# Financial Section

## TOYOBO CO., LTD.
## CONSOLIDATED FINANCIAL STATEMENTS
## March 31, 2017 and 2016

**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, 2017

During the fiscal year ended March 31, 2017, from April 1, 2016 through March 31, 2017, the business environment for the Toyobo Group (hereinafter referred to as the "Group") was characterized by continued uncertainty about the future of the global economy due to concerns about the impact of the United Kingdom's decision to leave the European Union in Europe, economic slowdown in China and other factors, while the economy in the United States continued to expand at a moderate pace backed by domestic demand. Meanwhile, in Japan, the economy enjoyed a mild recovery supported by improvements in the environment for employment and income.

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

In "accelerating overseas business development," in the engineering plastics business, the Group decided to establish a new sales base in India while continuously working to expand sales in other overseas markets. Also, in the airbag fabrics business, the Group made efforts to strengthen its production sites in Thailand, China and the United States and to focus on sales expansion aimed at new users.

In "developing new products and creating new businesses," the Group proceeded with the reinforcement of its production capacity for polarizer protective films for LCDs "COSMOSHINE SRF," with a view to future business expansion while developing its sales significantly. For "Nerbridge," a conduit for peripheral nerve regeneration, the number of cases of successful applications increased in Japan, and the Group pursued preparations for sales in the United States after achieving FDA 510(k) clearance.

As part of "improving asset efficiency," the Company has decided to terminate its textile operations in Brazil and has recognized a reversal of foreign currency translation adjustments accompanying the merging and consolidation of foreign subsidiaries. The expenses accompanying the termination and loss on the reversal of foreign currency translation adjustments have been recorded as extraordinary losses.

Overall, consolidated net sales for the fiscal year decreased ¥18.3 billion (5.3%) over the previous fiscal year to ¥329.5 billion. Operating profit increased ¥0.2 billion (0.9%) to ¥23.3 billion, and profit attributable to the owners of parent decreased ¥0.7 billion (6.9%) to ¥9.4 billion.

#### *Films and Functional Polymers*

Within the Films and Functional Polymers segment, sales decreased, but operating profit increased from the previous fiscal year because of the fall in raw material prices, despite growth in the sale of new products in the films business, the further expansion in the sale of some functional polymers products.

In the films business, sales of packaging film decreased due to a fall in raw material prices, while in the industrial film business, sales of "COSMOSHINE SRF" grew centered on shipments for major polarizer manufacturers.

In the functional polymers business, sales of "HARDLEN," the adhesion promoter for polyolefin, were robust for automobile coatings. Sales of engineering plastics overseas also increased as a result of sales expansion efforts, despite struggling in Japan due to a shift to automobile production overseas. As a result, sales in this segment decreased ¥4.8 billion (3.4%) from the previous fiscal year to ¥138.6 billion, but operating profit increased ¥2.8 billion (28.5%) to ¥12.7 billion.

#### *Industrial Materials*

Sales and operating profit in the Industrial Materials segment decreased from the previous fiscal year despite favorable sales of some high-performance fibers because sales of products for consumer and industrial uses were weak. In the airbag fabrics business, sales grew with the improving demand in the Japanese market. As for high-performance fibers, although sales of "IZANAS" remained favorable for rope and net applications, sales of "ZYLON" remained sluggish. In products for consumer and industrial uses, sales of "PROCON," the PPS fiber material for filter bags, were weak, owing to deteriorating market conditions. In the functional filters business, however, sales of volatile organic compound (VOC) emissions treatment equipment grew in the Asian market. As a result, sales in this segment decreased ¥1.3 billion (1.9%) from the previous fiscal year to ¥69.2 billion, and operating profit decreased ¥1.5 billion (23.1%) to ¥4.8 billion.

***Healthcare***
In the Healthcare segment, sales and operating profit decreased from the previous fiscal year due to the impact of exchange rate fluctuation on the bioproducts business and functional membranes business. In the bioproducts business, although steady sales of mainstay enzymes for diagnostic reagents were affected by the fluctuation of exchange rates, sales of diagnostic systems and reagents for life sciences increased. In the medical products business, the contract business of manufacturing pharmaceuticals struggled with getting projects. Meanwhile, the functional membranes business was affected by the fluctuation of exchange rates. As a result, sales in this segment decreased ¥0.6 billion (2.1%) from the previous fiscal year to ¥27.1 billion, and operating profit decreased ¥0.4 billion (9.4%) to ¥4.3 billion.

***Textiles and Trading***
In the Textiles and Trading segment, sales and operating profit decreased from the previous fiscal year as textiles were affected by the fluctuation in exchange rates and conditions for the acrylic fiber business were difficult. Sales of sports apparel grew steadily, although sales of nylon fabrics for export were rather sluggish. Meanwhile, sales of materials for uniforms remained firm, despite weak sales of materials for underwear to volume retailers. In the textile products business, sales of materials for traditional Arabic menswear were affected by the fluctuation in exchange rates. Acrylic fiber business struggled as exports for China have been affected by anti-dumping policies. Also, due to a further deterioration in the Brazilian textile market and having no prospects of recovery, the Group decided to terminate its textile business in Brazil. As a result, sales in this segment decreased ¥7.9 billion (9.3%) from the previous fiscal year to ¥77.6 billion, and operating profit decreased ¥1.4 billion (57.4%) to ¥1.1 billion.

***Real Estate and Other Businesses***
The Real Estate and Other Businesses segment includes infrastructure related businesses such as businesses in real estate, engineering, information processing services and logistics services. Results in these businesses were generally in line with plans. Total sales decreased ¥3.6 billion (17.6%) from the previous fiscal year to ¥17.0 billion, but operating profit increased ¥0.5 billion (17.7%) to ¥3.3 billion.

**Cash Flows**
Net cash from operating activities amounted to ¥26.9 billion at the end of the subject fiscal year. This consisted mainly of ¥13.9 billion in profit before income taxes and ¥14.9 billion in depreciation and amortization.

Net cash used in investing activities amounted to ¥14.1 billion. This consisted mainly of ¥17.2 billion in expenditures for purchases of property, plant and equipment and intangible assets.

Net cash used in financing activities amounted to ¥0.3 billion. This consisted mainly of ¥20.3 billion in long-term loans payable, ¥3.1 billion in cash dividends paid and ¥15.0 billion in proceeds from the issuance of bonds.

As a result, the balance of cash and cash equivalents at the end of the fiscal year (March 31, 2017) stood at ¥32.2 billion, an increase of ¥12.1 billion from the end of the previous fiscal year (March 31, 2016).

**Assets, Liabilities and Net Assets**
Total assets at the end of the fiscal year (March 31, 2017) increased ¥6.2 billion (1.4%) from the end of the previous fiscal year (March 31, 2016) to ¥450.8 billion. This was mainly because of an increase in cash and cash equivalents.

Total liabilities decreased ¥4.6 billion (1.6%) to ¥279.9 billion. This was mainly because of a decrease in long-term loans payable.

Total net assets increased ¥10.8 billion (6.8%) to ¥170.9 billion. This was mainly because of an increase in retained earnings and remeasurements of defined benefit plans.

**Forecast for Fiscal Year Ending March 31, 2018**
The outlook for the overseas business environment during the fiscal year ending March 31, 2018 is mixed. While the economy in the United States will remain firm, there are concerns about stagnation in the slowing economies of emerging countries in Asia, particularly China, Europe, and the Middle East. In Japan, the domestic economy is expected to be affected by the rise in crude oil prices and strong yen. 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 activities that increase asset efficiency and strengthen financial position, the Group will endeavor to become a "strong company" with growth potential and stable profitability. As a result, for the fiscal year ending March 31, 2018, the Group is forecasting net sales of ¥340.0 billion (an increase of ¥10.5 billion year on year), operating profit of ¥25.0 billion (an increase of ¥1.7 billion) and profit attributable to the owners of parent of ¥13.5 billion (an increase of ¥4.1 billion).

**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, life science and textile 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, life science and textile 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, life science and textile fields 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, life science and textile fields 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, life science and textile 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, life science and textile 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 specialty 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, life science and textile 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) 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 lawsuit is filed against the Group, we intend to defend ourselves properly and establish that the claims against us are meritless. However, if we or Toyobo's U.S. subsidiary, TOYOBO U.S.A., INC, loses a suit, our business and financial conditions could be seriously affected by the compensation claims of the plaintiffs.

### (12) 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.

### (13) 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.

### (14) 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.

### (15) 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.

### (16) 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.

### (17) 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.

### (18) 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.

### (19) 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.

### (20) Overseas Business Activities

The Group is driving to expand its business activities globally, having set "accelerating overseas business development" as one of its action plans. 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.

