

Consolidated Financial Report for the Third Quarter ended December 31, 2016

Toyobo Co., Ltd.

Stock Code: 3101

Listed on the First Section of the TSE

URL <http://www.toyobo-global.com/ir/>

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(Figures are rounded to the nearest million yen)

1. Consolidated Business Performance

(1) Consolidated Operating Results

Nine months ended December 31

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
2016	242,270	(6.0)	15,740	1.5	13,648	(3.0)	6,508	(13.6)
2015	257,865	1.0	15,512	23.9	14,065	66.0	7,537	28.4

(Note) Comprehensive income: Third Quarter ended December 31, 2016: ¥ 8,836 million 39.1%,
Third Quarter ended December 31, 2015: ¥ 6,351 million (29.5%),

	Net income per share	Net income per share after dilution
	Yen	Yen
2016	7.33	—
2015	8.49	—

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Millions of yen	Millions of yen	%
December 31, 2016	446,577	165,826	36.4
March 31, 2016	444,587	160,101	35.3

(Reference) Total shareholders' equity: December 31, 2016: ¥162,704 million, March 31, 2016: ¥156,915 million

2. Dividends

Year ended/ ending March 31

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

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

3. Forecasts for Fiscal Year Ending March 31, 2017

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

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Fiscal Year	340,000	(2.2)	23,000	(0.5)	20,000	(1.9)

	Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Yen
Fiscal Year	10,000	(1.5)	11.26

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

4. Other

1. Significant changes in subsidiaries during the subject fiscal year (Transfer of particular subsidiaries following a change in the scope of consolidation): None
2. Adoption of simplified and special accounting methods: None
3. Changes from accounting methods, procedures and the presentation of the consolidated financial statements:
 - 1) Changes based on revision of accounting standards : None
 - 2) Changes other than 1) above : None
 - 3) Changes due to accounting estimation change : None
 - 4) Error correction : None
4. Number of shares issued and outstanding (common share)
 - 1) Number of shares outstanding (including treasury stock):

December 31, 2016: 890,487,922 shares	March 31, 2016: 890,487,922 shares
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 - 2) Number of treasury stock

December 31, 2016: 2,701,428 shares	March 31, 2016: 2,684,458 shares
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 - 3) Average number of shares outstanding for each period (cumulative term):

Nine months ended December 31	2016: 887,796,986 shares
	2015: 887,820,884 shares

※ Implementation status of Quarterly review

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

※ Explanation regarding the appropriate use of forecasts of business results

The forward-looking statements made in this document, including the aforementioned forecasts, are based on all information available to the management at the time of this document's release. Actual results may differ from the results anticipated in the statements.

1. QUALITATIVE INFORMATION AND FINANCIAL STATEMENTS

(1) Qualitative Information on Consolidated Results

In the nine months ended December 31, 2016, the business environment for the Toyobo Group (hereinafter referred to as the "Group") was characterized by continued uncertainty about the future of the global economy due to 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 the domestic demand. Meanwhile, in Japan, the economy enjoyed a mild recovery based on background of 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 businesses in Japan and overseas markets through developing specialty products. Also, during the nine months under review, the Group promoted business activities in accordance with the five action plans set forth in the Medium-Term Management Plan for the four years covering the period through the fiscal year ending March 2018, namely "accelerating overseas business development," "developing new products and creating new businesses," "increasing competitiveness of domestic businesses," "improving asset efficiency," and "strengthening global Group management."

In "accelerating overseas business development," in the engineering plastics business, the Group decided to establish a new sales base in India, while continuously working to expand sales in 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 reinforcement of its production capacity for polarizer protective films for LCDs "COSMOSHINE SRF," with a view to the future business expansion, while developing its sales significantly. Meanwhile, as for "Nerbridge," a conduit for peripheral nerve regeneration, the number of cases of successful applications increased, and the Group pursued preparations for sales in the United States through achieving FDA 510(k) clearance.

Furthermore, as part of "improving asset efficiency," the Company has decided to terminate its textile operations in Brazil. In addition, the Company has recognized a reversal of foreign currency translation adjustments accompanying the merging and consolidation of foreign subsidiaries.

