

Summary of Consolidated Financial Results [Japanese GAAP] For the First Quarter of the Fiscal Year Ending March 31, 2021

July 31, 2020

Listed company: Nippon Kayaku Co., Ltd. (URL <https://www.nipponkayaku.co.jp/english/>)
Listed stock exchange: First Section, Tokyo Stock Exchange
Code No.: 4272

Representative (name, position): Atsuhiro Wakumoto, President
Director in charge of inquiries: Tsutomu Kawamura, Director, General Manager of Finance & Accounting Division,
Financial Group

Filing date of quarterly securities report: August 7, 2020
Scheduled date for start of dividend payments: –
Preparation of supplementary materials for quarterly financial results: Yes
Quarterly results presentation meeting: Yes (for securities analysts and institutional investors)

1. Consolidated Business Results for the First Quarter of Fiscal Year Ending March 31, 2021 (April 1, 2020–
June 30, 2020)

(Figures shown are rounded down to the nearest million yen.)

(1) Consolidated Operating Results

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
First quarter of fiscal year ending March 31, 2021	36,825	(14.1)	2,773	(41.5)	2,984	(35.1)	1,748	(44.0)
First quarter of fiscal year ended March 31, 2020	42,893	0.9	4,744	(11.9)	4,595	(27.1)	3,122	(29.9)

Note: Comprehensive income

First quarter of fiscal year ending March 31, 2021: 4,326 million yen (–%)

First quarter of fiscal year ended March 31, 2020: 120 million yen ((97.5)%)

	Profit attributable to owners of parent per share—primary	Profit attributable to owners of parent per share—diluted
	Yen	Yen
First quarter of fiscal year ending March 31, 2021	10.24	–
First quarter of fiscal year ended March 31, 2020	18.03	18.03

Note 1: The percentage year-on-year change in comprehensive income for the first quarter of the fiscal year ending March 31, 2021 exceeds 1,000% and is therefore indicated with a dash (–).

Note 2: Profit attributable to owners of parent per share-diluted for the first quarter of the fiscal year ending March 31, 2021 is indicated with a dash (–) because the dilutive shares that do exist do not have a significant dilutive effect.

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(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of June 30, 2020	287,373	211,776	73.5
As of March 31, 2020	278,496	210,019	75.2

Reference: Equity As of June 30, 2020: 211,112 million yen
As of March 31, 2020: 209,344 million yen

2. Status of Dividends

	Dividend amount per share				
	End of first quarter	End of second quarter	End of third quarter	End of year	Year
	Yen				
Fiscal year ended March 31, 2020	–	15.00	–	15.00	30.00
Fiscal year ending March 31, 2021	–				
Fiscal year ending March 31, 2021 (forecast)		15.00	–	15.00	30.00

Note: Changes to the most recent dividend forecast: None

3. Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2021 (April 1, 2020–March 31, 2021)

(Percentages indicate amount of change from the same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Profit attributable to owners of parent per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
First half	77,000	(10.1)	4,500	(50.3)	5,000	(45.3)	3,000	(52.7)	17.57

Note: Changes to the most recent forecast for consolidated business results: Yes

Notes regarding consolidated business results forecasts

The forecasts for the first half of the fiscal year ending March 31, 2021 announced on May 22, 2020 have been revised. See the disclosure today entitled, Notice of Revision to the Business Results Forecasts for the First Half of the Fiscal Year Ending March 31, 2021 for further details.

We are not disclosing consolidated business results forecasts for the fiscal year ending March 31, 2021 at the present time because it is difficult to predict the impact from the spread of the novel coronavirus (COVID-19). The full-year forecasts will be disclosed once we have determined them.

Notes

- (1) Significant changes in subsidiaries during the first quarter (changes in designated subsidiaries that result in changes in scope of consolidation): None
- (2) Adoption of special accounting methods for presenting the quarterly consolidated financial statements: None
- (3) Changes to accounting policies and estimates and restatement
 - [1] Changes to accounting policies associated with revision of accounting standards or similar items: None
 - [2] Changes other than [1]: None
 - [3] Changes to accounting estimates: None
 - [4] Restatements: None
- (4) Number of shares issued (common stock)
 - [1] Number of shares issued at end of the fiscal period (including treasury stock)
 - As of June 30, 2020: 177,503,570 shares
 - As of March 31, 2020: 177,503,570 shares

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[2] Number of treasury stock at end of the fiscal period

As of June 30, 2020: 6,709,860 shares

As of March 31, 2020: 6,709,685 shares

[3] Average number of shares during the fiscal period (cumulative)

First quarter of fiscal year ending March 31, 2021: 170,793,776 shares

First quarter of fiscal year ended March 31, 2020: 173,144,631 shares

* Quarterly summary financial statements are not subject to audit by a certified public accountant or audit firm.

