Management's Discussion and Analysis

Summary

Operating Environment

Global economic conditions in fiscal 2016, ended March 31, 2017, tracked a gradual expansionary path as a whole, as developed countries centered on the U.S. drove firm growth, and the Chinese economy turned upward from the second half of the fiscal year due to economic stimulus measures. Meanwhile, the Japanese economy saw signs of improvement, including an upturn in business confidence in the manufacturing industry due to a recovery in exports and other factors despite sluggish growth in personal consumption.

Strategies in Action

In fiscal 2016, the final year of the revised medium-term management plan announced in 2014, we continued to put our principal emphasis on implementing measures aimed at achieving a self-driven recovery in profitability and at improving our ability to generate cash without relying on a favorable turn in the general operating environment. With this in mind, we steadily executed restructuring initiatives, in conjunction with maximizing profit for the period by expanding sales of core products and services. In parallel, we took steps to spur our further growth by investing actively in our transformation and growth strategies.

Operating Results

Years ended March 31	2016 (Billions of yen)	2017 (Billions of yen)	Change
Net Sales	¥790.7	¥741.3	–6.3%

Net sales totaled ¥741.3 billion, a decrease of 6.3% year on year. This decrease was due in part to the impact of optimizing our production configuration associated with restructuring initiatives mainly in the resin business, in addition to the stronger yen in the first half of fiscal 2016, although sales were generally steady across all businesses on the whole.

Years ended March 31	2016 (Billions of yen)	2017 (Billions of yen)	Change
Operating Income	¥67.1	¥56.5	–15.8%

Operating income decreased 15.8% to ¥56.5 billion, due in part to the impacts of foreign exchange movements, new drug licensing costs and downward revisions to Japan's National Health Insurance (NHI) drug reimbursement prices, despite efforts to steadily expand the earnings base by driving growth in existing businesses and executing restructuring initiatives.

Years ended March 31	2016 (Billions of yen)	2017 (Billions of yen)	Change
Profit Attributable to Owners of Parent	¥31.1	¥50.1	61.3%

Profit attributable to owners of parent increased 61.3% to ¥50.1 billion, partly due to a large decrease in tax expense in conjunction with the adoption of tax effect accounting in connection with the withdrawal from the home healthcare business in the U.S.

As of March 31	2016 (Billions of yen)	2017 (Billions of yen)	Change
Total Assets	¥823.4	¥964.1	17.1%

Total assets as of March 31, 2017 amounted to ¥964.1 billion, up 17.1% from the end of fiscal 2015. The increase in total assets was primarily the result of increases in fixed assets, including goodwill, and certain other items due to the completion of the acquisition of CSP in January 2017. There was also an increase in deferred tax assets in conjunction with the adoption of tax effect accounting following the withdrawal from the U.S. home healthcare business.

Years ended March 31	2016 (Billions of yen)	2017 (Billions of yen)
Free Cash Flow	¥40.3	–¥48.6

Free cash flow was a negative ¥48.6 billion, with net cash and cash equivalents used in investing activities, such as the acquisition of CSP and purchase of other fixed assets exceeding net cash and cash equivalents provided by operating activities.

Years ended March 31	2016	2017
Key Indicators		
ROE	10.6%	15.7%
ROIC (based on operating income)	12.7%	10.0%
D/E Ratio	1.01 times	1.11 times

Return On Invested Capital (ROIC) decreased in line with the lower operating income and higher invested capital, while return on equity (ROE) improved dramatically, surpassing 15%, due to the increase in profit attributable to owners of parent. The debt-to-equity (D/E) ratio increased slightly, as an increase in interest-bearing debt surpassed an increase in shareholders' equity.

Tasks Ahead

In order to realize our long-term vision, we will steadily press ahead with the implementation of our growth strategies, and our transformation strategies, laid out in the new medium-term management plan announced in February 2017. Concurrently, we will work to strengthen our management system platform underpinning these strategies. In fiscal 2017, the first year of the plan, we will take concrete strategic actions to maintain and strengthen profitability in existing businesses, nurture and expand new businesses, and advance Head Office restructuring initiatives, with a view to accomplishing business portfolio transformation.

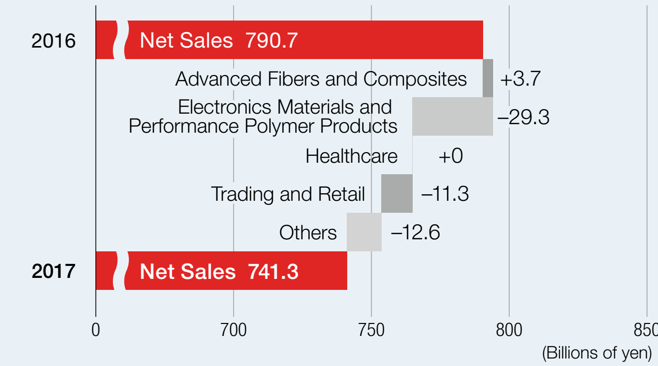
Results of Operations

Net Sales

Sales were generally steady across all businesses on the whole, but were impacted by the stronger yen in the first half of fiscal 2016. In addition, as part of our restructuring initiatives, we halted production at our Singapore plant in the resin business to optimize our production configuration. As a result, the Electronics Materials and Performance Polymer Products segment reported a steep decline in sales. Consequently, net sales decreased ¥49.5 billion, or 6.3% year on year, to ¥741.3 billion.