As a result, consolidated net sales for the nine months under review decreased ¥15.6 billion (6.0%) over the same quarter of the previous fiscal year, to ¥242.3 billion. Operating income increased ¥0.2 billion (1.5%), to ¥15.7 billion, ordinary income decreased ¥0.4 billion (3.0%) to ¥13.6 billion, and profit attributable to owners of parent decreased ¥1.0 billion (13.6%), to ¥6.5 billion.

Results by business segment were as follows:

Films and Functional Polymers

Within this segment, sales decreased but operating income increased from the same period of the previous fiscal year despite a sales growth of new products in the films business in addition to the further sales expansion of some functional polymers products because of the fall in raw material prices.

In the films business, sales of packaging film decreased due to the fall in raw material prices. Meanwhile, as for the industrial film, sales grew due to the steady sales of optical film and increased sales of "COSMOSHINE SRF."

In the functional polymers business, the market environment for industrial adhesive "VYLON" for IT and coatings was difficult. However, sales of the adhesion promoter for polyolefin "HARDLEN" grew for automobile coatings applications. Sales volume of engineering plastics overseas increased as a result of sales expansion efforts, despite struggling in Japan due to a shift in automobile production to overseas.

As a result, sales in this segment decreased ¥4.4 billion (4.1%) from the same period of the previous fiscal year to ¥103.8 billion, but operating income increased ¥2.7 billion (38.3%) to ¥9.6 billion.

Industrial Materials

Sales and operating income decreased in this segment from the same period of the previous fiscal year despite favorable sales of some high-performance fibers because sales of the airbag fabrics and products for consumer and industrial uses were weak.

The airbag fabrics business struggled with the significant impact of weak sales up to the previous quarter, despite improving demands by Japanese automobile manufacturers. As for high-performance fibers, although sales of "IZANAS" remained favorable for ropes and nets applications, sales of "ZYLON" remained sluggish. In products for consumer and industrial uses, sales of the PPS fiber material for filter bags "PROCON" were weak, owing to deteriorating market conditions. In the functional filters business, volatile organic compound (VOC) emissions treatment equipment has been affected by the postponed capital expenditure by Asian users.

As a result, sales in this segment decreased ¥2.4 billion (4.6%) from the same period of the previous fiscal year to ¥49.5 billion, and operating income decreased ¥1.4 billion (34.1%) to ¥2.8 billion.

Healthcare

In this segment, sales increased but operating income decreased from the same period of the previous fiscal year, due to the impact of exchange rates fluctuation on the bioproducts business and the functional membranes business.

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

As a result, sales in this segment increased ¥0.4 billion (2.1%) from the same period of the previous fiscal year to ¥20.7 billion, but operating income decreased ¥0.6 billion (15.9%) to ¥2.9 billion.

Textiles and Trading

In this segment, sales and operating income decreased from the same period of the previous fiscal year as textiles have been affected by the fluctuation of exchange rates and conditions for acrylic fiber 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 sales of materials for inner wear to volume retailers struggled.

Sales of textile products were affected by the fluctuation of exchange rates, although sales volume of materials for traditional Arabic menswear increased. Acrylic fiber business struggled as exports for China have been affected by anti-dumping policies.

As a result, sales in this segment decreased ¥6.9 billion (11.1%) from the same period of the previous fiscal year to ¥55.0 billion, and operating income decreased ¥0.9 billion (86.4%) to ¥0.1 billion.

Real Estate and Other Business

This segment includes infrastructure-related businesses, such as real estate, engineering, information processing services, and logistics services. Results in these businesses were in line with plans.

As a result, total sales in these businesses decreased ¥2.3 billion (14.8%) over the same period of the previous year, to ¥13.2 billion, and operating income increased ¥0.4 billion (18.3%), to ¥2.5 billion.

(2) Qualitative Information on the Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥2.0 billion (0.4%) from the end of the previous fiscal year to ¥446.6 billion. This was mainly because of an increase in cash and deposits.

Total liabilities decreased ¥3.7 billion (1.3%) to ¥280.8 billion. This was mainly because of a decrease in notes and accounts payable - trade.