## Consolidated Financial Highlights

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Net sales | ¥329,487 | ¥347,763 | $2,936,866 |
| Cost of sales | 249,940 | 268,069 | 2,227,828 |
| Profit before income taxes and non-controlling interests | 13,940 | 16,225 | 124,253 |
| Profit attributable to owners of parent | 9,444 | 10,150 | 84,179 |
| Total assets | 450,790 | 444,587 | 4,018,094 |
| Total net assets | ¥170,910 | ¥160,101 | $1,523,398 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| Net profit per share | ¥10.64 | ¥11.43 | $0.095 |

Note 1. The U.S. dollar amounts in this report represent translations of yen for convenience only at the rate of ¥112.19 to U.S.$1.00.

**Financial Section**

## CONSOLIDATED FIVE-YEAR SUMMARY

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

Fiscal years ended March 31, 2017, 2016, 2015, 2014 and 2013

| | Millions of yen, except per share information | | | | |
|---|---|---|---|---|---|
| | 2017 | 2016 | 2015 | 2014 | 2013 |
| **For the year:** | | | | | |
| Net sales | ¥329,487 | ¥347,763 | ¥351,279 | ¥351,577 | ¥339,009 |
| Cost of sales | 249,940 | 268,069 | 274,504 | 274,603 | 267,694 |
| Selling, general and administrative expenses | 56,215 | 56,571 | 56,195 | 55,968 | 54,234 |
| Operating profit | 23,332 | 23,123 | 20,580 | 21,006 | 17,081 |
| Other expenses | 9,392 | 6,898 | 8,264 | 7,135 | 4,307 |
| Profit before income taxes and non-controlling interests | 13,940 | 16,225 | 12,316 | 13,871 | 12,774 |
| Provision for income taxes | 4,913 | 5,959 | 4,024 | 4,721 | 4,398 |
| Profit attributable to owners of parent | 9,444 | 10,150 | 8,117 | 8,154 | 7,639 |
| Comprehensive income | ¥13,519 | ¥2,147 | ¥18,182 | ¥12,988 | ¥11,097 |
| Net profit per share (yen) | ¥10.64 | ¥11.43 | ¥9.14 | ¥9.18 | ¥8.61 |
| **At the end of the year:** | | | | | |
| Total current assets | ¥196,292 | ¥186,633 | ¥196,607 | ¥184,630 | ¥184,739 |
| Property, plant and equipment | 207,906 | 208,937 | 209,289 | 209,620 | 202,273 |
| Total assets | 450,790 | 444,587 | 465,809 | 456,256 | 447,445 |
| Total long-term liabilities | 143,015 | 153,796 | 158,472 | 150,558 | 127,093 |
| Total net assets | ¥170,910 | ¥160,101 | ¥161,087 | ¥145,115 | ¥155,522 |

## Consolidated Balance Sheets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| ASSETS | 2017 | 2016 | 2017 |
| **Current assets:** | | | |
| Cash and cash equivalents (Note 3, 11 and 18) | ¥32,329 | ¥20,258 | $288,163 |
| Notes and accounts receivable: | | | |
| Trade (Note 3) | 81,407 | 81,176 | 725,617 |
| Other | 2,803 | 2,948 | 24,984 |
| Allowance for doubtful receivables | (309) | (390) | (2,754) |
| | 83,901 | 83,734 | 747,847 |
| Inventories (Note 6) | 72,769 | 75,337 | 648,623 |
| Deferred income tax assets (Note 8) | 4,616 | 5,147 | 41,144 |
| Other current assets | 2,677 | 2,157 | 23,861 |
| Total current assets | 196,292 | 186,633 | 1,749,639 |
| **Investments and other assets:** | | | |
| Investment securities (Note 3 and 4) | | | |
| Unconsolidated subsidiaries and affiliates | 8,067 | 9,140 | 71,905 |
| Other | 19,756 | 19,264 | 176,094 |
| Deferred income tax assets (Note 8) | 11,673 | 14,053 | 104,047 |
| Other | 3,731 | 3,563 | 33,256 |
| Allowance for doubtful accounts | (821) | (863) | (7,318) |
| | 42,406 | 45,157 | 377,984 |
| **Property, plant and equipment (Note 7 and 11):** | | | |
| Land (Note 16) | 105,578 | 106,025 | 941,064 |
| Buildings and structures | 140,671 | 139,208 | 1,253,864 |
| Machinery and equipment | 346,180 | 346,668 | 3,085,658 |
| Tools, furniture and fixtures | 20,847 | 23,046 | 185,819 |
| Lease assets | 2,604 | 2,394 | 23,211 |
| Construction in progress | 5,292 | 5,357 | 47,170 |
| | 621,172 | 622,698 | 5,536,786 |
| Less accumulated depreciation | 413,266 | 413,761 | 3,683,626 |
| | 207,906 | 208,937 | 1,853,160 |
| **Other assets:** | | | |
| Other | 4,186 | 3,860 | 37,312 |
| | 4,186 | 3,860 | 37,312 |
| **Total assets (Note 15)** | ¥450,790 | ¥444,587 | $4,018,094 |

See accompanying Notes to Consolidated Financial Statements.

| LIABILITIES AND NET ASSETS | Millions of yen 2017 | Millions of yen 2016 | Thousands of U.S. dollars (Note 1) 2017 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term borrowing (Note 3 and 9) | ¥39,989 | ¥40,586 | $356,440 |
| Long-term debt due within one year (Note 3, 9 and 11) | 32,916 | 20,091 | 293,395 |
| Notes and accounts payable: | | | |
| Trade (Note 3 and 11) | 42,721 | 43,441 | 380,792 |
| Other | 9,356 | 12,808 | 83,394 |
| | 52,077 | 56,249 | 464,186 |
| Accrued employees' bonuses | 4,313 | 4,289 | 38,444 |
| Other current liabilities (Note 11) | 7,570 | 9,475 | 67,475 |
| Total current liabilities | 136,865 | 130,690 | 1,219,939 |
| **Long-term liabilities:** | | | |
| Long-term debt due after one year (Note 3, 9 and 11) | 95,440 | 103,697 | 850,700 |
| Deferred income tax liabilities on land revaluation (Note 8 and 16) | 21,280 | 21,228 | 189,678 |
| Defined benefit liability (Note 10) | 18,331 | 20,192 | 163,392 |
| Directors' and statutory auditors' retirement benefits | 322 | 317 | 2,870 |
| Provision for environmental measures | 791 | 945 | 7,051 |
| Other long-term liabilities (Note 8) | 6,851 | 7,417 | 61,066 |
| Total long-term liabilities | 143,015 | 153,796 | 1,274,757 |
| **Contingent liabilities (Note 13)** | | | |
| **Net assets (Note 11):** | | | |
| Common stock | | | |
| Authorized - 2,000,000,000 shares | | | |
| Issued - 890,487,922 shares in 2017 and 2016 | 51,730 | 51,730 | 461,093 |
| Capital surplus | 32,239 | 32,239 | 287,361 |
| Retained earnings | 45,919 | 39,539 | 409,297 |
| Less treasury stock, at cost (2,709 thousand shares in 2017 and 2,684 thousand shares in 2016) | (393) | (389) | (3,503) |
| Shareholders' equity | 129,495 | 123,119 | 1,154,247 |
| Valuation difference on available-for-sale securities | 6,388 | 5,847 | 56,939 |
| Deferred losses on hedges | (58) | (162) | (517) |
| Land revaluation (Note 16) | 44,467 | 44,578 | 396,354 |
| Foreign currency translation adjustments | (10,268) | (10,748) | (91,523) |
| Accumulated remeasurements of defined benefit plans | (2,251) | (5,719) | (20,064) |
| Total accumulated other comprehensive income | 38,278 | 33,796 | 341,189 |
| Non-controlling interests | 3,137 | 3,186 | 27,961 |
| **Total net assets** | 170,910 | 160,101 | 1,523,398 |
| **Total liabilities and net assets** | ¥450,790 | ¥444,587 | $4,018,094 |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| **Net assets per share** | ¥188.98 | ¥176.75 | $1.684 |