By region, there was a general decline in overseas sales due to the impacts of the abovementioned foreign exchange movements and restructuring initiatives. However, sales to the U.S. expanded by 16% year on year, mainly due to the completion of the acquisition of CSP in January 2017 and the consolidation of CSP from the fourth quarter. Meanwhile, domestic sales decreased 4%, mainly reflecting slowing growth in sales of textile materials and products due to a downturn in spending on apparel and inventory adjustments by customers.

Analysis of Net Sales
(Years ended March 31)

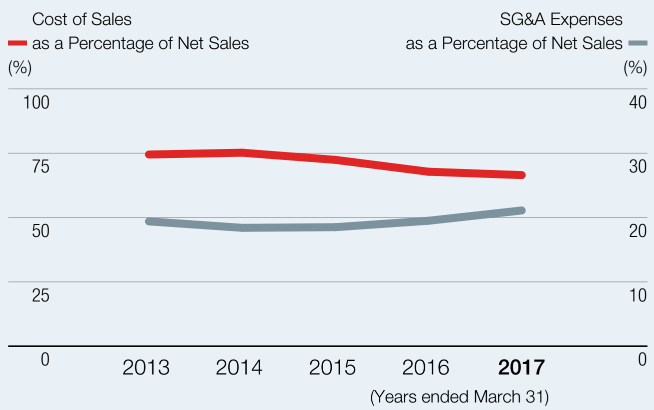


Costs and Expenses

Cost of sales decreased 8.1%, or ¥43.4 billion, to ¥492.9 billion mainly due to a decrease in fixed expenses due to restructuring initiatives. As a percentage of net sales, cost of sales declined 1.3 percentage points to 66.5%.

Selling, general and administrative (SG&A) expenses increased 1.6%, or ¥2.5 billion, to ¥156.5 billion, due to increases in business acquisition-related costs and other items. SG&A expenses represented 21.1% of net sales.

R&D expenses increased 6.3%, or ¥2.1 billion, to ¥35.4 billion partly due to new drug licensing costs.



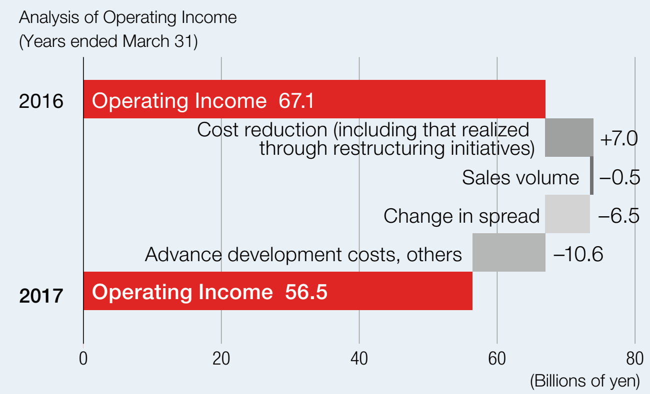
Operating Income

Operating income decreased 15.8%, or ¥10.6 billion, to ¥56.5 billion, due in part to the impacts of foreign exchange movements, new drug licensing costs and downward revisions to NHI drug reimbursement prices.

In the Advanced Fibers and Composites segment, profit decreased mainly due to the impacts of foreign exchange movements and regular maintenance in aramid fibers. In the Electronics Materials and Performance Polymer Products segment, profit decreased mainly due to the impacts of foreign exchange movements, although the segment maintained steady profitability. In the Healthcare segment, profit declined slightly. However, robust results for core products and services absorbed most of the impact of new drug licensing costs as well as downward revisions to medical fees. In the Trading and Retail segment, profits increased reflecting the realization of an even more appropriate production configuration and growth in sales of products for sports and outdoor use.

As a consequence of these and other factors, the operating margin on sales dipped 0.9 of a percentage point, to 7.6%.

Looking at the main factors in the operating income result, there was a positive contribution to profit improvement of around ¥7.0 billion from cost reductions (including those realized through restructuring initiatives). Meanwhile, advance development costs, others due to the impacts of new drug licensing costs and foreign exchange movements produced a negative impact of around ¥10.6 billion. Changes in spread due to the impacts of downward revisions to NHI drug reimbursement prices and foreign exchange movements had a negative impact of around ¥6.5 billion.



Other Income (Expenses)

Other expenses, a net figure, amounted to ¥22.6 billion, a deterioration of ¥1.0 billion from ¥21.5 billion in fiscal 2015.

Principal factors contributing to this result included recording of business structure improvement expenses due to a decision to withdraw from the home healthcare business in the U.S.

