Management's Discussion and Analysis

Financial Analysis

Operating Environment

Global economic conditions in fiscal 2017, ended March 31, 2018, remained on a recovery path as a whole, despite heightened geopolitical risks concerning North Korea. In the U.S., stock prices reached all-time highs, driven partly by strong corporate earnings. Europe too saw an increase in exports as overseas business conditions turned upward. The Japanese economy continued to stage a modest recovery, mainly due to an upturn in capital investment atop improved corporate earnings, supported by firm overseas demand and rising internal demand.

Outline of Consolidated Operating Results

Key Indicators

Years ended March 31

	2014	2015	2016	2017	2018
ROE*1	3.0%	–2.8%	10.6%	15.7%	12.5%
ROIC (based on operating income)*2	3.4%	7.1%	12.7%	10.0%	11.2%
EBITDA (billions of yen)*3	63.7	82.1	106.0	95.8	115.5

*1 Return on Equity (ROE) is calculated as net income divided by shareholders' equity.
2 Return on Invested Capital (ROIC) based on operating income is calculated as operating income divided by invested capital.
* Invested capital is calculated as net assets plus interest-bearing debt, minus cash and deposits.
*3 Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA) is calculated as operating income plus depreciation and amortization (including goodwill).

In fiscal 2017, we achieved an ROE of 10% or more and an ROIC based on operating income of over 8%, both of which are targets set forth in the medium-term management plan. EBITDA steadily increased toward our target of over ¥120 billion for fiscal 2019, the final year of the medium-term management plan.

Net Sales

In fiscal 2017, net sales totaled ¥835.0 billion, an increase of 12.6% year on year. This increase was primarily due to the impact of U.S.-based Continental Structural Plastics Holdings Corporation ("CSP") joining the composites business in the Materials Business Field. CSP became a consolidated subsidiary in January 2017. Another contributing factor was firm sales of aramid fibers and high-performance polycarbonate resin products, as well as the hyperuricemia and gout treatment *FEBURIC* in the Healthcare Business Field.

Costs and Expenses

In fiscal 2017, cost of sales increased 14.8%, or ¥72.8 billion, to ¥565.7 billion. This increase was mainly due to CSP becoming a consolidated subsidiary in the composites business and rising raw materials and fuel prices. As a percentage of net sales, cost of sales increased 1.3 percentage points to 67.7%.

Selling, general and administrative (SG&A) expenses increased 3.9%, or ¥7.6 billion, to ¥199.5 billion. SG&A expenses represented 23.9% of net sales, a decrease of 2.0 points.

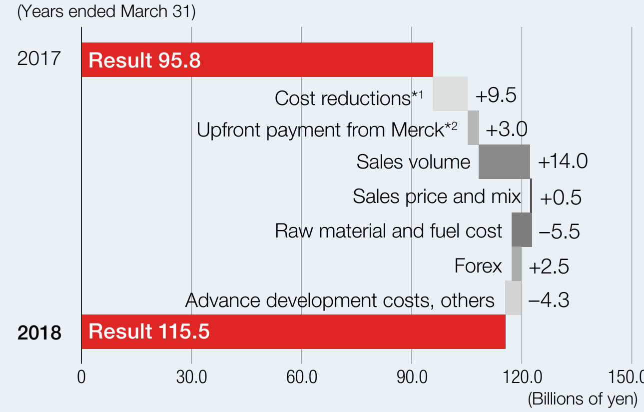
R&D expenses recorded under SG&A expenses increased 1.4%, or ¥0.5 billion, to ¥35.9 billion.

Operating Income / EBITDA

In fiscal 2017, operating income increased ¥13.3 billion to ¥69.8 billion. This increase was partly due to higher sales in the Materials Business Field and Healthcare Business Field, along with the impact of recording consideration for the licensing out of an investigational antibody candidate targeting tau, for a possible new treatment of Alzheimer's disease. The operating margin on sales rose 0.7 of a point to 8.4%.

In fiscal 2017, EBITDA increased ¥19.6 billion to ¥115.5 billion, due to the increase in operating income.

Analysis of EBITDA
(Years ended March 31)



*1 Cost reductions: including those realized through restructuring initiatives
*2 The impact of recording consideration for the licensing out of an investigational antibody candidate targeting tau, for a possible new treatment of Alzheimer's disease

Other Income (Expenses)

Other expenses, a net figure, amounted to ¥1.9 billion, an improvement of ¥20.7 billion from ¥22.6 billion in fiscal 2016. The principal factor contributing to this improvement was business structure improvement expenses recorded in the previous fiscal year due to the withdrawal from the home healthcare business in the U.S.