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **Net sales (Note 15)** | ¥329,487 | ¥347,763 | $2,936,866 |
| Cost of sales | 249,940 | 268,069 | 2,227,828 |
| Gross profit | 79,547 | 79,694 | 709,038 |
| **Selling, general and administrative expenses** | 56,215 | 56,571 | 501,070 |
| Operating profit (Note 15) | 23,332 | 23,123 | 207,969 |
| **Other income (expenses)** | | | |
| Dividend income | 576 | 705 | 5,134 |
| Interest expense | (1,408) | (1,619) | (12,550) |
| Gain on sale of securities | 200 | 702 | 1,783 |
| Foreign exchange losses | (615) | (384) | (5,482) |
| Gain on sales of property, plant and equipment | 269 | - | 2,398 |
| Loss on disposal of property, plant and equipment | (2,311) | (2,764) | (20,599) |
| Loss on realized foreign currency translation adjustments due to liquidation of foreign subsidiary | (1,084) | - | (9,662) |
| Impairment loss (Note 7 and 15) | (2,005) | - | (17,871) |
| Equity in income of unconsolidated subsidiaries and affiliates | 351 | 251 | 3,129 |
| Contribution for equipments | 580 | - | 5,170 |
| Restructuring cost | (1,126) | (765) | (10,037) |
| Salaries paid to dispatched employees | (951) | (888) | (8,477) |
| Other, net | (1,868) | (2,136) | (16,650) |
| | (9,392) | (6,898) | (83,715) |
| **Profit before income taxes and non-controlling interests** | 13,940 | 16,225 | 124,253 |
| **Provision for income taxes (Note 8)** | | | |
| Current | 4,013 | 3,728 | 35,770 |
| Deferred | 900 | 2,231 | 8,022 |
| | 4,913 | 5,959 | 43,792 |
| **Profit** | 9,027 | 10,266 | 80,462 |
| **Profit (loss) attributable to non-controlling interests** | 417 | (116) | 3,717 |
| **Profit attributable to owners of parent** | ¥9,444 | ¥10,150 | $84,179 |
| | Yen | | U.S. dollars (Note 1) |
| **Net profit per share** | | | |
| Basic (Note 2) | ¥10.64 | ¥11.43 | $0.095 |
| **Cash dividends applicable to the year** | ¥3.50 | ¥3.50 | $0.031 |

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Comprehensive Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Profit | ¥9,027 | ¥10,266 | $80,462 |
| Other comprehensive income (Note 19) | | | |
| Valuation difference on available-for-sale securities | 542 | (1,432) | 4,831 |
| Deferred gains and losses on hedges | 104 | (128) | 927 |
| Land revaluation | (70) | 685 | (624) |
| Foreign currency translation adjustments | 748 | (2,910) | 6,667 |
| Accumulated remeasurements of defined benefit plans | 3,471 | (4,086) | 30,939 |
| Share of other comprehensive income of associates accounted for using equity method | (303) | (248) | (2,701) |
| Total other comprehensive income | 4,492 | (8,119) | 40,039 |
| Comprehensive income | 13,519 | 2,147 | 120,501 |
| Comprehensive income attributable to | | | |
| Owners of the parent | 13,968 | 2,040 | 124,503 |
| Non-controlling interests | (¥449) | ¥107 | ($4,002) |

## Consolidated Statements of Changes in Net Assets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Shareholders' equity | | | |
| Capital stock | | | |
| Balance at the beginning of current period | ¥51,730 | ¥51,730 | $461,093 |
| Changes in items during the period | | | |
| Total changes in items during the period | - | - | - |
| Balance at the end of current period | 51,730 | 51,730 | 461,093 |
| Capital surplus | | | |
| Balance at the beginning of current period | 32,239 | 32,239 | 287,361 |
| Changes in items during the period | | | |
| Disposal of treasury stock | 0 | 0 | 0 |
| Total changes in items during the period | 0 | 0 | 0 |
| Balance at the end of current period | 32,239 | 32,239 | 287,361 |
| Retained earnings | | | |
| Balance at the beginning of current period | 39,539 | 32,479 | 352,429 |
| Changes in items during the period | | | |
| Dividends from surplus | (3,107) | (3,107) | (27,694) |
| Profit attributable to owners of parent | 9,444 | 10,150 | 84,179 |
| Reversal of land revaluation | 42 | 17 | 374 |
| Change in scope of consolidation | 1 | - | 9 |
| Total changes in items during the period | 6,380 | 7,060 | 56,868 |
| Balance at the end of current period | 45,919 | 39,539 | 409,297 |
| Treasury stock | | | |
| Balance at the beginning of current period | (389) | (383) | (3,467) |
| Changes in items during the period | | | |
| Purchase of treasury stock | (4) | (6) | (36) |
| Disposal of treasury stock | 0 | 0 | 0 |
| Total changes in items during the period | (4) | (6) | (36) |
| Balance at the end of current period | (393) | (389) | (3,503) |
| Total shareholders' equity | | | |
| Balance at the beginning of current period | 123,119 | 116,065 | 1,097,415 |
| Changes in items during the period | | | |
| Dividends from surplus | (3,107) | (3,107) | (27,694) |
| Profit attributable to owners of parent | 9,444 | 10,150 | 84,179 |
| Reversal of land revaluation | 42 | 17 | 374 |
| Change in scope of consolidation | 1 | - | 9 |
| Purchase of treasury stock | (4) | (6) | (36) |
| Disposal of treasury stock | 0 | 0 | 0 |
| Total changes in items during the period | 6,376 | 7,054 | 56,832 |
| Balance at the end of current period | ¥129,495 | ¥123,119 | $1,154,247 |

See accompanying Notes to Consolidated Financial Statements.

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Accumulated other comprehensive income | | | |
| Valuation difference on available-for-sale securities | | | |
| Balance at the beginning of current period | ¥5,847 | ¥7,126 | $52,117 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 541 | (1,279) | 4,822 |
| Total changes in items during the period | 541 | (1,279) | 4,822 |
| Balance at the end of current period | 6,388 | 5,847 | 56,939 |
| Deferred gains and losses on hedges | | | |
| Balance at the beginning of current period | (162) | (34) | (1,444) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 104 | (128) | 927 |
| Total changes in items during the period | 104 | (128) | 927 |
| Balance at the end of current period | (58) | (162) | (517) |
| Land revaluation | | | |
| Balance at the beginning of current period | 44,578 | 43,920 | 397,344 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | (111) | 658 | (989) |
| Total changes in items during the period | (111) | 658 | (989) |
| Balance at the end of current period | 44,467 | 44,578 | 396,354 |
| Foreign currency translation adjustments | | | |
| Balance at the beginning of current period | (10,748) | (7,460) | (95,802) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 480 | (3,288) | 4,278 |
| Total changes in items during the period | 480 | (3,288) | 4,278 |
| Balance at the end of current period | (10,268) | (10,748) | (91,523) |
| Remeasurements of defined benefit plans | | | |
| Balance at the beginning of current period | (5,719) | (1,628) | (50,976) |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 3,468 | (4,091) | 30,912 |
| Total changes in items during the period | 3,468 | (4,091) | 30,912 |
| Balance at the end of current period | (2,251) | (5,719) | (20,064) |
| Total accumulated other comprehensive income | | | |
| Balance at the beginning of current period | 33,796 | 41,924 | 301,239 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | 4,482 | (8,128) | 39,950 |
| Total changes in items during the period | 4,482 | (8,128) | 39,950 |
| Balance at the end of current period | 38,278 | 33,796 | 341,189 |
| Non-controlling interests | | | |
| Balance at the beginning of current period | 3,186 | 3,098 | 28,398 |
| Changes in items during the period | | | |
| Net changes in items other than shareholders' equity | (49) | 88 | (437) |
| Total changes in items during the period | (49) | 88 | (437) |
| Balance at the end of current period | 3,137 | 3,186 | 27,961 |
| Total net assets | | | |
| Balance at the beginning of current period | 160,101 | 161,087 | 1,427,052 |
| Changes in items during the period | | | |
| Dividends from surplus | (3,107) | (3,107) | (27,694) |
| Profit attributable to owners of parent | 9,444 | 10,150 | 84,179 |
| Reversal of land revaluation | 42 | 17 | 374 |
| Change in scope of consolidation | 1 | - | 9 |
| Purchase of treasury stock | (4) | (6) | (36) |
| Disposal of treasury stock | 0 | 0 | 0 |
| Net changes in items other than shareholders' equity | 4,434 | (8,040) | 39,522 |
| Total changes in items during the period | 10,810 | (986) | 96,354 |
| Balance at the end of current period | ¥170,911 | ¥160,101 | $1,523,407 |

See accompanying Notes to Consolidated Financial Statements.

