUATION

Applying the law on revaluation of land, the Company, a consolidated subsidiary and an affiliate accounted for using the equity method revaluated land for business use on March 31, 2002 and included the increase, net of income taxes and non-controlling interests, in net assets. As of March 31, 2018 and 2017, the fair value of this land was lower than book value by ¥34,778 million ($327,353 thousand) and ¥33,828 million, respectively. Another consolidated subsidiary revaluated its land for business use on March 31, 2000 and included the increase, net of income taxes and non-controlling interests, in net assets. As of March 31, 2018 and 2017, the fair value of this land was ¥3,177 million ($29,904 thousand) and ¥3,174 million, respectively.

17. INVESTMENT AND RENTAL PROPERTY

The Company and some of its consolidated subsidiaries hold investment and rental office buildings (including land) located in Osaka and other areas. For the fiscal years ended March 31, 2018 and 2017, the rental income (principal rental income is recorded in sales and principal rental expenses are recorded in cost of sales) on these real estate properties was ¥2,387 million ($22,468 thousand) and ¥2,406 million, respectively. The gain on the sale of fixed assets, recorded in other income (expences), was ¥4,771 million ($44,908 thousand) for the year ended March 31, 2018. For the year ended March 31, 2017, the loss on the sale of fixed assets was ¥174 million ($1,638 thousand).

The following table summarizes the carrying amount, the change during the fiscal year and the estimated fair value of investment and rental property.

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Balance at the beginning of April 1, 2017 and 2016	¥38,027	¥36,144	$357,935
Increase (decrease) in the fiscal term	(4,312)	1,884	40,587
Balance at the end of March 31, 2018 and 2017	¥33,715	¥38,027	$317,348
Fair value on March 31, 2018 and 2017	¥35,345	¥40,342	$332,690

(Notes) 1. The carrying amount represents the net amount calculated as the acquisition cost less accumulated depreciation and impairment loss.
2. The change during the fiscal year ended March 31, 2018 was attributable mainly to a decrease in the sale of assets of ¥4,482 million ($42,188 thousand).
3. The fair value at March 31, 2018 and 2017 was based on real estate appraisal reports provided by external real estate appraisers for major properties and the index considered to reflect the current market price for other properties.

18. CASH FLOW INFORMATION

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents in preparing the consolidated statements of cash flows.

The reconciliation of cash and cash equivalents in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2018 and 2017 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Cash and cash equivalents in the consolidated balance sheets	¥26,006	¥32,329	$244,785
Time deposits maturing after three months	(149)	(150)	(1,402)
Cash and cash equivalents in the consolidated statements of cash flows	¥25,857	¥32,179	$243,383

19. COMPREHENSIVE INCOME

Amounts reclassified to profit in the current period that were recognized in other comprehensive income in the current or previous period and the tax effects for each component of other comprehensive income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2018	2017	2018
Valuation difference on available-for-sale securities			
Increase during the year	¥2,695	¥808	$25,367
Reclassification adjustments	(71)	(40)	(668)
Subtotal, before tax	2,624	768	24,699
Tax (expense) of benefit	(824)	(226)	(7,756)
Subtotal, net of tax	1,800	542	16,943
Deferred gains and losses on hedges			
Increase during the year	60	200	565
Reclassification adjustments	(49)	(50)	(461)
Subtotal, before tax	11	150	104
Tax (expense) of benefit	(2)	(46)	(19)
Subtotal, net of tax	9	104	85
Land revaluation excess			
Tax (expense) of benefit	-	(70)	-
Subtotal, net of tax	-	(70)	-
Foreign currency translation adjustments			
Increase (decrease) during the year	112	(394)	1,054
Reclassification adjustments	-	1,084	-
Subtotal, before tax	112	690	1,054
Tax (expense) of benefit	(70)	58	(659)
Subtotal, net of tax	42	748	395
Accumulated remeasurements of defined benefit plans			
Increase (decrease) during the year	(831)	2,763	(7,822)
Reclassification adjustments	1,746	2,263	16,434
Subtotal, before tax	915	5,026	8,613
Tax (expense) of benefit	(288)	(1,555)	(2,711)
Subtotal, net of tax	627	3,471	5,902
Share of other comprehensive income of associates accounted for using the equity method			
Increase (decrease) during the year	151	(306)	1,421
Reclassification adjustments	-	3	-
Subtotal, net of tax	151	(303)	1,421
Total other comprehensive income	¥2,629	¥4,492	$24,746