Profit Attributable to Owners of Parent

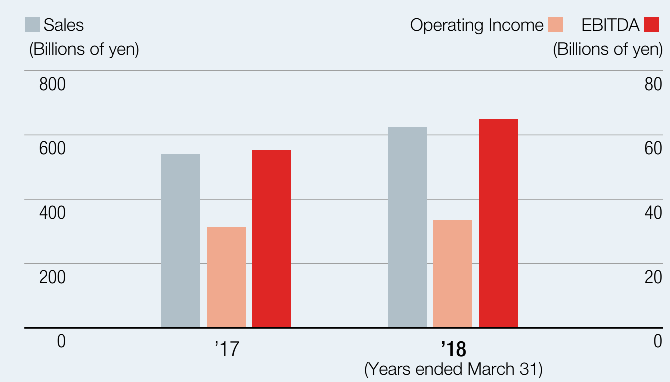
After deducting income taxes and profit attributable to non-controlling interests, we recorded a profit attributable to owners of parent of ¥45.6 billion, down ¥4.6 billion from a profit of ¥50.1 billion in fiscal 2016.

Business Segment Results

In April 2017, the Company reclassified its previous four reportable operating segments, Advanced Fibers and Composites, Electronics Materials and Performance Polymer Products, Healthcare, and Trading and Retail, into two reportable operating segments: the Materials Business and the Healthcare Business Field. This change was made in line with the Company's reorganization to accelerate growth and transformation strategies based on the medium-term management plan announced in February 2017. The figures for fiscal 2016 have been recalculated in accordance with the new segment classification for comparison purposes.

Materials Business Field

Sales ¥624.8 billion (up 15.7% year on year)
Operating income ¥33.6 billion (up 7.7% year on year)
EBITDA ¥65.0 billion (up 18.1% year on year)



Material Business Group

- **Sales of aramid fibers expanded mainly for automotive applications, and sales were robust for high-performance polycarbonate resin products.**

In Aramid Fibers, sales of *Twaron* para-aramid fibers expanded firmly as a whole, centered on automotive applications, such as friction materials and rubber reinforcements, and optical fiber applications. Sales were firm for *Technora* para-aramid fibers both for automotive applications in Japan and also for infrastructure-related applications overseas. 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.

In Carbon Fibers, sales of *TENAX* carbon fibers continued to grow steadily for use in aircraft. Among other applications, we drove growth in sales volume of compound applications, as well as sports and leisure applications in Asia. However, rising raw material and fuel prices pushed down earnings.

In Resin and Plastics Processing, market prices for our mainstay polycarbonate resin increased due to tightening supply and demand. In this environment, high capacity utilization was maintained at our production sites for polycarbonate resin and compounds in Japan and abroad. In addition, we significantly expanded sales of high-performance products for the automotive, semiconductor manufacturing-related, and optical lens fields, which have been key areas of focus in recent years.

In Films, although overall sales declined due to the impact of the integration of domestic production facilities, we expanded sales of *Purex*, which is used as a release film for manufacturing processes mainly for multilayer ceramic capacitors for smartphones and automotive electronics.

Polyester Fibers & Trading and Retail Business Group

- **Functional materials for sports and outdoor use for Europe and the Americas held firm, while civil engineering materials declined.**

In Fiber Materials and Apparel, sales of functional fabrics remained favorable for sports and outdoor use for Europe and the Americas. Firm sales were posted for uniforms. In functional textiles and apparel, performance was sluggish, due to inventory adjustments by major customers amid continued weakness in domestic market conditions.

In Industrial Textiles and Materials, we posted firm sales of automotive-related reinforcement materials, including conveyor belts and automotive hoses, and synthetic leather car seat fabric. In fiber materials, there was a downturn in sales of civil engineering materials as earthquake reconstruction demand and orders received for new infrastructure construction settled down.