* Analysis related to appropriate use of the business forecasts, and other notes

(Disclaimer concerning forward-looking statements)

The information in this report constitutes forward-looking statements regarding future events and performance. This information is based on the beliefs and assumptions of management in light of information currently available to it at the time of announcement and subject to a number of uncertainties that may affect future results. Actual business results may differ substantially from the forecasts herein due to various factors. For matters pertaining to business forecasts, please refer to “(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts” on page 3 of the Supplementary Information.

(How to obtain the materials for the briefing on quarterly financial results)

We have scheduled a teleconference for securities analysts and institutional investors on Friday, July 31, 2020. The materials for the briefing will be posted on the corporate website.

Supplementary Information

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1. Qualitative Information Concerning Results for the First Quarter

(1) Analysis of Operating Results

During the first quarter of this consolidated fiscal year (April 1 to June 30, 2020), a rapid deceleration in the global economy was seen from restrictions on economic activity to prevent the spread of the novel coronavirus. The increase in people infected with the virus led to restrictions on overseas travel and stay-at-home restrictions in the U.S. and Europe from March onward, and economic activity stagnated as steps were taken to close stores and other businesses, leading to an even greater deceleration in the economy. In China, economic conditions remained severe despite the resumption of economic activity and consequent signs of recovery, owing to the impact of stagnant overseas demand, restrictions on economic activities, and other factors. The declaration of a State of Emergency by the Japanese government in light of the spread of the virus caused further slowing of consumer spending and corporate revenues, making the future of the Japanese economy uncertain.

Amid these conditions, the Nippon Kayaku Group worked to implement the key themes and resolve the mid- and long-term key issues outlined in “*KAYAKU Next Stage*,” the mid-term business plan launched in the fiscal year ended March 31, 2020, while also making active use of staggered work, telecommuting, and other systems to accommodate the restrictions on corporate activity. We took these steps to ensure the safety of employees working in the Company and at Group companies while also implementing a new lifestyle and promote efficient workstyles aimed at minimizing the impact on our business.

As a result, net sales for the first quarter of this consolidated fiscal year totaled 36,825 million yen, a decrease of 6,067 million yen (14.1%) year-on-year. Sales in the pharmaceuticals business outperformed the first quarter of the previous fiscal year, while sales in the functional chemicals and the safety systems businesses declined.

Operating income totaled 2,773 million yen, a decrease of 1,970 million yen (41.5%) year-on-year, due to the decline in net sales.

Ordinary income totaled 2,984 million yen, a decrease of 1,610 million yen (35.1%) year-on-year.

Profit attributable to owners of parent was 1,748 million yen, a decrease of 1,373 million yen (44.0%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 15,833 million yen, a decrease of 1,141 million yen (6.7%) year-on-year.

The functional materials business outperformed the first quarter of the previous fiscal year, despite a decline in vehicle-related sales. This resulted from strong sales of epoxy resins used in semiconductor encapsulation and circuit boards due to increased demand for IT equipment such as high-speed (5G) communications devices and PCs.

The color materials business underperformed the first quarter of the previous fiscal year due to slow sales of dyes for textiles due to the impact from the spread of the novel coronavirus. Sales of colorants for inkjet printers for consumer use were firm due to telecommuting.

The catalyst business outperformed the same period of the previous fiscal year, both in Japan and overseas.

The Polatechno Group saw slow sales of both dye-type polarizing films and components for X-ray analysis systems due to the impact from the spread of the novel coronavirus, underperforming the same period of the previous fiscal year.

The decline in sales of the color materials business and the Polatechno Group resulted in a 224 million yen (13.0%) decline in segment profit from the same period of the previous fiscal year to 1,504 million yen.

[Pharmaceuticals Business]

Sales stood at 12,690 million yen, an increase of 842 million yen (7.1%) year-on-year.