## Consolidated Statements of Cash Flows

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2017 and 2016

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| **Cash flows provided by operating activities:** | | | |
| Profit before income taxes and non-controlling interests | ¥13,940 | ¥16,224 | $124,253 |
| Depreciation and amortization | 14,939 | 14,434 | 133,158 |
| Allowance for doubtful receivables, net | (106) | 54 | (945) |
| Increase in net defined benefit liability | 884 | 478 | 7,879 |
| Interest and dividend income | (755) | (854) | (6,730) |
| Interest expense | 1,408 | 1,619 | 12,550 |
| Equity in gains of unconsolidated subsidiaries and affiliates | (351) | (251) | (3,129) |
| Loss on impairment of fixed assets | 2,005 | - | 17,871 |
| Loss on sale and disposal of property, plant and equipment, net | 2,085 | 2,764 | 18,585 |
| Write-down and gain on sale of securities, net | (193) | (432) | (1,720) |
| Restructuring cost | 1,126 | 765 | 10,037 |
| Decrease (increase) in trade notes and accounts receivable | (2,447) | 1,571 | (21,811) |
| Decrease in inventories | 1,247 | 5,804 | 11,115 |
| Decrease (increase) in trade notes and accounts payable | 908 | (5,377) | 8,093 |
| Decrease in net defined benefit asset | 2,430 | 1,606 | 21,660 |
| Other, net | (6,620) | (2,695) | (59,007) |
| Total | 30,500 | 35,710 | 271,860 |
| Income taxes paid | (3,628) | (3,373) | (32,338) |
| Net cash flows provided by operating activities | 26,872 | 32,337 | 239,522 |
| **Cash flows used in investing activities:** | | | |
| Purchase of property, plant and equipment and intangibles | (17,152) | (16,958) | (152,884) |
| Proceeds from sale of property, plant and equipment and intangibles | 362 | 382 | 3,227 |
| Proceeds from sale of investment securities | 229 | 3,328 | 2,041 |
| Proceeds from sale of shares of subsidiaries resulting in change in scope of consolidation | 567 | - | 5,054 |
| Collections of long-term loans receivable | 851 | 1,163 | 7,585 |
| Payments of long-term loans receivable | (252) | (2) | (2,246) |
| Interest and dividends received | 923 | 873 | 8,227 |
| Other, net | 340 | 578 | 3,031 |
| Net cash flows used in investing activities | (14,132) | (10,636) | (125,965) |
| **Cash flows used in financing activities:** | | | |
| Cash dividends | (3,112) | (3,111) | (27,739) |
| Cash dividends to non-controlling interests | (5) | (19) | (45) |
| Increase in short-term bank loans | 95 | 182 | 847 |
| Proceeds from long-term loans payable | 9,890 | 13,924 | 88,154 |
| Repayments of long-term loans payable | (20,315) | (15,162) | (181,077) |
| Proceeds from issuance of bonds | 15,000 | - | 133,702 |
| Payments of bonds | - | (10,000) | - |
| Payments of interest | (1,394) | (1,669) | (12,425) |
| Payments for purchase of treasury stock | (5) | (8) | (45) |
| Repayments of finance lease obligations | (478) | (407) | (4,261) |
| Repayment of deposits received from employees | - | (5,114) | - |
| Net cash flows used in financing activities | (324) | (21,384) | (2,888) |
| Adjustments for foreign currency translation | (351) | (605) | (3,129) |
| Net increase (decrease) in cash and cash equivalents | 12,065 | (288) | 107,541 |
| Cash and cash equivalents at beginning of year | 20,101 | 20,389 | 179,169 |
| Increase resulting from changes in consolidated subsidiaries | 13 | - | 116 |
| Cash and cash equivalents at end of year (Note 18) | ¥32,179 | ¥20,101 | $286,826 |

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, 2017 and 2016 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 five 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, 2017, which was ¥112.19 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 50 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, 2017, the accounts of 2 consolidated subsidiaries were included based on a fiscal year that ended on December 31. These subsidiaries did not prepare for consolidation purposes financial statements that corresponded with the fiscal year of the Company. For the consolidated subsidiaries with a fiscal year-end different from that of the Company, if significant transactions occurred between their 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, 2017, TOYOBO SAHA SAFETY WEAVE CO., LTD. has been included in the scope of consolidation because the company was newly established, while TOYOBO MEXICO, S.A.DE C.V. has been included in the scope of consolidation in consideration of its materiality. Toyobo G.M.S. Co., Ltd. has been excluded from the scope of consolidation because this company merged with Toyobo Real Estate Co., Ltd. PERAK TEXTILE MILLS SDN.BHD., TOYOBO WOOL (MALAYSIA) SDN.BHD. and TOYOBO (HONG KONG) CO., LIMITED have been excluded from the scope of consolidation due to the completion of their liquidation. Miyuki Elex Co., Ltd. and Toyobo Living Service Co., Ltd. have been excluded from the scope of consolidation because all their shares were sold.

In the fiscal year ended March 31, 2017, Shin Thai Enterprises Co., Ltd. was excluded from the scope of application of the equity method because all its shares were sold.

In the fiscal year ended March 31, 2017, TOYOBO U.S.A., INC. and four other companies changed their account closing date to March 31, and TOYOBO (SHANGHAI) CO., LTD. and six other companies changed the method to use 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, 2017 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 are accounted for as operating leases if the inception of the lease was on or before March 31, 2008.

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 ¥11,114 million ($99,064 thousand) and ¥11,266 million for the years ended March 31, 2017 and 2016, 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 respective 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.

Net profit 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.

Reconciliation of the differences between basic and diluted net profit per share for the years ended March 31, 2017 and 2016 was as follows.

| | 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, 2017: | | | | |
| Basic | ¥9,444 | 887,793 | ¥10.64 | $0.095 |

| | 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, 2016: | | | |
| Basic | ¥10,150 | 887,817 | ¥11.43 |

Reclassification
Certain reclassifications have been made to the consolidated financial statements for the year ended March 31, 2016 to conform to the presentation for the year ended March 31, 2017.

Additional information
The Company and its domestic subsidiaries adopted the "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016) from the fiscal year ended March 31, 2017.

## 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 collectibility 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 Group's finance subsidiary 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, 2017 and 2016. 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, 2017: | | | | |
| (1) Cash and cash equivalents | ¥32,329 | ¥32,329 | $288,163 | $288,163 |
| (2) Notes and accounts receivable - trade | 81,407 | 81,407 | 725,617 | 725,617 |
| (3) Investment securities | | | | |
| Held-to-maturity investments | 6 | 6 | 53 | 53 |
| Available-for-sale securities | 17,719 | 17,719 | 157,937 | 157,937 |
| Total assets | ¥131,461 | ¥131,461 | $1,171,771 | $1,171,771 |
| (1) Notes and accounts payable - trade | ¥42,721 | ¥42,721 | $380,792 | $380,792 |
| (2) Short-term borrowing | 39,989 | 39,989 | 356,440 | 356,440 |
| Long-term debt | | | | |
| (3) Corporate bonds | 40,000 | 40,022 | 356,538 | 356,734 |
| (4) Long-term loans payable | 88,356 | 88,958 | 787,557 | 792,923 |
| Total liabilities | ¥211,066 | ¥211,690 | $1,881,326 | $1,886,888 |
| Derivatives (*) | (¥81) | (¥81) | ($722) | ($722) |

(*) 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, 2016: | | |
| (1) Cash and cash equivalents | ¥20,258 | ¥20,258 |
| (2) Notes and accounts receivable - trade | 81,176 | 81,176 |
| (3) Investment securities | | |
| Held-to-maturity investments | 12 | 13 |
| Available-for-sale securities | 17,188 | 17,188 |
| Total assets | ¥118,634 | ¥118,635 |
| (1) Notes and accounts payable - trade | ¥43,441 | ¥43,441 |
| (2) Short-term borrowing | 40,586 | 40,586 |
| Long-term debt | | |
| (3) Corporate bonds | 25,000 | 25,140 |
| (4) Long-term loans payable | 98,788 | 99,904 |
| Total liabilities | ¥207,815 | ¥209,071 |
| Derivatives (*) | (¥149) | (¥149) |

(*) 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, for these items, the carrying amount is reported as the fair value.

(3) Corporate bonds

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

(4) 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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Non-listed equity securities | ¥1,012 | ¥1,041 | $9,020 |

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 ¥2,556 million ($22,783 thousand) and ¥2,405 million for the years ended March 31, 2017 and 2016, respectively, the fair value was ¥1,064 million ($9,484 thousand) and ¥838 million for the years ended March 31, 2017 and 2016, respectively, and the difference was a negative ¥1,492 million ($13,299 thousand) and ¥1,567 million for the years ended March 31, 2017 and 2016, respectively. The carrying amount of stocks of unlisted subsidiaries and affiliates was stated at ¥2,658 million ($23,692 thousand) and ¥2,818 million for the years ended March 31, 2017 and 2016, 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, 2017 and 2016:

Held-to-maturity investments

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Book value | Fair value | Difference | Book value | Fair value | Difference |
| Held-to-maturity investments with fair value exceeding book value: | | | | | | |
| Coporate bonds | ¥6 | ¥6 | ¥0 | ¥12 | ¥13 | ¥1 |
| Other | - | - | - | - | - | - |
| Total | ¥6 | ¥6 | ¥0 | ¥12 | ¥13 | ¥1 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2017 | | |
| | Book value | Fair value | Difference |
| Held-to-maturity investments with fair value exceeding book value: | | | |
| Coporate bonds | $53 | $53 | $0 |
| Other | - | - | - |
| Total | $53 | $53 | $0 |