20. BUSINESS COMBINATIONS

Transactions under common control

At the meeting of the Board of Directors held on December 22, 2016, the Company resolved to implement an absorption-type merger, effective April 1, 2017, with its consolidated subsidiary, TOYOBO G･F･A CO., LTD., and entered into a merger agreement on the same date. Pursuant to Article 796, Paragraph 2 (as for the Company) and Article 784, Paragraph 1 (as for TOYOBO G･F･A CO., LTD.) of the Companies Act, the merger was conducted without seeking approval at the general meeting of shareholders of each company on the execution of the merger.

An outline of the merger is as follows.

The transaction

(1) Name and content of the business of the company involved in the merger
Name of the company involved in the merger: TOYOBO G･F･A CO., LTD.
Content of business: Financial services, including loans to each of the Toyobo Group companies

(2) Date of the business combination
April 1, 2017

(3) Legal form of the business combination
The Company, as the surviving company, has absorbed TOYOBO G･F･A CO., LTD., which has been dissolved upon the merger.

(4) Name of the company after the business combination
Toyobo Co., Ltd.

(5) Other items related to the outline of the transaction

(i) Purpose of the merger
The Company decided to implement an absorption-type merger with TOYOBO G･F･A CO., LTD., which had operated as a core company in the group financing for the Toyobo Group, with the aim of consolidating management resources and improving the efficiency of its organizational operations.

(ii) Allotment regarding the merger
There shall be no issuance of new shares or allotment of any other consideration with respect to the merger.

(iii) Financial position and operating results of the company involved in the merger for the immediately preceding fiscal year (fiscal year ended March 31, 2017)

Assets: ¥21,596 million ($203,276 thousand)
Liabilities: ¥21,414 million ($201,563 thousand)
Net assets: ¥182 million ($1,713 thousand)
Operating profit: ¥159 million ($1,497 thousand)
Profit: ¥1 million ($9 thousand)

The accounting methods

In accordance with the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, September 13, 2013), the merger has been accounted for as a transaction under common control.

21. LAWSUITS

Settlement reached with respect to lawsuit for damages filed by the United States Government (Department of Justice) (the "Plaintiff")

With respect to the two actions for damages filed with the United States District Court for the District of Columbia by the Plaintiff, the Company entered into a settlement agreement with the Plaintiff on March 16, 2018 (Japan time) and paid a settlement amount of ¥6,999 million ($66,000 thousand) on March 22, 2018.

(1) Overview of lawsuit and settlement
The Plaintiff, who purchased, as well as awarded funds for the purchase of, the bullet resistant vests using Toyobo's "ZYLON" fibers, filed two actions for damages against Toyobo and Toyobo's U.S. subsidiary, TOYOBO U.S.A. INC. (former company's name; TOYOBO AMERICA, INC.) with the United States District Court for the District of Columbia in June 2005 (the "First Action") and in June 2007 (the "Second Action") respectively. The First Action was originally filed by Mr. Aaron J. Westrick as Qui Tam action and taken over by the United States.
The Plaintiff alleged that Toyobo knew the strength of "ZYLON" fibers sold to the bullet resistant vest makers would degrade quickly under certain environment, and nevertheless Toyobo did not disclose such fact or made misleading disclosures, resulting in the United States' payment for the defective bullet resistant vests.
Throughout the proceedings of these lawsuits, Toyobo denied the Plaintiff's allegations and argued that Toyobo was not at fault. Indeed, every "ZYLON" vest at issue passed the National Institute of Justice's performance standards for ballistic vests. However, having taken into consideration the cost to continue with these actions, the uncertainty of the jury verdict, and the potential of further delays because of any appeals of any verdict, and after the consultation with its lawyers, Toyobo determined that it would be appropriate to enter into this settlement agreement. Thus, Toyobo and TOYOBO U.S.A. INC. entered into a settlement agreement with the Plaintiff. In the settlement agreement, Toyobo and TOYOBO U.S.A. INC. deny each and every allegation of the Plaintiff and do not admit any legal liability.