Pharmaceuticals in Japan were impacted by two drug price revisions in October 2019 and April 2020. Nevertheless, the segment outperformed the first quarter of the previous fiscal year as growth in sales contributed to performance due to the switch to biosimilars and generic drugs, and growth in the antibody biosimilars, TRASTUZUMAB BS and INFLIXIMAB BS, in particular. The new drug, APREPITANT capsules, also contributed to sales.

Although sales of active pharmaceutical ingredients and contract production for the Japanese domestic market underperformed the same period of the previous fiscal year, exports outperformed the same period of the previous fiscal year. Diagnostic agents underperformed the same period of the previous fiscal year, owing to the impact from the reduction in medical exams due to the spread of the novel coronavirus.

Segment profit was totaled 2,151 million yen, an increase of 75 million yen (3.6%) year-on-year.

[Safety Systems Business]

Sales stood at 6,301 million yen, a decrease of 5,643 million yen (47.2%) year-on-year.

Sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs underperformed the first quarter of the previous fiscal year owing to the slump in the automotive market in all regions outside of China, including Japan, under the impact from the spread of the novel coronavirus.

A decline in sales due to the slump in the automotive market led to segment profit of 262 million yen, a decrease of 1,825 million yen (87.4%) from the same period of the previous fiscal year.

[Other]

Sales stood at 1,999 million yen, a decrease of 125 million yen (5.9%) year-on-year.

The agrochemicals business overall saw a year-on-year decline despite the year-on-year growth in domestic sales as exports underperformed the same period during the previous fiscal year.

Sales in real estate and other business increased compared to the first quarter of the previous fiscal year.

Segment profit totaled 507 million yen, an increase of 69 million yen (15.9%) year-on-year, owing to growth sales for real estate and other businesses.

(2) Analysis of Financial Position

Status of Assets, Liabilities, and Net Assets

Total assets were 287,373 million yen, an increase of 8,876 million yen from the end of the previous consolidated fiscal year. The main increases were in securities, an increase of 5,292 million yen; investment securities, an increase of 2,809 million yen; and goodwill, an increase of 2,467 million yen. The main decrease was in cash and deposits, a decrease of 3,264 million yen.

Liabilities were 75,596 million yen, an increase of 7,119 million yen compared to the end of the previous consolidated fiscal year. The main increases were in short-term loans payable, an increase of 9,528 million yen; and deposits received (included in "other" under current liabilities), an increase of 857 million yen. The main decreases were in income taxes payable, a decrease of 2,451 million yen; and accrued expenses (included in "other" under current liabilities), a decrease of 862 million yen.

Net assets were 211,776 million yen, an increase of 1,757 million yen compared to the end of the previous consolidated fiscal year. The main increases were in unrealized holding gains on other securities, an increase of 1,943 million yen; and translation adjustments, an increase of 590 million yen. The main decrease was in retained earnings, a decrease of 813 million yen (a 2,561 million yen decrease from dividends paid and a 1,748 million yen increase in profit attributable to owners of parent).

(3) Analysis of Forward-looking Statements, Including Consolidated Business Forecasts

The future business environment surrounding the Nippon Kayaku Group still bears the risk of an economic slowdown despite signs of a recovery in the global economy, due to uncertainty over an economic downswing under the impact from the spread of the novel coronavirus and U.S.-China trade friction, among other factors. The Japanese economy is still feeling the impact from the spread of the novel coronavirus and is being supported by monetary easing and the benefits from economic measures implemented by the Japanese government, but is expected to gradually improve from the second half of 2020.

Under these conditions, the Nippon Kayaku Group will work to ascertain and respond globally to the changing conditions. We will endeavor to keep our employees safe, while also continuing efforts to minimize the significant impact of this infectious disease on the business results of the Nippon Kayaku Group. The Nippon Kayaku Group also aims to respond flexibly to changes in the business environment and pursue optimal use of operating capital to increase the shareholder value, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

The forecasts for the first half of the fiscal year ending March 31, 2021 announced on May 22, 2020 have been revised. See the disclosure today entitled, Notice of Revision to the Business Results Forecasts for the First Half of the Fiscal Year Ending March 31, 2021 for further details.