The following tables summarize acquisition cost and book value (fair value) of securities with available fair values as of March 31, 2017 and 2016:

Available-for-sale securities

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Acquisition cost | Book value | Difference | Acquisition cost | Book value | Difference |
| Securities with book values exceeding acquisition costs: | | | | | | |
| Equity securities | ¥7,604 | ¥16,783 | ¥9,179 | ¥6,949 | ¥15,621 | ¥8,672 |
| Other | 6 | 11 | 5 | 6 | 10 | 4 |
| | ¥7,610 | ¥16,794 | ¥9,184 | ¥6,955 | ¥15,631 | ¥8,676 |
| Securities with book values not exceeding acquisition costs: | | | | | | |
| Equity securities | ¥984 | ¥836 | (¥148) | ¥1,909 | ¥1,515 | (¥394) |
| Other | 89 | 89 | - | 42 | 42 | - |
| Total | ¥1,073 | ¥925 | (¥148) | ¥1,951 | ¥1,557 | (¥394) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2017 | | |
| | Acquisition cost | Book value | Difference |
| Securities with book values exceeding acquisition costs: | | | |
| Equity securities | $67,778 | $149,594 | $81,817 |
| Other | 53 | 98 | 45 |
| | $67,831 | $149,692 | $81,861 |
| Securities with book values not exceeding acquisition costs: | | | |
| Equity securities | $8,771 | $7,452 | ($1,319) |
| Other | 793 | 793 | - |
| Total | $9,564 | $8,245 | ($1,319) |

The following table summarizes sales of available-for-sale securities and the related gains and losses for the years ended March 31, 2017 and 2016:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Total sales of available-for-sale securities | ¥233 | ¥3,375 | $2,077 |
| Related gains | 18 | 702 | 160 |
| Related losses | ¥5 | ¥4 | $45 |

## 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, 2017 and 2016 consisted of the following:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | Contract amount | Fair value | Revaluation gain (loss) | Contract amount | Fair value | Revaluation gain (loss) |
| Over the counter | | | | | | |
| Forward | | | | | | |
| Sold | ¥3,016 | ¥7 | ¥7 | ¥2,815 | ¥101 | ¥101 |
| Bought | 309 | (4) | (4) | 510 | (16) | (16) |
| Total | ¥3,325 | ¥3 | ¥3 | ¥3,325 | ¥85 | ¥85 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2017 | | |
| | Contract amount | Fair value | Revaluation gain (loss) |
| Over the counter | | | |
| Forward | | | |
| Sold | $26,883 | $62 | $62 |
| Bought | 2,754 | (36) | (36) |
| Total | $29,637 | $27 | $27 |

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

Currency related transactions designated as hedging transactions at March 31, 2017 and 2016 consisted of the following:

| | | Millions of yen | | | | | |
|---|---|---|---|---|---|---|---|
| | | 2017 | | | 2016 | | |
| | | 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 | ¥169 | - | ¥3 | ¥23 | - | ¥0 |
| Bought | Accounts payable - trade | 577 | - | 2 | 655 | - | (21) |
| Alternative method (Note 2) | | | | | | | |
| Forward | | | | | | | |
| Sold | Accounts receivable - trade | 236 | - | (Note 3) | 308 | - | (Note 3) |
| Bought | Accounts payable - trade | 330 | - | (Note 3) | 435 | - | (Note 3) |
| Total | | ¥1,312 | - | ¥5 | ¥1,421 | - | (¥21) |

| | | Thousands of U.S. dollars | | |
|---|---|---|---|---|
| | | 2017 | | |
| | | Contract amount | | |
| | Major hedged items | Total | Maturity over 1 year | Fair value |
| Deferral hedge accounting (Note 1) | | | | |
| Forward | | | | |
| Sold | Accounts receivable - trade | $1,506 | - | $27 |
| Bought | Accounts payable - trade | 5,143 | - | 18 |
| Alternative method (Note 2) | | | | |
| Forward | | | | |
| Sold | Accounts receivable - trade | 2,104 | - | (Note 3) |
| Bought | Accounts payable - trade | 2,941 | - | (Note 3) |
| Total | | $11,694 | - | $45 |

(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, 2017 and 2016 consisted of the following:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2017 | | | 2016 | | |
| | 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 | (¥89) | ¥15,000 | ¥15,000 | (¥212) |
| Special treatment of interest rate swaps | | | | | | |
| Long-term loans payable | | | | | | |
| Receive - float / Pay - fixed | 1,600 | 1,600 | (Note 2) | 2,100 | 1,600 | (Note 2) |
| Total | ¥16,600 | ¥16,600 | (¥89) | ¥17,100 | ¥16,600 | (¥212) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2017 | | |
| | 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 | $133,702 | $133,702 | ($793) |
| Special treatment of interest rate swaps | | | |
| Long-term loans payable | | | |
| Receive - float / Pay - fixed | 14,262 | 14,262 | (Note 2) |
| Total | $147,963 | $147,963 | ($793) |

(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, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Finished goods | ¥43,516 | ¥44,416 | $387,878 |
| Work-in-process | 13,916 | 15,498 | 124,040 |
| Raw materials | 9,982 | 10,061 | 88,974 |
| Supplies | 5,355 | 5,362 | 47,732 |
| | ¥72,769 | ¥75,337 | $648,623 |

## 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.<br>(Okayama, Okayama) | Business assets | Buildings and structures<br>Machinery and equipment |
| TOYOBO Europe GmbH<br>(Bavaria, Germany) | Business assets | Machinery and equipment |
| TOYOBO DO BRASIL LTDA.<br>(Sao Paulo, Brazil) | Business assets | Machinery and equipment<br>Tangible assets and other |
| Toyobo Real Estate Co., Ltd.<br>(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 because of decisions made to withdraw from the business and a reduction of the size of the business and due to the conclusion of a sales contract for the idle assets, respectively. 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 amounting to ¥2,005 million ($17,871 thousand) among extraordinary losses.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Buildings and structures | ¥117 | $1,043 |
| Machinery and equipment | 1,833 | 16,338 |
| Land | 35 | 312 |
| Tangible assets and other | ¥20 | $178 |

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, 2017 and 2016 are set forth below.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Deferred income tax assets: | | | |
| Accrued employee bonuses | ¥1,492 | ¥1,495 | $13,299 |
| Devaluation loss on inventories | 559 | 567 | 4,983 |
| Defined benefit liability | 6,092 | 7,129 | 54,301 |
| Allowance for doubtful receivables | 512 | 358 | 4,564 |
| Provision for environmental measures | 239 | 288 | 2,130 |
| Impairment loss | 1,241 | 740 | 11,062 |
| Write-down of investment securities | 830 | 672 | 7,398 |
| Depreciation | 258 | 305 | 2,300 |
| Tax losses carried forward | 5,311 | 6,570 | 47,339 |
| Unrealized gains | 8,077 | 8,088 | 71,994 |
| Securities acquired through merger | 195 | 199 | 1,738 |
| Foreign currency translation adjustments | 58 | 326 | 517 |
| Other | 1,670 | 1,325 | 14,885 |
| Subtotal deferred income tax assets | 26,534 | 28,062 | 236,509 |
| Valuation allowance | (5,584) | (4,699) | (49,773) |
| Net deferred income tax assets | 20,950 | 23,363 | 186,737 |
| | | | |
| Deferred income tax liabilities: | | | |
| Reserve for deferred gains on sale of property | (437) | (449) | (3,895) |
| Undistributed earnings of overseas subsidiaries and affiliates | (1,212) | (1,111) | (10,803) |
| Consolidation adjustment of allowance for doubtful receivables | (2) | (1) | (18) |
| Valuation difference of subsidiaries | (1,549) | (1,572) | (13,807) |
| Tax deferred gains on assets transferred to a new company | (1,335) | (1,369) | (11,899) |
| Tax deferred gains on spin-off | (497) | (497) | (4,430) |
| Valuation difference on available-for-sale securities | (2,760) | (2,580) | (24,601) |
| Total deferred income tax liabilities | (7,792) | (7,579) | (69,454) |
| Net deferred income tax assets | ¥13,158 | ¥15,784 | $117,283 |

| | 2017 | 2016 | 2017 |
|---|---|---|---|
| Current assets | ¥4,616 | ¥5,147 | $41,144 |
| Investments and other assets | 11,673 | 14,053 | 104,047 |
| Current liabilities | - | (0) | - |
| Long-term liabilities | (3,131) | (3,416) | (27,908) |
| Total | ¥13,158 | ¥15,784 | $117,283 |