Profit Attributable to Owners of Parent

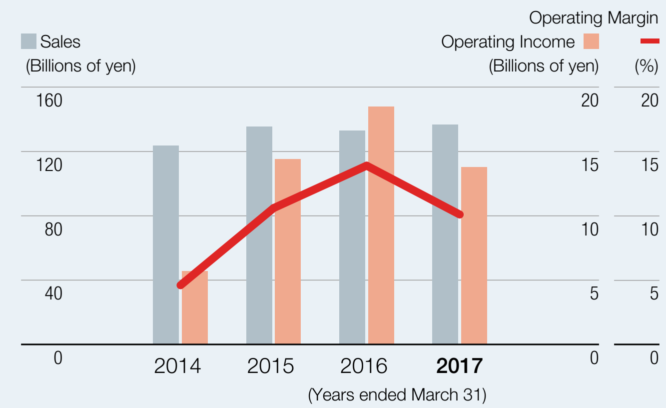
After deducting income taxes and loss attributable to non-controlling interests, we recorded a profit attributable to owners of parent of ¥50.1 billion, improving by ¥19.0 billion from a profit of ¥31.1 billion in fiscal 2015. As a result, ROE rebounded significantly from 10.6% to 15.7%.

The dramatic improvement in profit attributable to owners of parent was supported in large part by a decrease in tax expenses that exceeded other expenses. The decreased tax expenses reflected the adoption of tax effect accounting following the decision to withdraw from the U.S. home healthcare business.

Business Segment Results

Advanced Fibers and Composites

Sales in the Advanced Fibers and Composites segment totaled ¥136.8 billion, an increase of 2.8%, while operating income was ¥13.8 billion, down 25.2%.



High-Performance Fibers

■ **Sales remained firm for automotive applications.**

In aramid fibers, sales of *Twaron* para-aramid fibers expanded firmly for automotive applications, including for tires in Europe. In contrast, sales for oil drilling and ballistic protection applications were weak. Sales were firm for *Technora* para-aramid fibers both for automotive applications in Japan and also for infrastructure-related applications overseas. *Technora* is being used in an expanding range of applications under more extreme conditions given the positive assessment of its outstanding fatigue resistance, chemical barrier and other properties. Sales of *Teijinconex* meta-aramid fibers were robust for use in automotive applications such as turbocharger hoses, as well as protective clothing and industrial applications, despite persistently fierce competition in the growing market for filter applications. Moreover, at a new production facility in Thailand, where production and sales commenced in fiscal 2015, we are focused on expanding this particular business in promising Asian markets and emerging markets, where high growth is expected against the backdrop of increasingly stringent regulations pertaining to flame-retardant materials and environmental safety.

In polyester fibers, solid sales were recorded for automotive applications, such as seat belts, conveyor belts and hose cords, and for use in personal hygiene products, wadding, and reverse osmosis membrane support layers for water treatment applications. Moreover, we are striving to further strengthen our competitiveness by realigning our domestic production configuration and by transferring production of certain items to subsidiaries in Thailand.

Carbon Fibers and Composites

■ **Sales for use in aircraft grew steadily; Continental Structural Plastics acquired.**

Sales of *TENAX* carbon fibers continued to grow steadily for use in aircraft. In other areas, sales for wind power generation in the Americas and Europe were robust, but the supply-demand balance softened for general industrial use, and for sports and leisure applications in Asia. In addition, *Pyromex* Oxidized PAN fiber has continued to post steady sales, reflecting favorable demand for use in aircraft brake pads. In response, a carbon fiber production line is being converted into a *Pyromex* production line at Toho Tenax America, Inc.

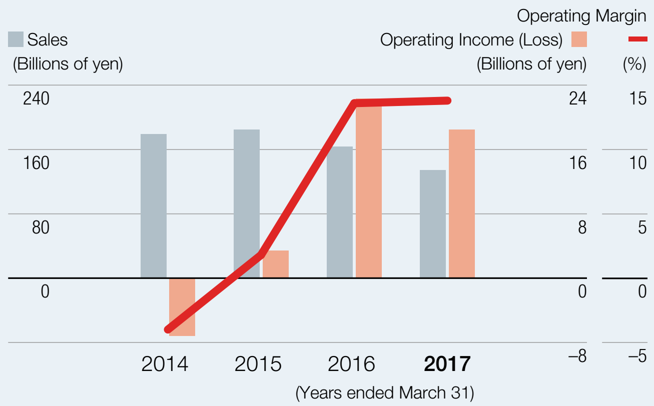
In this environment, we are working to expand business centered on composite materials to be used in mass-produced automotive components. As part of these efforts, in January 2017, we acquired Continental Structural Plastics Holdings Corporation (Headquarters: Michigan, U.S.A.; "CSP"), a global leader in automotive lightweight composite technologies. CSP became our wholly owned subsidiary. Going forward, we will integrate CSP's glass fiber reinforced plastic (GFRP) and our fiber reinforced plastic (FRP) technologies, specifically carbon fiber reinforced thermoplastic (CFRTP) and carbon fiber reinforced plastic (CFRP). In addition, we will drive the growth of CSP's components business model in the Americas, as we advance global market expansion of this business model to Europe, Japan and Asia. Through these measures, we will establish a strong business platform in automotive composite products and will work to strengthen our role as a supplier of Tier 1 components in this business.

Furthermore, to address further growth in demand for carbon fiber primarily in North America, we have completed the acquisition of land in the U.S. and are considering the construction of a new carbon fiber plant.

In addition, we carried out a fuel conversion of in-house power generation equipment at the Mishima Factory in Japan, a key carbon fiber production site, by switching from steam turbine generation using heavy oil to gas turbine power generation. As a result, we will push ahead with the reduction of our environmental impact in conjunction with improving power generation efficiency.