Total net assets increased ¥5.7 billion (3.6%) to ¥165.8 billion. This was due mainly because of an increase in retained earnings.

(3) Qualitative Information on Consolidated Forecasts

The Company's consolidated performance through the third quarter is generally as initially forecast. We have made no revisions in the forecasts for the full fiscal year ending March 31, 2017, which we announced on November 10, 2016.

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

Additional Information

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

In preparing its financial statements, the Company had used the financial statements prepared as of December 31 with respect to those consolidated subsidiaries whose fiscal year ends on December 31, and accordingly had made the necessary adjustments to consolidated accounts thereof with respect to any material transactions that occurred between December 31 and the date of the consolidated financial statements. However, in order to ensure more appropriate disclosure in the consolidated financial statements, beginning in the first quarter of fiscal 2016, TOYOBO U.S.A., INC. and four other companies changed their respective fiscal year-end dates to March 31, and TOYOBO (SHANGHAI) CO., LTD. and six other companies changed to a method of using financial statements prepared on the basis of a provisional accounts settlement conforming to the accounts settlement performed as of the date of the consolidated financial statements. In line with the changes, the consolidated financial statements reflect the business results of the aforementioned consolidated subsidiaries for the 12 months from January 1, 2016, to December 31, 2016.

(Implementation Guidance on Recoverability of Deferred Tax Assets)

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

(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 will be 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.

1. 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, will absorb TOYOBO G·F·A CO., LTD., which will be 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 an efficient organizational operation.

(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 immediately preceding fiscal year (Fiscal year ended March 31, 2016)

Assets	¥23,852 million
Liabilities	¥23,671 million
Net assets	¥181 million
Operating income	¥227 million
Profit	¥11 million

2. Outline of the accounting method to be applied

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 will be accounted for as a transaction under common control.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2016) (Condensed)	Current Third Quarter (As of December 31, 2016)
Assets		
Current assets		
Cash and deposits	20,258	25,623
Notes and accounts receivable - trade	81,176	76,350
Merchandise and finished goods	44,416	46,321
Work in process	15,498	14,865
Raw materials and supplies	15,424	15,524
Other	10,253	9,600
Allowance for doubtful accounts	(390)	(315)
Total current assets	186,633	187,968
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	48,966	49,068
Machinery, equipment and vehicles, net	44,105	46,359
Land	106,025	105,914
Other, net	9,842	8,641
Total property, plant and equipment	208,937	209,981
Intangible assets	3,860	4,103
Investments and other assets		
Other	46,020	45,379
Allowance for doubtful accounts	(863)	(854)
Total investments and other assets	45,157	44,524
Total non-current assets	257,954	258,609
Total assets	444,587	446,577

(Millions of yen)

	Previous Fiscal Year (As of March 31, 2016) (Condensed)	Current Third Quarter (As of December 31, 2016)
Liabilities		
Current liabilities		
Notes and accounts payable - trade	43,441	39,115
Short-term loans payable	40,586	40,261
Current portion of long-term loans payable	20,091	18,701
Provision	4,305	2,266
Other	22,268	29,029
Total current liabilities	130,690	129,372
Non-current liabilities		
Bonds payable	25,000	30,000
Long-term loans payable	78,697	70,931
Provision for directors' retirement benefits	317	315
Provision for environmental measures	945	835
Net defined benefit liability	20,192	20,937
Other	28,644	28,361
Total non-current liabilities	153,795	151,378
Total liabilities	284,486	280,751
Net assets		
Shareholders' equity		
Capital stock	51,730	51,730
Capital surplus	32,239	32,239
Retained earnings	39,540	42,983
Treasury shares	(389)	(392)
Total shareholders' equity	123,119	126,560
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	5,847	6,496
Deferred gains or losses on hedges	(162)	(39)
Revaluation reserve for land	44,578	44,537
Foreign currency translation adjustment	(10,748)	(10,304)
Remeasurements of defined benefit plans	(5,719)	(4,546)
Total accumulated other comprehensive income	33,796	36,144
Non-controlling interests	3,186	3,122
Total net assets	160,101	165,826
Total liabilities and net assets	444,587	446,577