Deferred income tax liabilities on land revaluation of ¥21,280 million ($189,678 thousand) and ¥21,228 million for the years ended March 31, 2017 and 2016, 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% and 33.0% for the years ended March 31, 2017 and 2016, respectively. The effective rate for the years ended March 31, 2017 and 2016 differ from statutory tax rate as follows:

| | 2017 | 2016 |
|---|---|---|
| Statutory tax rate | 31.0% | 33.0% |
| Expenses not deductible for tax purposes | 0.6 | 0.4 |
| Nontaxable dividend income | (0.6) | (0.6) |
| Tax losses carried forward | (2.5) | (2.2) |
| Tax credits | (2.0) | (1.0) |
| Valuation allowance | 4.0 | 3.1 |
| Equity in income of unconsolidated subsidiaries and affiliates | (0.7) | (0.6) |
| Unrealized gains and losses | (0.3) | 0.3 |
| Adjustments of deferred income tax assets by changes in tax rates | - | 1.5 |
| Retained earnings of entities such as overseas subsidiaries | 0.7 | 1.7 |
| Difference in tax rate | (0.5) | (0.5) |
| Goodwill | 0.5 | 0.5 |
| Effect of exclusion of subsidiaries from consolidation | 3.2 | - |
| Other | 1.8 | 1.1 |
| Effective tax rate | 35.2% | 36.7% |

## 9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2017 and 2016 consisted of short-term notes generally due within one year bearing interest at an average rate of 0.60% and 0.71%, respectively.

Long-term debt at March 31, 2017 and 2016 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Unsecured: | | | |
| 0.69% bonds due 2017 | ¥10,000 | ¥10,000 | $89,135 |
| 0.28% bonds due 2019 | 10,000 | 10,000 | 89,135 |
| 0.45% bonds due 2021 | 5,000 | 5,000 | 44,567 |
| 0.16% bonds due 2021 | 5,000 | - | 44,567 |
| 0.31% bonds due 2023 | 10,000 | - | 89,135 |
| Long-term loans payable, principally maturing through 2074 at the weighted average interest rate of 1.09% as of March 31, 2017 | | | |
| Secured | 109 | 211 | 972 |
| Unsecured | 88,247 | 98,577 | 786,585 |
| Lease obligations maturing serially through 2026 | 884 | 984 | 7,879 |
| Total | 129,240 | 124,772 | 1,151,974 |
| Less amount due within one year | 33,230 | 20,425 | 296,194 |
| | ¥96,010 | ¥104,347 | $855,780 |

The aggregate annual maturities of long-term debt outstanding as of March 31, 2017 were as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2018 | ¥33,230 | $296,194 |
| 2019 | 23,876 | 212,818 |
| 2020 | 17,963 | 160,112 |
| 2021 | 6,382 | 56,886 |
| 2022 | 13,388 | 119,333 |
| Thereafter | 34,401 | 306,632 |
| | ¥129,240 | $1,151,974 |

The Company has credit facility commitments with four banks in order to secure financing. The total unused credit available to the Company through these facilities at March 31, 2017 was ¥21,000 million ($187,182 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 relating to the review of the pension contribution interest rate for the defined benefit corporate pension plan and the review of the transfer rate from a lump-sum severance payment to a defined benefit corporate pension fund.

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. Certain consolidated subsidiaries participate in welfare pension fund plans that are multi-employer plans. The amount of plan assets corresponding to each company's contribution can't be reasonably calculated for some of these plans. Such plans are accounted for in the same manner as the 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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Retirement benefit obligations at beginning of year | ¥63,312 | ¥58,349 | $564,328 |
| Service cost | 2,854 | 2,578 | 25,439 |
| Interest cost | 372 | 756 | 3,316 |
| Actuarial differences incurred | (333) | 5,329 | (2,968) |
| Retirement benefits paid | (3,127) | (3,665) | (27,872) |
| Prior service cost incurred | (1,394) | - | (12,425) |
| Other | (142) | (35) | (1,266) |
| Retirement benefit obligations at end of year | ¥61,542 | ¥63,312 | $548,552 |

(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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Plan assets at beginning of year | ¥43,120 | ¥46,123 | $384,348 |
| Expected return on plan assets | 840 | 901 | 7,487 |
| Actuarial differences incurred | 1,034 | (1,866) | 9,217 |
| Employer's contribution | 205 | 226 | 1,827 |
| Retirement benefits paid | (1,987) | (2,264) | (17,711) |
| Plan assets at end of year | ¥43,212 | ¥43,120 | $385,168 |

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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Funded retirement benefit obligations | ¥57,895 | ¥59,743 | $516,044 |
| Plan assets | (43,212) | (43,120) | (385,168) |
| | 14,683 | 16,623 | 130,876 |
| Unfunded retirement benefit obligations | 3,648 | 3,569 | 32,516 |
| Difference between liability and asset recorded on the consolidated balance sheet | 18,331 | 20,192 | 163,392 |
| Defined benefit liability | 18,331 | 20,192 | 163,392 |
| Difference between liability and asset recorded on the consolidated balance sheet | ¥18,331 | ¥20,192 | $163,392 |

Profits or losses related to retirement benefit expenses

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Service cost – benefits earned during the year | ¥2,854 | ¥2,578 | $25,439 |
| Interest cost on projected benefit obligation | 372 | 756 | 3,316 |
| Expected return on plan assets | (840) | (901) | (7,487) |
| Amortization of prior service cost | 90 | 109 | 802 |
| Amortization of actuarial differences | 2,173 | 1,177 | 19,369 |
| Additional retirement benefits | 459 | 397 | 4,091 |
| Retirement benefit expenses for defined benefit plans | ¥5,108 | ¥4,116 | $45,530 |

(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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Prior service cost | ¥1,485 | ¥109 | $13,236 |
| Actuarial differences | 3,541 | (6,018) | 31,563 |
| Total | ¥5,026 | (¥5,909) | $44,799 |

Accumulated remeasurements of defined benefit plans, before tax effect

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Unrecognized prior service cost | (¥1,046) | ¥438 | ($9,323) |
| Unrecognized actuarial differences | 4,313 | 7,855 | 38,444 |
| Total | ¥3,267 | ¥8,293 | $29,120 |

Plan assets

Components of plan assets by main categories are as follows:

| | 2017 | 2016 |
|---|---|---|
| Debt securities | 28% | 34% |
| Equity securities | 25 | 21 |
| General accounts | 33 | 28 |
| Cash and deposits | 1 | 5 |
| Other | 13 | 12 |
| Total | 100% | 100% |

(Note) The ratio of the plan assets used to fund a retirement benefit trust established for corporate pension plans was 7% and 10% for the years ended March 31, 2017 and 2016, respectively.

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, 2017 and 2016 were as follows:

| | 2017 | 2016 |
|---|---|---|
| Discount rates | 0.6% | 0.6% |
| Expected rates of return on plan assets | 2.0% | 2.0% |

Defined contribution plans

The total amount contributed to defined contribution plans was ¥238 million ($2,121 thousand) and ¥239 million for the years ended March 31, 2017 and 2016, respectively.

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 ¥18 million ($160 thousand) and ¥35 million for the years ended March 31, 2017 and 2016, respectively.

## 11. ASSETS PLEDGED AS COLLATERAL

At March 31, 2017 and 2016, assets pledged as collateral for secured long-term debt of ¥109 million ($972 thousand) and ¥211 million, respectively, customers' deposits of ¥170 million ($1,515 thousand) and ¥213 million, respectively, and accounts payable of ¥24 million ($214 thousand) and ¥24 million, respectively, were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Cash and cash equivalents | ¥26 | ¥26 | $232 |
| Property, plant and equipment – net of accumulated depreciation | 985 | 1,023 | 8,780 |
| | ¥1,011 | ¥1,049 | $9,012 |

## 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, 2017 and 2016, the Company and certain consolidated subsidiaries were contingently liable for the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| As endorser of notes discounted | ¥ - | ¥36 | $ - |
| As guarantor of indebtedness | | | |
| Unconsolidated subsidiaries and affiliates | 2,611 | 2,329 | 23,273 |
| Employees (housing loans) | 23 | 30 | 205 |
| | ¥2,634 | ¥2,359 | $23,478 |

## 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 ($499 thousand) and ¥56 million for the years ended March 31, 2017 and 2016, respectively. Future minimum lease payments for the remaining lease periods as of March 31, 2017 and 2016, including interest, were ¥56 million ($499 thousand) and ¥56 million, respectively, for payments due within one year and ¥71 million ($633 thousand) and ¥127 million, respectively, for payments due beyond one year.