Electronics Materials and Performance Polymer Products

Sales in the Electronics Materials and Performance Polymer Products segment totaled ¥134.4 billion, a decrease of 17.9%, while operating income was ¥18.5 billion, a decrease of 17.1%.



Resin and Plastics Processing

■ Steady performance by polycarbonate resins, with a focus on further expanding high-performance applications.

Our mainstay *Panlite* and *Multilon* polycarbonate resin products saw firm supply-demand dynamics and maintained steady profitability, owing to high capacity utilization maintained at both production sites in China and Japan, plus an improved sales mix. However, there was a reduction in profits due to the impact of foreign currency conversion reflecting the stronger yen. In this environment, we are taking initiatives to further expand high-performance applications. In the automotive market, we are working to apply polycarbonate resin molded products incorporating advanced coating technology to automotive windows. Also, we are actively expanding a copolymer polycarbonate featuring a high surface hardness to applications such as automotive interior panels. In growing markets such as disaster readiness infrastructure, housing, and healthcare, we are offering proposals encompassing the supply of products as well as materials, both of which are centered on high value added polycarbonate resins and their compounds. In addition, we are actively pushing ahead with providing weight reduction, metal replacement and other solutions using proprietary composite materials that combine polycarbonate resins with the Teijin Group's high-performance fibers (aramid fibers, carbon fibers).

In high-performance resins, we are working to upgrade and expand our lineup of specialty polycarbonate resins for camera lenses in order to offer optimal products for smartphones as well as for use in vehicle and surveillance cameras expected to see market expansion. In addition, we are accelerating the expansion of polyethylene-naphthalate (PEN) resin to various pressure vessels by taking advantage of the features of PEN, including its chemical and gas barrier resistance properties. In flame retardants, we are expanding the market for new phosphorous products that lend high flame retardancy and bring easy colorability to polyester fibers as well as resins, alongside our existing lineups, which are generating steady earnings.

In regard to the "super engineering plastic" polyphenylene sulfide (PPS) resin, for which a mass-production structure is being established at INITZ Co., Ltd., a joint venture with SK Chemicals Ltd. of the Republic of Korea (ROK), we are developing distinctive compound products leveraging Teijin's proprietary technologies centered on automotive and electronics applications.

Films

■ Integrated our domestic polyester film production facilities and converted joint ventures in Japan and Indonesia into wholly owned subsidiaries.

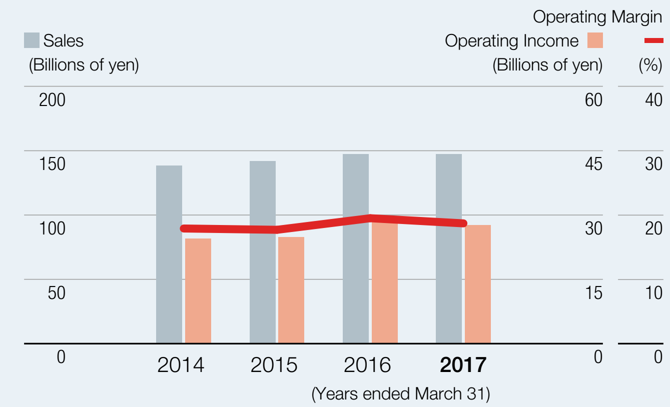
Reflective films for use in liquid crystal display (LCD) televisions remained under pressure in terms of both volume and pricing due to the emergence of Chinese manufacturers. We posted relatively firm sales of *Purex* release films for manufacturing processes mainly for use in multilayer ceramic capacitors for smartphones and other devices, as well as special packaging application exports and polyethylene-naphthalate (PEN) film for use in magnetic materials. Sales also remained strong for *Panlite Sheet*, a product made of polycarbonate resin, and *ELECLEAR* transparent electroconductive film, primarily for use in vehicle display applications. In addition, *PURE-ACE* optical film using specialty polycarbonate resin saw expanded sales for reverse-dispersion solvent-cast retardation film for use as an organic electroluminescent display (OLED) antireflective film, along with expanded sales for use in flexible printed circuits.

In this climate, profit increased from fiscal 2015, owing to improvements in the sales mix of both polyester and polycarbonate films, as well as contributions from lower costs due to the integration of domestic polyester film production facilities. Moreover, we acquired the shares held by our joint venture partner E.I. du Pont de Nemours and Company (Du Pont) in the film business joint ventures in Japan and Indonesia. Business operations in Japan have recommenced under the new company name Teijin Film Solutions Limited. In Indonesia, business operations have recommenced under the new company name of P.T. Indonesia Teijin Film Solutions. This deal will enable us to improve management flexibility and decision-making speed.

Looking at overseas sites, in China, sales volume was mostly unchanged from fiscal 2015 as market conditions remained sluggish. In the Americas and Europe, demand was relatively firm centered on packaging applications.

Healthcare

Sales in the Healthcare segment totaled ¥147.5 billion, mostly unchanged, while operating income was ¥27.6 billion, down 4.3%.



Pharmaceuticals

■ Sales of our novel treatment for hyperuricemia and gout expanded favorably.