Moreover, because it is difficult to predict the impact that the spread of the novel coronavirus will have on performance for the full consolidated fiscal year ending March 31, 2021, the Company is not disclosing forecasts at present. We will disclose full-year forecasts once we have determined them.

2. Quarterly Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2020	As of June 30, 2020
	Million yen	
Assets		
Current assets		
Cash and deposits	43,222	39,958
Notes and accounts receivable-trade	51,940	48,678
Electronically recorded monetary claims-operating	1,846	1,346
Securities	4,132	9,425
Merchandise and finished goods	30,987	30,542
Work in process	1,640	1,419
Raw materials and stores	14,988	16,882
Other	4,384	4,934
Allowance for doubtful accounts	(39)	(33)
Total current assets	153,102	153,155
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,249	40,910
Machinery, equipment and vehicles, net	24,748	24,508
Other, net	20,961	21,672
Total property, plant and equipment	85,960	87,091
Intangible assets		
Goodwill	748	3,216
Other	2,613	4,928
Total intangible assets	3,362	8,144
Investments and other assets		
Investment securities	30,661	33,471
Net defined benefit asset	1,291	1,313
Other	4,140	4,219
Allowance for doubtful accounts	(22)	(23)
Total investments and other assets	36,071	38,980
Total non-current assets	125,393	134,217
Total assets	278,496	287,373

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	As of March 31, 2020	As of June 30, 2020
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,914	15,501
Short-term loans payable	4,359	13,888
Accounts payable-other	8,917	8,613
Income taxes payable	2,646	195
Other	6,961	7,079
Total current liabilities	38,800	45,278
Non-current liabilities		
Bonds payable	12,000	12,000
Long-term loans payable	6,182	6,129
Net defined benefit liability	426	434
Other	11,067	11,754
Total non-current liabilities	29,676	30,318
Total liabilities	68,477	75,596
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,757	15,757
Retained earnings	184,156	183,342
Treasury stock	(7,871)	(7,871)
Total shareholders' equity	206,975	206,161
Accumulated other comprehensive income		
Unrealized holding gains on other securities	7,856	9,799
Translation adjustments	(4,589)	(3,998)
Remeasurements of defined benefit plans	(897)	(849)
Total accumulated other comprehensive income	2,369	4,951
Non-controlling interests	675	664
Total net assets	210,019	211,776
Total liabilities and net assets	278,496	287,373

This document is an English translation of parts of the Japanese-language original.
All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

(2) Consolidated Statements of Income & Consolidated Statements of Comprehensive Income
Consolidated Statements of Income

	First quarter of fiscal year ended March 31, 2020	First quarter of fiscal year ending March 31, 2021
	Million yen	
Net sales	42,893	36,825
Cost of sales	28,057	24,676
Gross profit on sales	14,836	12,148
Selling, general and administrative expenses	10,092	9,375
Operating income	4,744	2,773
Non-operating income		
Interest income	67	61
Dividend income	385	331
Equity in earnings of affiliates	143	42
Other	216	184
Total non-operating income	812	618
Non-operating expenses		
Interest expense	73	50
Foreign exchange losses	805	288
Other losses	82	68
Total non-operating expenses	961	407
Ordinary income	4,595	2,984
Extraordinary income		
Gain on sales of non-current assets	0	0
Total extraordinary income	0	0
Extraordinary loss		
Loss on disposal of non-current assets	78	104
Loss on valuation of investment securities	88	-
Total extraordinary loss	166	104
Profit before income taxes	4,428	2,879
Income taxes-current	774	124
Income taxes-deferred	488	1,006
Total income taxes	1,263	1,131
Profit	3,165	1,748
Profit attributable to non-controlling interests	43	0
Profit attributable to owners of parent	3,122	1,748

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Consolidated Statements of Comprehensive Income

	First quarter of fiscal year ended March 31, 2020	First quarter of fiscal year ending March 31, 2021
	Million yen	
Profit	3,165	1,748
Other comprehensive income		
Unrealized holding gains on other securities	(1,484)	1,943
Translation adjustments	(1,582)	586
Remeasurements of defined benefit plans	21	47
Share of other comprehensive income of companies accounted for by the equity-method	0	0
Total other comprehensive income	(3,045)	2,577
Comprehensive income	120	4,326
Comprehensive income attributable to:		
Owners of parent	249	4,330
Non-controlling interests	(129)	(4)