Original lease obligations, accumulated payments and remaining payments on leased properties as of March 31, 2017 and 2016 were as follows:

| | Millions of yen | | Thousands of U. S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Machinery and equipment: | | | |
| Original lease obligations | ¥589 | ¥589 | $5,250 |
| Payments made | 462 | 405 | 4,118 |
| Remaining payments | ¥127 | ¥184 | $1,132 |

Future minimum lease receipts as lessor under operating leases for the remaining lease periods as of March 31, 2017 and 2016 were ¥6,778 million ($60,415 thousand) and ¥6,444 million, respectively, of which ¥626 million ($5,580 thousand) and ¥586 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,” “Helthcare,” “Textiles and Trading” and “Real Estate.” The “Films and Functional Polymers” segment manufactures and sells packaging films, industrial films, industrial adhesives, engineering plastics, optical function materials, photo-sensitive printing plates and other products. The “Industrial Materials” segment manufactures and sells fiber materials for automotive applications, high-performance fibers, functional filters, non-woven fabrics and other products. The “Helthcare” segment manufactures and sells bio-products such as enzymes for diagnostics, contract manufacturing of pharmaceuticals, medical-use membranes, medical equipment and equipment devices, 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.

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, 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 | 69,214 | 182 | 69,396 | 4,832 | 78,687 | 2,154 | 274 | 4,953 |
| Helthcare | 27,134 | 102 | 27,236 | 4,281 | 34,745 | 2,512 | - | 3,508 |
| Textiles and Trading | 77,552 | 283 | 77,835 | 1,066 | 71,312 | 1,729 | 1,696 | 1,872 |
| Real Estate | 4,444 | 1,115 | 5,559 | 2,344 | 50,054 | 753 | 35 | 603 |
| | 316,918 | 1,682 | 318,600 | 25,270 | 372,640 | 13,789 | 2,005 | 16,482 |
| Other businesses | 12,569 | 11,370 | 23,939 | 1,000 | 15,431 | 326 | - | 352 |
| Total | 329,487 | 13,052 | 342,539 | 26,270 | 388,071 | 14,115 | 2,005 | 16,834 |
| Elimination or Corporate | - | (13,052) | (13,052) | (2,938) | 62,719 | 824 | - | 1,526 |
| Consolidated | ¥329,487 | ¥ - | ¥329,487 | ¥23,332 | ¥450,790 | ¥14,939 | ¥2,005 | ¥18,360 |

| Year ended March 31, 2017 | 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 | Loss on impairment | Capital expenditure |
| Films and Functional Polymers | $1,235,172 | $0 | $1,235,172 | $113,620 | $1,228,648 | $59,194 | $ - | $49,434 |
| Industrial Materials | 616,936 | 1,622 | 618,558 | 43,070 | 701,373 | 19,200 | 2,442 | 44,148 |
| Helthcare | 241,858 | 909 | 242,767 | 38,158 | 309,698 | 22,391 | - | 31,268 |
| Textiles and Trading | 691,256 | 2,523 | 693,778 | 9,502 | 635,636 | 15,411 | 15,117 | 16,686 |
| Real Estate | 39,611 | 9,938 | 49,550 | 20,893 | 446,154 | 6,712 | 312 | 5,375 |
| | 2,824,833 | 14,992 | 2,839,825 | 225,243 | 3,321,508 | 122,908 | 17,871 | 146,911 |
| Other businesses | 112,033 | 101,346 | 213,379 | 8,913 | 137,543 | 2,906 | - | 3,138 |
| Total | 2,936,866 | 116,338 | 3,053,204 | 234,156 | 3,459,052 | 125,813 | 17,871 | 150,049 |
| Elimination or Corporate | - | (116,338) | (116,338) | (26,187) | 559,043 | 7,345 | - | 13,602 |
| Consolidated | $2,936,866 | $ - | $2,936,866 | $207,969 | $4,018,094 | $133,158 | $17,871 | $163,651 |

(Note) 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 income adjustment of ¥-2,938 million ($-26,187 thousand), eliminations of intersegment transactions of ¥-251 million ($-2,237 thousand) and companywide expenses that are not allocated across reportable segments of ¥-2,687 million ($-23,950 thousand). The principal components of companywide expenses are those related to basic research and development.

(b) The intersegment adjustment of ¥62,719 million ($559,043 thousand) is included in companywide assets that are not allocated across reportable segments and amount to ¥91,770 million ($817,987 thousand).

(c) The increase in the adjustment of tangible and intangible fixed assets of ¥1,526 million ($13,602 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, 2016 | 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 | ¥143,398 | ¥0 | ¥143,398 | ¥9,920 | ¥139,922 | ¥6,420 | ¥6,793 |
| Industrial Materials | 70,522 | 237 | 70,759 | 6,288 | 73,488 | 2,097 | 3,678 |
| Helthcare | 27,723 | 77 | 27,800 | 4,726 | 34,830 | 2,330 | 2,376 |
| Textiles and Trading | 85,486 | 117 | 85,603 | 2,500 | 74,751 | 1,656 | 2,010 |
| Real Estate | 4,203 | 1,143 | 5,346 | 2,270 | 50,954 | 745 | 618 |
| | 331,332 | 1,574 | 332,906 | 25,704 | 373,945 | 13,248 | 15,475 |
| Other businesses | 16,431 | 12,050 | 28,481 | 571 | 18,528 | 392 | 443 |
| Total | 347,763 | 13,624 | 361,387 | 26,275 | 392,473 | 13,640 | 15,918 |
| Elimination or Corporate | - | (13,624) | (13,624) | (3,152) | 52,114 | 794 | 1,418 |
| Consolidated | ¥347,763 | ¥ - | ¥347,763 | ¥23,123 | ¥444,587 | ¥14,434 | ¥17,336 |

(Note) 1. Other businesses includes design and construction of buildings, equipment, etc., information services, logistics services and other items.
2. (a) Elimination or Corporate includes segment income adjustment of ¥-3,152 million, eliminations of intersegment transactions of ¥-305 million and companywide expenses that are not allocated across reportable segments of ¥-2,847 million. The principal components of companywide expenses are those related to basic research and development.
(b) The intersegment adjustment of ¥52,114 million is included in companywide assets that are not allocated across reportable segments and amount to ¥75,209 million.
(c) The increase in the adjustment of tangible and intangible fixed assets of ¥1,418 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 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Japan | ¥233,189 | ¥245,152 | $2,078,519 |
| Southeast Asia | 56,600 | 63,471 | 504,501 |
| Other areas | 39,698 | 39,140 | 353,846 |
| Total | ¥329,487 | ¥347,763 | $2,936,866 |

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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Films and Functional Polymers | ¥ - | ¥ - | $ - |
| Industrial Materials | 274 | - | 2,442 |
| Helthcare | - | - | - |
| Textiles and Trading | 1,696 | - | 15,117 |
| Real Estate | 35 | - | 312 |
| Other businesses | - | - | - |
| Total | 2,005 | - | 17,871 |
| Elimination or Corporate | - | - | - |
| Consolidated | ¥2,005 | ¥ - | $17,871 |

Amortization and balance of goodwill

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2017 | | 2016 | | 2017 | |
| | 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 | 209 | 317 | 236 | 581 | 1,863 | 2,826 |
| Textiles and Trading | - | - | - | - | - | - |
| Real Estate | - | - | - | - | - | - |
| Other businesses | - | - | - | - | - | - |
| Total | 209 | 317 | 236 | 581 | 1,863 | 2,826 |
| Elimination or Corporate | - | - | - | - | - | - |
| Consolidated | ¥209 | ¥317 | ¥236 | ¥581 | $1,863 | $2,826 |

Gain on Negative Goodwill by Reportable Segment

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

Fiscal year ended March 31, 2016 (April 1, 2015 to March 31, 2016)
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, 2017 and 2016, the fair value of land was ¥33,828 million ($301,524 thousand) and ¥33,742 million, respectively, lower than book value. 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, 2017 and 2016, the fair value of land was ¥3,174 million ($28,291 thousand) and ¥3,113 million, respectively, lower than book value.

## 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, 2017 and 2016, the rental income on these real estate properties was ¥2,406 million ($21,446 thousand) and ¥2,395 million (principal rental income is recorded in sales and principal rental expenses are recorded in cost of sales), respectively. The impairment loss on assets was ¥35 million ($312 thousand) (recorded in other income (expenses)) for the year ended March 31, 2017, and the loss on the sale of fixed assets was ¥23 million ($205 thousand) (recorded in other income (expenses)) for the year ended March 31, 2017.