The domestic pharmaceuticals market continues to face a challenging business environment. In this climate, sales of hyperuricemia and gout treatment *FEBURIC* (febuxostat) and *Somatuline*®[*1], a treatment for acromegaly, continued to expand steadily. In addition, we are providing patients with a wider range of choices through new formulations, such as an oral jelly and an intravenous drip of the osteoporosis treatment *Bonalon*®[*2], and *Mucosolvan* L Tablet 45 mg, a novel reduced-sized tablet-form version of the sustained-release expectorant *Mucosolvan*. Also, we are working to expand sales of the transdermal anti-inflammatory analgesic patch formulation *LOQOA* Tape, which we began jointly marketing with Taisho Toyama Pharmaceutical Co., Ltd. in January 2016.

On the R&D front, in July 2016, we applied for a new indication for treatment of neuroendocrine tumors for *Somatuline*®[*1], a treatment for agromegaly. In parallel, we began the clinical development of TMX-049DN (UK, Phase I) as a new treatment for diabetic nephropathy in Type 2 diabetes. In August 2016, we signed an exclusive license and supply agreement with Versartis, Inc. of the U.S. for the development and marketing of *Somavaratan* (VRS-317), a novel, long-acting form of recombinant growth hormone (rhGH) developed by Versartis, Inc. with its first planned indication being dwarfism caused by pediatric growth hormone deficiency (PGHD). In November 2016, we received a request from the Japanese Ministry of Health, Labour and Welfare to develop an expanded indication of *Somatuline*®[*1] for thyroid stimulating hormone-secreting pituitary tumors, and have begun taking actions targeting the start of clinical trials within one year. Also, in December 2016, we entered into a collaboration and license agreement with Amgen Inc. of the U.S. regarding research and development of new therapeutic agents for kidney diseases and disorders. In February 2017, we started phase III clinical trials of ITM-058, a new treatment for osteoporosis. In March 2017, we started phase II clinical trials of TMX-049, a new treatment for hyperuricemia and gout, and phase II clinical trials of TMG-123, a new treatment for Type 2 diabetes.

Sales of febuxostat also continued to expand encouragingly overseas. We have secured exclusive distributorship agreements for febuxostat covering 117 countries and territories. The drug is currently sold in 67 of these countries and territories (including Japan), and we are in the process of obtaining regulatory approval to make it available in the others.

*1 *Somatuline*® is a registered trademark of Ipsen Pharma, France.
*2 *Bonalon*® is the registered trademark of Merck Sharp & Dohme Corp., U.S.A.

Home Healthcare

■ Rental volumes either remained high or increased for all offerings.

In Japan, we firmly maintained a high level of rental volume for therapeutic oxygen concentrators for home oxygen therapy (HOT). Looking ahead, we will strive to further boost rental volume by enhancing the lineup and expanding the use of portable oxygen concentrators (*Hi-Sanso Portable α* (alpha), *Hi-Sanso Portable α II*), which are designed to expand the range of patients' daily activities. Efforts will also be made to achieve the same for non-portable oxygen concentrators such as *Hi-Sanso 5S*. Rental volume for continuous positive airway pressure (CPAP) ventilators for the treatment of sleep apnea syndrome (SAS) continued to increase favorably, due to increasing the appeal of *NemLink*, a monitoring system for CPAP ventilators that uses mobile phone networks, and to the use of the *SAS2100* sleep disorder diagnostic system. We will continue seeking to further boost rental volume by expanding the use of *SLEEPMATE10*, a model featuring a built-in heater-humidifier in addition to *NemLink* functions. To further fortify support services for individuals, we sought to improve our ability to respond to patient needs by capitalizing on our home healthcare call centers in Fukuoka and Osaka, Japan.

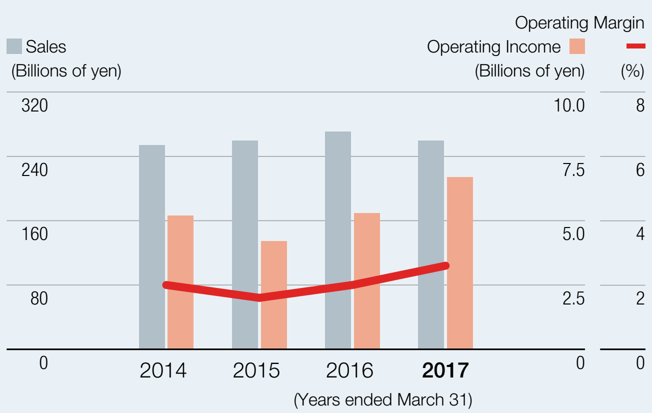
Meanwhile, in September 2015 we commenced sales of *VitalLink*, a multidisciplinary collaboration and information sharing system. We have steadily expanded sales of *VitalLink* by making progress on signing agreements with physicians through medical associations, in addition to signing agreements directly with primary care physicians. Moreover, in regard to a repetitive transcranial magnetic stimulation device developed through an industry-academia partnership with Osaka University and other partners, investigator-initiated clinical trials of intractable chronic pain using this device are under way at several facilities. We also continued to expand our marketing efforts for the *WalkAide* System, a neuromuscular electrical stimulation device providing walking assistance in the case of gait impairment resulting from stroke or other causes launched in fiscal 2013, which initially focused on the Tokyo metropolitan area, to medical institutions elsewhere in the country. Additionally, in November 2016 we launched *ReoGo-J*, a portable robotic arm that supports the rehabilitation of paralyzed upper limbs due to stroke. Besides expanding sales of both products, we will continue to upgrade and enhance our lineup of rehabilitation devices going forward.