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(3) Notes to Quarterly Consolidated Financial Statements

(Notes Regarding Assumptions for the Going Concern)

No items to report

(Notes in Case of Significant Change in Shareholders' Equity)

No items to report

(Segment Information and Other Items)

First quarter of the fiscal year ended March 31, 2020 (April 1, 2019–June 30, 2019)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	16,974	11,848	11,945	40,768	2,124	42,893	–	42,893
Intersegment sales and transfers	25	0	–	25	24	50	(50)	–
Total	17,000	11,848	11,945	40,794	2,149	42,943	(50)	42,893
Segment profit	1,729	2,075	2,088	5,892	438	6,331	(1,587)	4,744

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,587 million yen downward adjustment to segment profit reflects a negative 1,602 million yen in corporate expense not allocable to the reportable segments and 15 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Changes in reportable segments

No items to report

3. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment

No items to report

First quarter of the fiscal year ending March 31, 2021 (April 1, 2020–June 30, 2020)

1. Information on sales and profit (loss) by reportable segment

	Reportable segments				Other (Note 1)	Total	Adjust- ments (Note 2)	Consoli- dated (Note 3)
	Functional chemicals business	Pharma- ceuticals business	Safety systems business	Total				
Million yen								
Sales								
Sales to third parties	15,833	12,690	6,301	34,825	1,999	36,825	–	36,825
Intersegment sales and transfers	34	0	–	34	23	58	(58)	–
Total	15,867	12,690	6,301	34,860	2,023	36,884	(58)	36,825
Segment profit	1,504	2,151	262	3,918	507	4,426	(1,652)	2,773

Note 1: “Other” indicates a business segment that is not included in the reportable segments, including the agrochemicals business and real estate business.

Note 2: The 1,652 million yen downward adjustment to segment profit reflects a negative 1,664 million yen in corporate expense not allocable to the reportable segments and 11 million yen in eliminations for intersegment transactions. The corporate expense is mainly a general and administrative expense that is not attributed to the reportable segments.

Note 3: Segment profit has been adjusted to correspond with the total operating income as shown in the consolidated statements of income.

2. Changes in reportable segments

(Revision of the method for allocation of corporate expenses)

From the first quarter of the consolidated fiscal year under review, the Company's general and administrative expenses which has previously been allocated among the reportable segments, have been reclassified as corporate expenses. This was done to reflect the actual state of responsibility for management activities for the entire Group and to more accurately ascertain the performance of each reportable segment.

This has resulted in increases in segment profit in the first quarter of the consolidated fiscal year under review of 774 million yen in the functional chemicals business, 455 million yen in the pharmaceuticals business, 456 million yen in the safety systems business, and 79 million yen in the other businesses, and a decrease of 1,765 million yen in adjustments to segment profit compared calculations under the previous method.

The segment information provided for the first quarter of the previous fiscal year has been recalculated to show segment profit and loss after the revision.

3. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment

(Material change in the amount of goodwill)

The acquisition of a business from Henkel AG & Co. KGaA in the functional chemicals business resulted in goodwill. This event resulted in an increase in goodwill of 2,602 million yen in the first quarter of the consolidated fiscal year under review.

(Business Combinations, etc.)

(Business combination through acquisition)

The Company approved transfer of the LCD and semiconductor cleaner business operated by Henkel AG & Co. KGaA (Head office: Düsseldorf, Germany) to the Company at the Board of Directors meeting on December 24, 2019. The business transfer agreement was concluded on the same day, and the business was transferred on April 1, 2020. A summary of the transaction is provided below.

1. Summary of business combination

(1) Name and description of business acquired

Name of company acquired from: Henkel AG & Co. KGaA

Description of business: LCD and semiconductor cleaner business

(2) Reason for business combination

LCD and semiconductor cleaners are always used to wash substrates and in the developing and photoresist stripping processes of circuit formation when manufacturing LCDs, semiconductors, and other products. Many different cleaners are used in large volumes. The Company has acquired the business as an addition to its existing epoxy resins for semiconductor encapsulation, MEMS resist, LCD sealants, acrylate for solder resist, and other products to expand and grow the business domain as manufacturer of materials for LCDs and semiconductors and contribute to the achievement of the business targets for 2025.