Composites and Others

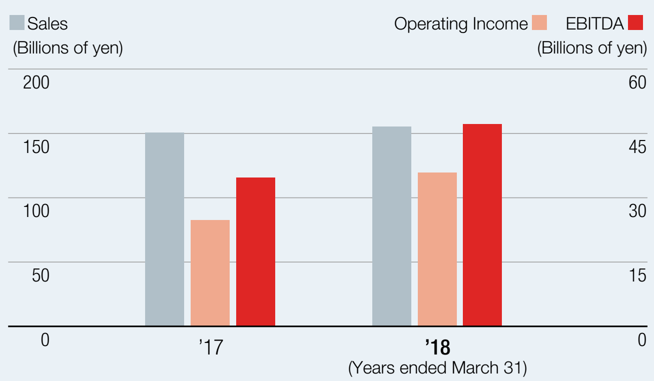
- **Firm sales of mass-produced automotive components in North America.**

In Composites, we recorded firm sales of mass-produced automotive components led by CSP for pickup trucks and SUVs that performed well in North America, and for large trucks, for which the market showed signs of recovery. CSP was acquired in January 2017 and was consolidated in the fourth quarter of fiscal 2016.

In Battery Materials, in *LIELSORT* lithium-ion battery (LIB) separators for consumer applications, sales to existing customers were sluggish, and delays were experienced in expanding sales to new customers.

Healthcare Business Field

Sales ¥155.4 billion (up 3.1% year on year)
Operating income ¥35.9 billion (up 45.1% year on year)
EBITDA ¥47.2 billion (up 26.2% year on year)



■ **Favorable sales of *FEBURIC* in Pharmaceuticals, and solid rental volume for home oxygen therapy in Home Healthcare.**

In Pharmaceuticals, sales of hyperuricemia and gout treatment *FEBURIC* (febuxostat), the transdermal anti-inflammatory analgesic patch formulation *LOQOA Tape*, and *Somatuline*®*, a treatment for acromegaly, continued to expand steadily. In July 2017, *Somatuline*® received additional approval in Japan for the indication of gastro-entero-pancreatic neuroendocrine tumors (GEP NET). Sales of febuxostat also continued to expand encouragingly overseas. Furthermore, in May 2017, we entered into a worldwide license agreement with Merck & Co., Inc., U.S.A. for the development, manufacture and commercialization of an investigational antibody candidate targeting tau, for a possible new treatment of Alzheimer's disease. Accordingly, we received a lump-sum payment as consideration for licensing out the investigational antibody.

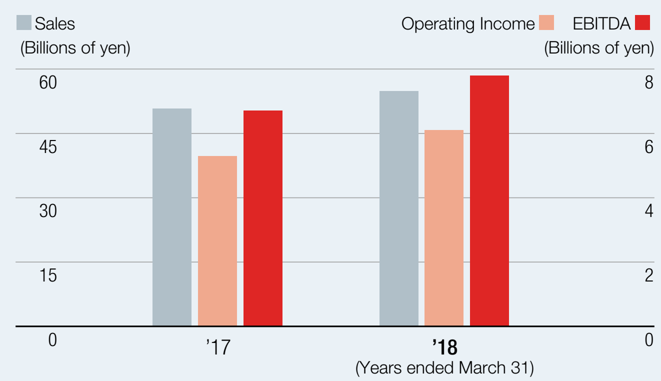
*1 *Somatuline*® is a registered trademark of Ipsen Pharma, France.

In Home Healthcare, we maintained a high level of rental volume for therapeutic oxygen concentrators for home oxygen therapy (HOT). This was done 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. 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 *SAS-2100* sleeping pattern analysis devices.

In the area of New Healthcare Initiatives, particularly in the field of implantable medical products, we are conducting an artificial joints business. In fiscal 2017, we augmented this field with bone-bonding materials and the orthopedic business, principally spine fixation devices and spine cages.

Others

Sales ¥54.8 billion (up 7.9% year on year)
Operating income ¥6.1 billion (up 15.9% year on year)
EBITDA ¥7.8 billion (up 16.4% year on year)



■ **The IT business expanded steadily, supported by the e-comics and healthcare-related businesses.**

In the IT business, specifically in Digital Entertainment, we recorded a solid performance, highlighted by steady expansion in sales of the *Meccha Comics* e-comics distribution service. Notably, we implemented initiatives such as an exclusive pre-release e-comics distribution campaign through a collaboration project with a major publisher. This project contributed to sales growth mainly through the acquisition of new readers. In Business Solutions, specifically in the healthcare-related business, a recovery in business performance in the hospital field contributed to sales growth.