Overseas, we had been considering bold reorganization measures targeting the home healthcare business in the U.S. On April 27 (U.S. time), we decided to withdraw from the home healthcare business in the U.S. by selling all of our equity in this business to a company affiliated with Quadrant Management, Inc.* We will continue to undertake the home healthcare business in Spain and the ROK.

* An investment firm based in the U.S. that has a portfolio including a major home healthcare provider boasting one of the largest home healthcare businesses in the country.

Trading and Retail

Sales in the Trading and Retail segment totaled ¥259.6 billion, a decrease of 4.2%, while operating income was ¥6.7 billion, an increase of 25.8%.



Fiber Materials and Apparel

■ **Focused on strengthening the operating structure and expanding differentiated businesses.**

In fiber materials, sales of high-performance materials for sports and outdoor use grew in the Americas and Europe, and the Japanese market, but profitability declined due to the impact of the stronger yen. In addition, in polyester yarn, although sales volume for use in automobiles declined due to the negative impact of domestic production adjustments by automakers, we posted expanded sales of differentiated, high performance yarn for interior goods to major retailers, as well as differentiated yarn for apparel, leading to a large improvement in earnings. In uniform materials, earnings improved owing to cost reductions through the transfer of production overseas and an increase in individual orders.

In functional textiles and apparel, the business environment in Japan remained under pressure due to a downturn in spending on apparel, inventory adjustments by customers, and other factors. In this environment, we promoted production at optimal sites and improved quality control in the production process. In conjunction with this, we strove to drive earnings growth by expanding business targeting prominent retailers and apparel sectors, leveraging our strengths in planning and proposal-oriented business based on our unique material *SOLOTEX* and the *DELTA* series. In June and November 2016, we proposed and presented our differentiated businesses to the markets through comprehensive exhibitions of textiles and apparel staged by Teijin Frontier Co., Ltd., which enabled us to capture customer needs and expand business.

Industrial Textiles and Materials

■ **Favorable performance by automotive materials and civil engineering materials.**

In sales of automotive materials, sales of reinforcement materials for tires, conveyor belts, and automotive hoses were firm. With the sales volume of air-bag fabric remaining on a growth track, we have set our sights on further expanding production. Sales of automotive interior materials and equipment struggled because of inventory adjustments by customers, but sales of fabric for synthetic leather grew significantly.

In other industrial textiles and related materials, in the Japanese market, we recorded solid sales of civil engineering materials including concrete flaking prevention sheets for use in disaster reconstruction projects and arterial highways. In addition, we saw surging demand for *AEROSHELTER* provisional tents for disaster-readiness purposes and events. Sales were also solid for materials for agriculture, fisheries, electronics and the environment. Moreover, in overseas markets, we expanded business involving environmental materials for China on the back of market expansion.

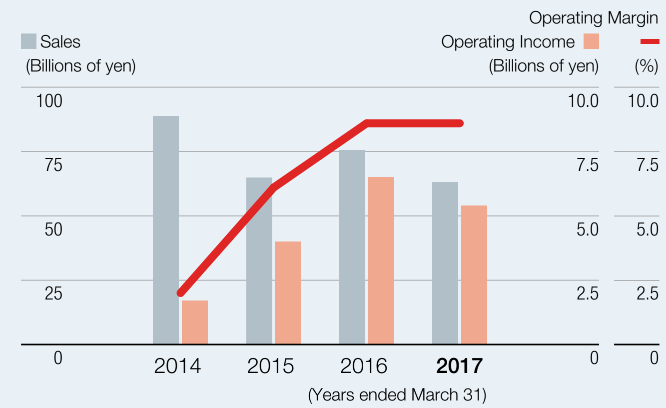
In living related materials, particularly interior materials, we recorded increased profits from curtain materials due to the stronger yen, along with firm sales of wall- and floor-covering materials. We also posted solid sales of wiping-related materials. In wellness related products, we steadily increased sales of personal hygiene products and expanded the healthcare-related business with a major convenience store chain.

In resin and films, sales of PET films turned upward in the second half of fiscal 2016 in step with a recovery in production in the market for electronic components, but this did not make up for the sluggish sales in the first half.

In initiatives to create other new businesses, we focused on expanding sales of our "wearable cosmetics" *Raffinan*, disaster mitigation-related products, *Motanka*, an emergency blanket, and *Pullshelter*, a disaster-readiness curtain. We also steadily advanced initiatives to commercialize products using wearable electrode textiles.

Others

Others, which does not qualify as a reportable operating segment, generated sales of ¥63.0 billion, down 16.7%, and operating income of ¥5.4 billion, down 17.2%.



The IT business posted a steady performance mainly due to steady growth in sales of *MECCHA COMICS*, an e-book distribution service in the net services category. In the IT services category, specifically in the healthcare business, we bolstered sales of medical information systems including a radiology information system. At the same time, we are taking steps to expand into the nursing care field. Notably, we began providing monitoring services using the Internet of Things (IoT) and a nursing care recordkeeping system.