(3) Date of business combination

April 1, 2020

(4) Legal form of business combination

Business transfer for cash

(5) Name of company after combination

No change.

(6) Main grounds for the decision to acquire the business

The company paid cash to acquire the business.

2. Period of performance for the acquired business included in the Consolidated Statements of Income for the first quarter of the consolidated fiscal year under review:

April 1 to June 30, 2020

3. Breakdown of the acquisition cost of business acquired and type of payment:

6,228 million yen in cash was paid as compensation for the business.

4. Amount of goodwill, reason for recognition of goodwill, and amortization method and period

(1) Amount of goodwill recognized

2,602 million yen

(2) Reason for recognition

To recognize the additional earning power expected from future expansion of the business.

(3) Amortization method and period

Straight-line depreciation over eight years

(Additional Information)

(Company split from consolidated subsidiary (simple, abbreviated absorption-type split))

At its Board of Directors meeting held on March 31, 2020, Nippon Kayaku passed the following resolution for the Company to take over the business of manufacturing and selling polarizing films for LCDs, polarizing films for projectors, and other precision-processed products (hereafter, “the business”) from its consolidated subsidiary, POLATECHNO CO., LTD. (hereafter, “Polatechno”), via an absorption-type split (hereafter, “the absorption-type split”), effective on October 1, 2020 (planned date).

1. Summary of transaction

(1) Companies involved in the business combination and names and descriptions of the business

The business of Polatechno, a wholly-owned subsidiary, in manufacturing and selling polarizing films for LCDs, polarizing films for projectors, and other precision-processed products

(2) Date of business combination

Date of Board of Directors resolution approving the absorption-type split agreement (Nippon Kayaku):

March 31, 2020

Date of Board of Directors resolution approving the absorption-type split agreement (Polatechno):

March 27, 2020

Conclusion date of absorption-type split agreement:

May 22, 2020

Date on which the absorption-type split agreement will become effective:

October 1, 2020 (planned date)

Note: This absorption-type merger constitutes an abbreviated split under Article 784, Paragraph 1 of the Companies Act for Polatechno, the company splitting off the business; and as a simple split under Article 796, Paragraph 2 of the Companies Act for Nippon Kayaku, the succeeding company. Both companies therefore intend to execute the absorption-type split agreement without obtaining approval from the Shareholders Meeting.

(3) Legal form of business combination

The form is an absorption-type split (simple absorption-type split) in which Polatechno is the splitting company and Nippon Kayaku is the succeeding company.

(4) Name of company after business combination

There are no changes planned to the names, location of headquarters, titles and names of representatives, capital, and fiscal year-end of either company as a result of this absorption-type split at the present time. However, in regard to the description of the main businesses of the split company after the absorption-type split, there are planned changes to the land leasing business by the date on which the absorption-type split will be concluded.

(5) Other information concerning the summary of the transaction

Incorporating the business into the Company as a business division will enable more effective use and optimal allocation of the management resources possessed by both companies, such as human resources, sales channels, production locations, and intellectual property. The Company is aiming to improve the efficiency of and expand the business by integrating the R&D structures of both companies to improve the efficiency and speed of R&D, strengthen governance, and achieve other benefits.

2. Summary of accounting standards implemented

The Company plans to handle the combination as a transaction under common control in accordance with ASBJ Statement No.21, Accounting Standard for Business Combinations (January 16, 2019) and ASBJ Guidance No.10, Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (January 16, 2019).

(Accounting estimates of the impact from the spread of the novel coronavirus)

The Nippon Kayaku Group estimated impairment losses on non-current assets and determined the recoverability of deferred tax assets for accounting purposes based on internal and external information available at the time the consolidated financial statements were produced. Although the impact and degree of impact from the spread of the novel coronavirus will differ depending on the business, the trend in significant economic deceleration due to declaration of a State of Emergency and the stagnation of economic activities is concerning, and we expect this to impact the performance of the Nippon Kayaku Group.

While we recognize the uncertainty over forecasts of when the spread of the virus will be brought under control,

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we based our decisions on the recoverability of deferred tax assets and recognition of impairment losses in calculating accounting estimates in businesses where there is concern over an impact from declining operating revenues on assumption that the spread of the novel coronavirus will peak out between April and June of 2020 and will subsequently improve.