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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Balance at the beginning of April 1, 2016 and 2015 | ¥36,144 | ¥35,141 | $322,168 |
| Increase in the fiscal term | 1,884 | 1,003 | 16,792 |
| Balance at the end of March 31, 2017 and 2016 | ¥38,027 | ¥36,144 | $338,952 |
| Fair value on March 31, 2017 and 2016 | ¥40,342 | ¥39,479 | $359,586 |

(Note) 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, 2017 was attributable mainly to increases in rental property of ¥2,183 million ($19,458 thousand) and to decreases in the sale of assets of ¥52 million ($463 thousand) and impairment loss on assets of ¥35 million ($312 thousand).
3. The fair value at March 31, 2017 and 2016 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, 2017 and 2016 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Cash and cash equivalents in the consolidated balance sheets | ¥32,329 | ¥20,258 | $288,163 |
| Time deposits maturing after three months | (150) | (157) | (1,337) |
| Cash and cash equivalents in the consolidated statements of cash flows | ¥32,179 | ¥20,101 | $286,826 |

## 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 |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Valuation difference on available-for-sale securities | | | |
| Increase (decrease) during the year | ¥808 | (¥1,499) | $7,202 |
| Reclassification adjustments | (40) | (697) | (357) |
| Subtotal, before tax | 768 | (2,196) | 6,846 |
| Tax (expense) of benefit | (226) | 764 | (2,014) |
| Subtotal, net of tax | 542 | (1,432) | 4,831 |
| | | | |
| Deferred gains and losses on hedges | | | |
| Increase (decrease) during the year | 200 | (128) | 1,783 |
| Reclassification adjustments | (50) | (55) | (446) |
| Subtotal, before tax | 150 | (183) | 1,337 |
| Tax (expense) of benefit | (46) | 55 | (410) |
| Subtotal, net of tax | 104 | (128) | 927 |
| | | | |
| Land revaluation excess | | | |
| Tax (expense) of benefit | (70) | 685 | (624) |
| Subtotal, net of tax | (70) | 685 | (624) |
| | | | |
| Foreign currency translation adjustments | | | |
| Decrease during the year | (394) | (2,910) | (3,512) |
| Reclassification adjustments | 1,084 | - | 9,662 |
| Subtotal, before tax | 690 | (2,910) | 6,150 |
| Tax of benefit | 58 | - | 517 |
| Subtotal, net of tax | 748 | (2,910) | 6,667 |
| | | | |
| Accumulated remeasurements of defined benefit plans | | | |
| Increase (decrease) during the year | 2,763 | (7,195) | 24,628 |
| Reclassification adjustments | 2,263 | 1,286 | 20,171 |
| Subtotal, before tax | 5,026 | (5,909) | 44,799 |
| Tax (expense) of benefit | (1,555) | 1,823 | (13,860) |
| Subtotal, net of tax | 3,471 | (4,086) | 30,939 |
| | | | |
| Share of other comprehensive income of associates accounted for using the equity method | | | |
| Decrease during the year | (306) | (248) | (2,728) |
| Reclassification adjustments | 3 | - | 27 |
| Subtotal, net of tax | (303) | (248) | (2,701) |
| | | | |
| Total other comprehensive income | ¥4,492 | (¥8,119) | $40,039 |

## 20. LAWSUITS

Lawsuit for damages brought against the Company by the U.S. Department of Justice.
The U.S. Department of Justice has filed a lawsuit in the United States against Toyobo and Toyobo's U.S. subsidiary, TOYOBO U.S.A., INC. for violating U.S. False Claims Act, for fraud and for unjust enrichment in relation to bulletproof vests which a U.S. company named Second Chance Body Armor, Inc. manufactured and distributed using Toyobo's "Zylon" fibers and which were purchased by the U.S. government.

In addition, regarding bulletproof vests which a number of U.S. companies other than Second Chance (including Armor Holding, Inc.) manufactured and distributed using Toyobo's "Zylon" fibers and which were purchased by the U.S. government, the Department of Justice has filed a lawsuit against Toyobo and TOYOBO U.S.A., INC. for violating U.S. False Claims Act, for fraud and for unjust enrichment. These lawsuits are pending in court, but Toyobo maintains that it was not at fault and is taking appropriate actions to defend its case.

## 21. RELATED PARTY TRANSACTIONS

Related party transactions for the years ended March 31, 2017 and 2016 were as follows:

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

2. For the year ended March 31, 2016
   There were no material related party transactions to report.

## 22. SUBSEQUENT EVENTS

1. At the Company's ordinary meeting of stockholders held on June 28, 2017, appropriations of retained earnings for the year ended March 31, 2017 were duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends - ¥3.50 ($0.031) per share | ¥3,107 | $27,694 |

2. Merger with TOYOBO G･F･A CO., LTD.
   The Company has resolved to implement an absorption-type merger, effective April 1, 2017, with its consolidated subsidiary, TOYOBO G･F･A CO., LTD., at the meeting of the Board of Directors held on December 22,2016 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 has been conducted without seeking approval at the general meeting of shareholders of each company on the execution of the merger.

   The outline of the merger is as follows.

   Outline of the transaction

   (1) Name and content of 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 has operated as a core company of 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 ($192,495 thousand)
Liabilities: ¥21,414 million ($190,873 thousand)
Net assets: ¥182 million ($1,622 thousand)
Operating profit: ¥159 million ($1,417 thousand)
Profit: ¥1 million ($9 thousand)

Outline of 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.

3. Consolidation of shares and change in the number of shares per share unit
At the meeting of Board of Directors held on April 25, 2017, the Company passed a resolution on partial amendment of the Articles of Incorporation regarding the change in the number of shares per share unit and a resolution to submit a proposal on the consolidation of shares at the 159th Annual General Meeting of Shareholders held on June 28, 2017. The resolutions were approved and resolved at the Annual General Meeting of Shareholders and became effective on October 1, 2017.

(1) Purpose of the consolidation of shares and change in the number of shares per share unit
Japanese stock exchanges have promoted the “Action Plan for Consolidating Trading Units,” which calls for consolidating trading units (number of shares per share unit) to basic lots of 100 shares for common stock of domestic listed companies in order to enhance the convenience for market users including investors. In accordance with this purpose, the Company decided to change its number of shares per share unit from 1,000 shares to 100 shares.

In changing the number of shares per share unit, the Company decided to consolidate its shares on the basis of one share for every 10 shares so that the price level per trading unit of its shares would be maintained and there would be no change in the number of voting rights of each shareholder after the change in the number of shares per share unit.

(2) Details of the consolidation of shares:

(i) Class of shares to be consolidated
Common stock

(ii) Method and ratio of the consolidation of shares:
Effective October 1, 2017, shares held by shareholders who are recorded in the final shareholders’ register as of September 30, 2017 were consolidated on the basis of one share for every 10 shares.

(iii) Number of shares to be decreased due to the share consolidation

| | |
|---|---|
| Total number of shares outstanding before the share consolidation (as of March 31, 2017) | 890,487,922 shares |
| Number of shares to be decreased due to the share consolidation | 801,439,130 shares |
| Total number of shares outstanding after the share consolidation | 89,048,792 shares |

(iv) Treatment for cases in which fractions less than one share arise
If any fractions less than one share arise as a result of the share consolidation, pursuant to the provisions of Article 235 of the Companies Act, the Company will collectively dispose of such fractional shares and distribute the proceeds resulting from the disposal to shareholders having the fractional shares in proportion to their respective fractions.

(3) Details of the change in the number of shares per share unit:
Effective October 1, 2017, the number of shares of common stock per share unit was changed from 1,000 shares to 100 shares.

(4) Schedule of the share consolidation and the change in the number of shares per share unit

| | |
|---|---|
| Date of resolution by the meeting of the Board of Directors | April 25, 2017 |
| Date of resolution by the General Meeting of Shareholders | June 28, 2017 |
| Share consolidation and change in the number of shares per share unit | October 1, 2017 |

(5) Effect on per share information

Per share information in the fiscal years ended March 31, 2016 and 2017 based on the assumption that the share consolidation was conducted at the beginning of the fiscal year ended March 31, 2016 is as follows:

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2017 | 2016 | 2017 |
| Net assets per share | ¥1,889.81 | ¥1,767.45 | $16.845 |
| Net profit per share | ¥106.38 | ¥114.32 | $0.948 |

(Note) Diluted net profit per share is not disclosed because the Company had no dilutive shares outstanding.

4. 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
Address: 2-8, Dojima Hama 2-chome, Kita-ku, Osaka
Land area: 5,643.92 $m^2$
Gains from the transfer: approximately ¥10,402 million ($92,718 thousand)
Current status: registered office and rental real estate

(Note) The transfer price and book value are not disclosed due to the 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 a Japanese corporation, it does not have any capital ties or personal or business relationships with the Company that should be disclosed 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 contract | September 26, 2017 |
| Date of delivery of the property | October 20, 2017 |

(5) Effect on consolidated profit and loss

The gain from the transfer of the non-current asset (trust beneficiary rights) of ¥10,402 million ($92,718 thousand) will be recorded as “gain on sales of non-current assets” in extraordinary income in the third quarter of the fiscal year ending March 31, 2018.

## 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, 2017 and 2016, 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, 2017 and 2016, 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, 2017 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

November 13, 2017
Osaka, Japan