In new business development, sales of *LIELSORT* lithium-ion battery (LIB) separators were sluggish due to market conditions. In parallel, we stepped up our focus on developing new customers.

In the area of new healthcare initiatives, we decided to establish a joint venture company in July 2017 that will be a medical company spun off from Takiron Co., Ltd. in the field of implantable medical products. The formal agreement for the acquisition of the shares of the joint venture company was signed in January 2017. We will promote business development over the medium to long term in tandem with improving profit by leveraging the Teijin Group's marketing and technological capabilities, including the knowhow of Teijin Nakashima Medical Co., Ltd., which has already entered the market.

In the field of functional food ingredients, we made efforts to conduct development and marketing activities that are resulting in food manufacturers steadily increasing their adoption of *BARLEYmax*, an enhanced barley product. Looking ahead, we will continue to focus on evidence acquisition and promotion to accelerate future business development.

Financial Position

Analysis of Assets, Liabilities, Net Assets and Cash Flows

Interest-bearing debt, at ¥376.2 billion, was up ¥72.9 billion mainly due to an increase in line with the procurement of funds for the acquisition of CSP. Shareholders' equity increased ¥38.3 billion due to a significant increase in profit attributable to owners of parent. However, the debt-to-equity ratio increased to 1.11 times. The equity ratio was 35.1%, down 1.3 percentage points.

Japan's Rating and Investment Information, Inc. maintained its rating of our long-term debt at A– (stable), the same rating as in fiscal 2015.

Additionally, our debt payback period increased to 4.8 years, from 3.8 years in fiscal 2015, while our interest coverage ratio rose to 36.5 times, from 32.5 times in fiscal 2015.

As of March 31, 2017	Rating	Outlook
Rating and Investment Information, Inc.	A–	Stable

■ **Assets, Liabilities and Net Assets**

Total assets as of March 31, 2017 amounted to ¥964.1 billion, up ¥140.6 billion from the end of fiscal 2015. The increase in total assets was primarily the result of increases in fixed assets, including goodwill, and certain other items due to the completion of the acquisition of CSP in January 2017. There was also an increase in deferred tax assets in conjunction with the adoption of tax effect accounting following the decision to withdraw from the U.S. home healthcare business.

Total liabilities amounted to ¥612.2 billion, up ¥103.2 billion from the end of fiscal 2015. Interest-bearing debt accounted for ¥376.2 billion of the total, up ¥72.9 billion mainly due to an increase in line with the procurement of funds for the acquisition of CSP.

Total net assets amounted to ¥351.8 billion, up ¥37.4 billion from the end of fiscal 2015. Total shareholders' equity and total accumulated other comprehensive income together represented ¥338.4 billion of the total, an increase of ¥38.3 billion. There was an increase in line with profit attributable to owners of parent, but this was partially offset by the payment of dividends and by a decrease in foreign currency translation adjustment in connection with the stronger yen.

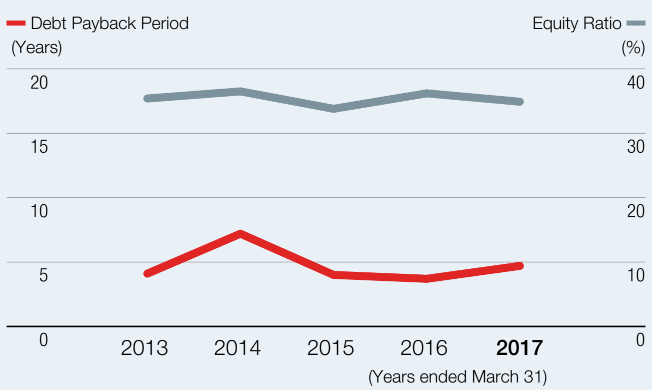
Cash Flows

Net cash and cash equivalents provided by operating activities in fiscal 2016 amounted to ¥79.0 billion. This result reflected income before income taxes, along with the impact of non-cash items such as depreciation and amortization, impairment loss and provision for business structure improvement.

Net cash and cash equivalents used in investing activities amounted to ¥127.7 billion, owing mainly to the acquisition of CSP and the purchase of other fixed assets. Free cash flow in fiscal 2016 was thus a negative as operating and investing activities combined used a net total of ¥48.6 billion.

Net cash and cash equivalents provided by financing activities amounted to ¥63.8 billion. This reflected the net balance of components including the net result of proceeds from short- and long-term debt and repayment thereof, and the payment of dividends.

After factoring in the impact of exchange rate fluctuations, operating, investing and financing activities in the period under review resulted in a net increase in cash and cash equivalents of ¥16.6 billion as of March 31, 2017.



Outlook for Fiscal 2017 (Announced on August 1, 2017)

Forecast for Operating Results

In fiscal 2017, the global economy is expected to remain on a steady growth path on the whole, despite several risks associated with the direction of public policy in various countries. In developed countries, the employment environment has trended firmly in the U.S., and corporate business performance in the euro zone and Japan has also held firm. In emerging countries, surging demand for infrastructure is expected to drive internal demand.

