Operating Environment

Concerning global economic conditions in fiscal 2018 (April 1, 2018 – March 31, 2019), against a backdrop of uncertainty over trade friction between the US and China, although moderate growth continued in the US, conditions in Europe and China began to show signs of a slowdown. While modest recovery continued in Japan, against a backdrop of strong corporate earnings and improvements in employment, attention will need to be paid to developments in the global economy.

Outline of Consolidated Operating Results

Key Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>ROE (%)</th>
<th>ROIC (based on operating income) (%)</th>
<th>EBITDA (Billions of yen)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>7.1%</td>
<td>12.7%</td>
<td>30.0</td>
</tr>
<tr>
<td>2015</td>
<td>7.1%</td>
<td>12.7%</td>
<td>30.0</td>
</tr>
<tr>
<td>2016</td>
<td>11.2%</td>
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</tr>
</tbody>
</table>

The ROE for the fiscal year ended March 31, 2018, was 10% or more, and the ROIC (Return on Invested Capital), which is the ratio of operating income to invested capital, was 8% or more. These achievements were due to the Group’s management efforts to improve operating income and financial management as well as the effect of share repurchase operations. EBITDA increased to ¥107.6 billion toward our target of over ¥120.0 billion, based on operating income of over 8%, both of which are targets set forth in the medium-term management plan. EBITDA steadily increased to ¥107.6 billion, from ¥90.7 billion in the previous fiscal year, and is expected to exceed ¥120.0 billion in fiscal 2019, the final year of the medium-term management plan.

Business Segment Results

Materials Business Field

Sales ¥571.6 billion (up 7.5% year on year)
Operating income ¥23.5 billion (down 30.1% year on year)
EBITDA ¥56.4 billion (down 13.2% year on year)

Operating Income/EBITDA

In fiscal 2018, operating income decreased 14.1% year on year to ¥90.0 billion. This decrease is due to the fact that, although sales were strong in both the healthcare and materials fields, in the materials fields raw material and fuel costs increased and project startup costs increased due to new orders at CSR; and in the healthcare field, payments (¥3.0 billion) for licensing of a candidate for treatment of Alzheimer’s disease, recorded in the previous year, were no longer a factor. The operating margin on sales decreased 1.6 points to 6.8%, EBITDA decreased ¥7.9 billion to ¥107.6 billion, due to the decrease in operating income.

Other Income/Expenses

Other income/expenses (net) amounted to a ¥0.4 billion profit, an improvement of ¥2.3 billion from a loss of ¥1.9 billion the previous fiscal year. While foreign exchange gains and losses including gain on valuation of derivatives improved, totals of items such as gain on sales of investment securities and settlement received exceeded loss on sales and retirement of non-current assets and impairment loss.

Profit Attributable to Owners of Parent

After deducting income taxes and profit attributable to non-controlling interests, we recorded profit attributable to owners of parent of ¥45.1 billion, nearly in line with the profit of ¥45.6 billion recorded in the previous fiscal year.

Other Income/Expenses

In carbon fibers, sales of TENAX, which is used as a release film for manufacturing processes for items such as smartphone and automotive lighting, was brought up to speed, and sale of short fiber raw cotton was strong. However, due to decelerated growth in China, sales of automotive materials, such as cloth for airbags, were sluggish.

[Polyester Fibers & Trading and Retail Business Group]

Sales of functional fabrics were strong, but increased raw material costs drove down profits.

In fiber materials and apparel, sales of fabrics for sports and outdoor use were strong, and we were able to grow the tracking and retail businesses by leveraging strategic materials such as SOLOTEX. Unfortunately, unseasonable weather presented a challenge for heavy winter clothing, and increased raw material and distribution costs drove down profits.

In industrial textiles and materials, production of polyester raw yarn and raw cotton, which was transferred to Thailand due to restructuring, was brought up to speed, and sale of short raw fiber cotton was strong. However, due to decelerated growth in China, sales of automotive materials, such as cloth for airbags, were sluggish.

[Composites and Others]

Sales of automotive components in North America were strong, but temporary costs increased.

In composites, sales of mass-produced automotive components for pickup trucks and SUVs in North America (which have performed strongly), led by CSR, and for large trucks for which the market showed signs of recovery were strong. However, raw material costs and temporary project startup costs due to new orders increased, which drove down profits.

In battery materials, sales growth for LIELSORT lithium-ion battery (LIB) separators for consumer applications were disappointing, due to sluggish smartphone demand.
In the Healthcare Business Field, sales were ¥157.5 billion (up 1.4% year on year), operating income ¥56.8 billion (down 1.4% year on year), EBITDA ¥47.3 billion (up 0.1% year on year). The sales growth was strong for hyperuricemia and gout treatment (febuxostat), transdermal anti-inflammatory analgesic patch formulation LOQOA Tape, and acromegaly, pituitary analgesic patch formulation (Somatuline®), which is a registered trademark of Ipsen Pharma, France.

In home healthcare, we maintained a high level of rental volume for continuous positive airway II (α). Rental volume for continuous positive airway II (α) also continued to increase favorably, due to marketing of AlmLine, a monitoring system for CPAP ventilators that uses mobile phone networks, and due to use of the SAS-2100 Sleep's Sleep pattern analysis devices. In the area of new healthcare initiatives, particularly in the field of medical implants, performance was strong for Teijin Nakashima Medical Co., Ltd., which focuses on artificial joint and spinal products.

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