Financial Position

Analysis of Assets, Liabilities and Net Assets

Total assets as of March 31, 2018 amounted to ¥986.2 billion, up ¥22.1 billion from the end of fiscal 2016. The main reasons for the increase in total assets were an increase in working capital in connection with the growth and expansion of each business and rising raw material and fuel prices, among other factors, and an increase in unrealized gains on investment securities in line with the higher market value of shares held.

Total liabilities amounted to ¥577.9 billion, down ¥34.3 billion from the end of fiscal 2016. The main reasons for this decrease were the repayment of long-term debt and the reversal of provision for business structure improvement recorded in preparation for the withdrawal from the U.S. home healthcare business.

Total net assets amounted to ¥408.2 billion, up ¥56.4 billion from the end of fiscal 2016. This was mainly due to profit attributable to owners of parent of ¥45.6 billion, along with an increase in foreign currency translation adjustments in connection with the weaker yen and an increase in valuation difference on available-for-sale securities in line with the higher market value of shares held.

Rating

As of March 31, 2018	Rating	Outlook
Rating and Investment Information, Inc.	A−	Stable

Outline of Capital Expenditures

The Teijin Group implements capital expenditures primarily to increase production capacity in growing fields, as well as to maintain quality and rationalize operations. In fiscal 2017, capital expenditures amounted to ¥44.6 billion (including investments in long-term prepaid expenses and intangible fixed assets).

Analysis of Cash Flows

Net cash and cash equivalents provided by operating activities in fiscal 2017 amounted to ¥80.1 billion. This result reflected income before income taxes, along with the impact of non-cash items such as depreciation and amortization.

Net cash and cash equivalents used in investing activities amounted to ¥51.3 billion, owing mainly to capital expenditures including outlays for growth and transformation strategies. Free cash flow in fiscal 2017 was thus a positive as operating and investing activities combined provided a net total of ¥28.8 billion.

Net cash and cash equivalents used in financing activities amounted to ¥31.5 billion, mainly due to the repayment of long-term loans payable and cash dividends paid.

After factoring in the impact of exchange rate fluctuations, operating, investing and financing activities in the period under review resulted in a net decrease in cash and cash equivalents of ¥1.4 billion as of March 31, 2018.

Dividend Policy

The Teijin Group's basic policy for profit sharing is to ensure dividends are in line with consolidated operating results, targeting a consolidated payout ratio of 30% for the medium term. We will determine dividends by giving consideration to the need to ensure financial soundness, to our ability to maintain stable dividend payments over the medium to long term, and to securing sufficient internal reserves to fund strategic investments aimed at ensuring future growth. Our year-end dividend for fiscal 2017 was declared at ¥30.0 per share, bringing dividends for the full term, including the interim dividend, to ¥60.0 per share.

Outlook for Fiscal 2018

Forecast for Operating Results

Looking at the global economy in fiscal 2018, business conditions are forecast to expand steadily in the U.S., Europe and China, despite heightened geopolitical risks and concerns about stronger protectionism in the U.S. The Japanese economy is forecast to remain on a steady growth trajectory, underpinned partly by a projected improvement in corporate earnings against the backdrop of solid internal and external demand.

In this environment, in order to realize its long-term vision for becoming a company that supports the society of the future as laid out in the new "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 2017–2019 period.

In fiscal 2018, the plan's second year, we will continue to steadily push ahead with strategic actions based on the medium-term management plan in order to achieve business portfolio transformation. These actions will pave the way for further growth and transformation. Specifically, in the Materials Business Field, we will work to nurture and expand new businesses, including composites and components businesses and to build a stable earnings base in strategic growth businesses. In the Healthcare Business Field, we will work to optimize overall resource allocation and implement restructuring initiatives, as well as create and expand the area of New Healthcare Initiatives.

Looking at our consolidated full-term operating results forecasts for fiscal 2018, we are forecasting net sales of ¥880.0 billion, up 5.4% from fiscal 2017. We also forecast operating income of ¥70.0 billion, up 0.3%, and ordinary income of ¥71.0 billion, up 4.7%. Profit attributable to owners of parent is forecast at ¥47.0 billion, up 3.2% from fiscal 2017. These forecasts assume exchange rates of ¥105 to US$1.00 and ¥130 to €1.00 and an average Dubai crude oil price of US$65 per barrel.

Forecast for Financial Position

In fiscal 2018, 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. Based on these initiatives, we are forecasting ROE of 11.4%, ROIC based on operating income of 10.3% and EBITDA of ¥118.0 billion for fiscal 2018.

* Forecasts for fiscal 2018 are as of May 9, 2018.