(2) Details of the Settlement
1. Toyobo paid the Plaintiff a settlement of $66 million.
2. The Plaintiff released any other claims in these cases (the First Action and the Second Action) against Toyobo and TOYOBO U.S.A. INC.
3. A stipulation of dismissal with prejudice was filed in both cases immediately after Toyobo's payment of the settlement amount.

(3) Overview of accounting method applied
The said settlement amount of ¥6,999 million was recorded as "Losses on lawsuits" under other expenses for the year ended March 31, 2018.

(4) Other Lawsuits
There is no other lawsuit pending against Toyobo or TOYOBO U.S.A. INC. in relation to the above-mentioned bullet resistant vests.

22. RELATED PARTY TRANSACTIONS

Related party transactions for the years ended March 31, 2018 and 2017 were as follows:

1. For the year ended March 31, 2018
   There were no material related party transactions to report.

2. For the year ended March 31, 2017
   There were no material related party transactions to report.

23. REAL ESTATE

Transfer of non-current asset (trust beneficiary rights)

The Company entered into a transfer contract for a non-current asset (trust beneficiary rights) held by the Company and completed the delivery of the property on October 20, 2017.

(1) Reason for the transfer
The Company transferred the real estate (trust beneficiary rights) held by the Company in order to improve the efficiency of assets and its financial standing by making effective use of managerial resources.

(2) Details of the transferred asset

Name of the asset	Toyobo Building
Location	2-8, Dojima Hama 2-chome, Kita-ku, Osaka
Land area	5,643.92 m^2
Gain from the transfer	¥10,388 million ($97,779 thousand)
Current state	Registered office and rental real state

(Note) The transfer price and book value are not disclosed due to a confidentiality agreement with the transferee.
The gain from the transfer represents the amount net of the book value, expenses associated with the transfer and others.

(3) Overview of the transferee
The transferee is not disclosed due to the confidentiality agreement with the transferee. While the transferee is one Japanese corporation, it does not have any capital ties or personal or business relationships to be stated with the Company and is not considered a related party of the Company in view of the situation.

(4) Schedule for the transfer

Date of resolution by the meeting of the Board of Directors	September 22, 2017
Date of entering into the contract	September 26, 2017
Property delivery date	October 20, 2017

(5) Effect on consolidated profit or loss
The gain from the transfer accompanying the transfer of the non-current asset (trust beneficiary rights) of ¥10,388 ($97,779 thousand) million was recorded as gain on sales of property, plant and equipment in other income for the year ended March 31, 2018.

24. SUBSEQUENT EVENTS

1. At the Company's ordinary meeting of stockholders held on June 27, 2018, appropriations of retained earnings for the year ended March 31, 2018 were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥40.0 ($0.377) per share	¥3,551	$33,424

2. At the meeting of the Board of Directors held on July 25, 2018, a comprehensive resolution regarding the issuance of unsecured straight bonds in the Japanese market was passed. In accordance with the resolution, the Company concluded the issuance of unsecured straight bonds in the Japanese market and issued the bonds on August 30, 2018. The details are as follows:

   The 40th unsecured straight bonds (with inter-bond pari passu clause)
   (1) Issue amount: ¥10,000 million
   (2) Issue price: ¥100 for each bond with par value of ¥100
   (3) Interest rate: 0.29% per annum
   (4) Payment date: August 30, 2018
   (5) Maturity period: August 29, 2025
   (6) Method of redemption: Full amount on maturity
   (7) Uses of funds: For redemption of bonds, repayment of borrowings and purchases of plant and equipment
   (8) Special provisions: These bonds include a negative pledge clause.

3. On September 6, 2018, an accidental fire occurred at the Tsuruga Research and Production Center in which machines and systems used for the manufacturing of airbag yarn "BREATHAIR," clothing-grade nylon and other products were destroyed. The area destroyed by the fire was approximately 26,000 m^2. However, considering the current uncertain situation, it is difficult to reasonably estimate the impact on the business or operating results.

KPMG

Independent Auditor's Report

To the Board of Directors of TOYOBO Co., Ltd.:

We have audited the accompanying consolidated financial statements of TOYOBO Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2018 and 2017, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of TOYOBO Co., Ltd. and its consolidated subsidiaries as at March 31, 2018 and 2017, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

September 20, 2018
Osaka, Japan