In this environment, in order to realize its long-term vision for becoming "An Enterprise that is Essential to Tomorrow's Society," as laid out in the "ALWAYS EVOLVING" Medium-Term Management Plan For 2017–2019 announced in February 2017, the Teijin Group has clarified the actions it must take in the fiscal 2017–fiscal 2019 period. We have positioned fiscal 2017 as a crucial year that will serve as the first step of our new medium-term management plan. Accordingly, we will press ahead with our growth strategies for enhancing the competitiveness of our existing businesses and our transformation strategies for entering fields outside existing businesses and creating new products and services through business model transformation. By executing these strategies, we will work to strengthen our core earnings power and to create and develop new businesses.

Looking at our consolidated full-term operating results forecasts for fiscal 2017, we are forecasting net sales of ¥855.0 billion, up 15.3% from fiscal 2016. We also forecast operating income of ¥64.0 billion, up 13.2%, and ordinary income of ¥65.0 billion, up 16.2%. Profit attributable to owners of parent is forecast at ¥44.0 billion, down 12.2% from fiscal 2016. These forecasts assume exchange rates of ¥110 to US$1.00 and ¥124 to €1.00 and an average Dubai crude oil price of US$50 per barrel.

Forecast for Financial Position

In fiscal 2017, we will press forward with efforts to maintain and enhance financial soundness. At the same time, we will actively promote promising investments and projects with the potential to contribute to future growth, in line with our transformation strategies. Our forecasts for fiscal 2017 are for ROE of 12.2%, EBITDA of ¥107.0 billion and a debt-to-equity ratio of 1.0 times.

Risk Factors

The Teijin Group recognizes certain risks as having the potential to affect its operating results and/or financial position. As of the date of this document, these risks included, but were not limited to, the risks listed below.

Market-Related Risk

The Teijin Group is working to transform itself into a corporate entity that is not swayed by changes in the general operating environment. Nonetheless, certain of the Group's products are vulnerable to market conditions, as a consequence of which the Group's performance may be affected by market trends, as well as by competition with other companies and sales price fluctuations arising thereof.

Businesses involving commoditized materials—notably polyester fibers, polyester films and polycarbonate resin—are particularly vulnerable to fluctuations in shipments, sales prices and procurement costs for raw materials and fuel related to market conditions and competition with other companies. Because the cost of raw materials and fuel accounts for a major portion of production costs in these businesses, fluctuations in the price of crude oil may have a significant impact on the Group's income performance.

The majority of products in the Teijin Group's materials businesses are intermediates. Owing to inventory adjustments at each stage of production and sales, the rate of expansion or contraction of end user demand for such products may exceed that of the real economy. The Teijin Group's Healthcare segment is vulnerable to changes in drug reimbursement prices under Japan's National Health Insurance (NHI) scheme, as well as to increasingly intense competition, both of which may have a negative impact on sales prices.

Fluctuations in foreign exchange and interest rates also have the potential to affect the Teijin Group's operating results and/or financial position.

Product Quality Risk

Teijin and the principal companies of the Teijin Group, including Teijin Pharma Limited, have established a dedicated product quality and reliability assurance function in the form of a division which functions independently of other divisions. The division, which adheres to strict quality management standards, is charged with product quality and reliability assurance for all Group businesses. However, there can be no assurance that all products are free of unforeseen major quality issues. Product and service defects arising from such quality issues have the potential to negatively affect, among others, the Group's operating results, financial position and public reputation.

R&D-Related Risk

The Teijin Group actively allocates management resources to R&D with the aim of realizing sustainable growth through technology-driven innovation. However, the outcome of such R&D may diverge significantly from the objectives thereof, a situation that has the potential to negatively affect, among others, the Group's operating results.

In particular, R&D in the pharmaceuticals business is characterized by significant investments of funds and time. Pharmaceuticals discovery research has a high incidence of failure. In the initial stages, there is a high risk that researchers will fail to discover a promising drug. Even if a promising drug is discovered, clinical trials may prove it not to be as effective as anticipated, or to have unexpected adverse side effects, thereby forcing the abandonment of plans to apply for approval. There is also a risk that a new drug candidate may not receive regulatory approval as a result of the examination process that follows application, or that approval may be rescinded based on the outcome of research conducted subsequent to launch.

Risks Related to Overseas Operations

The Teijin Group has operations in China, Southeast Asia (including Thailand), Europe (including Germany and the Netherlands) and the U.S. These operations are vulnerable to the impact of fluctuations in foreign exchange and interest rates. Our operations may also be affected by such factors as the enforcement of new—or unexpected changes to existing—laws, regulations or tax systems that exert an adverse impact on the Group; economic fluctuations; or by social unrest triggered by, among others, changes of government or acts of terror or war. The manifestation of such risks has the potential to adversely affect the Group's operating results and/or financial position.

Risks Related to Accidents and Disasters

The Teijin Group has prepared common disaster prevention guidelines for use by all Group companies and is an active proponent of efforts to prevent and/or alleviate the impact of disasters through disaster prevention diagnostics, earthquake response measures, fire prevention and other advance prevention strategies, disaster prevention education and training and post-disaster impact mitigation measures. Nonetheless, in the event of a major natural disaster or unforeseen accident that results in damage to the Group's production facilities or significantly impedes the Group's supply chain, such developments may have a negative impact on the Group's operating results and/or financial position.