(2) Consolidated Statements of Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2015 To December 31, 2015)	Current Third Quarter (From April 1, 2016 To December 31, 2016)
Net sales	257,865	242,270
Cost of sales	199,852	183,822
Gross profit	58,014	58,448
Selling, general and administrative expenses	42,502	42,708
Operating income	15,512	15,740
Non-operating income		
Dividend income	607	487
Other	1,423	1,554
Total non-operating income	2,030	2,041
Non-operating expenses		
Interest expenses	1,234	1,089
Other	2,243	3,043
Total non-operating expenses	3,477	4,132
Ordinary income	14,065	13,648
Extraordinary income		
Gain on sales of non-current assets	23	118
Gain on sales of investment securities	37	33
Total extraordinary income	60	151
Extraordinary losses		
Loss on disposal of non-current assets	728	1,256
Loss on restructuring of Business	666	1,210
Loss on realized foreign currency translation adjustments due to liquidation of foreign subsidiary	—	1,085
Other	589	571
Total extraordinary losses	1,983	4,123
Profit before income taxes	12,141	9,677
Income taxes	4,516	3,212
Profit	7,626	6,465
Profit (loss) attributable to non-controlling interests	89	(43)
Profit attributable to owners of parent	7,537	6,508

Consolidated Statements of Comprehensive Income

(Millions of yen)

	Previous Third Quarter (From April 1, 2015 To December 31, 2015)	Current Third Quarter (From April 1, 2016 To December 31, 2016)
Profit	7,626	6,465
Other comprehensive income		
Valuation difference on available-for-sale securities	1,332	700
Deferred gains or losses on hedges	(47)	123
Foreign currency translation adjustment	(2,907)	965
Remeasurements of defined benefit plans, net of tax	632	1,175
Share of other comprehensive income of entities accounted for using equity method	(285)	(592)
Total other comprehensive income	(1,275)	2,371
Comprehensive income	6,351	8,836
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,281	8,898
Comprehensive income attributable to non-controlling interests	70	(62)

(4) Note to Going Concern:

Not applicable

(5) Notes on Significant Changes in Shareholders' Equity

Not applicable

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

(I) Nine months ended December 31, 2015 (from April 1, 2015 to December 31, 2015)

(Millions of yen)

	Segment to be reported						Other Business- ses (Note 1)	Total	Adjust ment (Note 2)	Consolidated Statements of Income (Note 3)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales										
(1) Outside customers	108,270	51,936	20,287	61,928	3,161	245,582	12,283	257,865	—	257,865
(2) Inter-segment sales and transfers	0	201	59	63	849	1,172	8,105	9,277	(9,277)	—
Total	108,271	52,137	20,346	61,991	4,010	246,754	20,388	267,142	(9,277)	257,865
Operating Income (loss)	6,951	4,216	3,493	1,075	1,764	17,462	327	17,789	(2,277)	15,512

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

2. Includes segment income adjustment of (¥2,277) million, eliminations of intersegment transactions of (¥181) million, and companywide expenses that are not allocated across reporting segments of (¥2,097) million. The principal components of companywide expenses are those related to basic research and development.

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

(II) Nine months ended December 31, 2016 (from April 1, 2016 to December 31, 2016)

(Millions of yen)

	Segment to be reported						Other Business- ses (Note 4)	Total	Adjust ment (Note 5)	Consolidated Statements of Income (Note 6)
	Films and Functional Polymers	Industrial Materials	Health care	Textiles and Trading	Real Estate	Total				
Net Sales										
(1) Outside customers	103,822	49,545	20,706	55,041	3,335	232,448	9,822	242,270	—	242,270
(2) Inter-segment sales and transfers	0	92	74	170	830	1,166	7,923	9,089	(9,089)	—
Total	103,822	49,637	20,780	55,211	4,165	233,614	17,745	251,359	(9,089)	242,270
Operating Income (loss)	9,566	2,777	2,938	146	1,755	17,182	719	17,901	(2,161)	15,740

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

5. Includes segment income adjustment of (¥2,161) million, eliminations of intersegment transactions of (¥168) million, and companywide expenses that are not allocated across reporting segments of (¥1,993) million. The principal components of company wide expenses are those related to basic research and development.

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