

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

November 10, 2020

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

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

Filing date of quarterly securities report: November 12, 2020
Scheduled date for start of dividend payments: December 1, 2020
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 Second Quarter of the Fiscal Year Ending March 31, 2021 (April 1, 2020–September 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 half of fiscal year ending March 31, 2021	80,518	(5.9)	6,976	(22.9)	7,341	(19.8)	4,883	(22.9)
First half of fiscal year ended March 31, 2020	85,608	0.9	9,045	(5.4)	9,149	(17.2)	6,337	(15.2)

Note: Comprehensive income First half of fiscal year ending March 31, 2021: 8,035 million yen (356.6%)
First half of fiscal year ended March 31, 2020: 1,760 million yen ((81.6%))

	Profit attributable to owners of parent per share-primary	Profit attributable to owners of parent per share-diluted
	Yen	Yen
First half of fiscal year ending March 31, 2021	28.59	—
First half of fiscal year ended March 31, 2020	36.60	36.59

Note: Profit attributable to owners of parent per share-diluted for the first half 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.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2020	290,607	215,485	73.9
As of March 31, 2020	278,496	210,019	75.2

Reference: Equity As of September 30, 2020 214,813 million yen
As of March 31, 2020 209,344 million yen

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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	–	15.00			
Fiscal year ending March 31, 2021 (forecast)			–	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
Full year	164,000	(6.4)	12,000	(31.4)	12,800	(29.0)	10,000	(22.0)	58.55

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

Notes

- (1) Significant changes in subsidiaries during the first half (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 restatements
 - [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 September 30, 2020: 177,503,570 shares
 - As of March 31, 2020: 177,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of September 30, 2020: 6,710,248 shares
 - As of March 31, 2020: 6,709,685 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First half of the fiscal year ending March 31, 2021: 170,793,635 shares
 - First half of the fiscal year ended March 31, 2020: 173,144,521 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

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 Results 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 Wednesday, November 11, 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 Second Quarter

(1) Analysis of Operating Results

During the first half of this consolidated fiscal year (April 1 to September 30, 2020), a deceleration in the global economy occurred 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, stay-at-home restrictions, and store closures in the U.S. and Europe from March onward, causing a slump in economic activity and a resulting rapid deterioration in the economy. However, signs of a gradual rebound were seen in consumer spending and corporate revenues. In China, the economy continued to recover as economic activity resumed. The Japanese economy saw improvement in consumer spending and corporate revenues, but the unpredictability of the timing for bringing the pandemic under control caused uncertainty over the future to persist.

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 flextime, 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 half of this consolidated fiscal year totaled 80,518 million yen, a decrease of 5,089 million yen (5.9%) year-on-year. Sales in the functional chemicals and the pharmaceuticals businesses outperformed the first half of the previous fiscal year, while sales in the safety systems business declined.

Operating income totaled 6,976 million yen, a decrease of 2,069 million yen (22.9%) year-on-year.

Ordinary income totaled 7,341 million yen, a decrease of 1,807 million yen (19.8%) year-on-year.

Profit attributable to owners of parent was 4,883 million yen, a decrease of 1,454 million yen (22.9%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 34,850 million yen, an increase of 709 million yen (2.1%) year-on-year.

The functional materials business outperformed the first half 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 same period of the previous fiscal year due to slow sales of colorants for inkjet printers in industrial applications and 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 dye-type polarizing films and other optical materials and components due to the impact from the spread of the novel coronavirus, underperforming the same period of the previous fiscal year.

Segment profit rose to 3,647 million yen, an increase of 143 million yen (4.1%) year-on-year. This resulted from growth in sales in the catalyst business, which more than covered the decline in sales of the color materials business and the Polatechno Group.

[Pharmaceuticals Business]

Sales stood at 25,134 million yen, an increase of 1,908 million yen (8.2%) year-on-year.

Pharmaceuticals in Japan were impacted by two drug price revisions since the first half of last fiscal year. Nevertheless, the segment outperformed the first half 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 contract production outperformed the same period of the previous fiscal year, exports and sales of active pharmaceutical ingredients underperformed the same period of the previous fiscal year due to the impact from the spread of the novel coronavirus.

Segment profit was totaled 4,334 million yen, an increase of 684 million yen (18.8%) year-on-year. This resulted from a decrease in sales-related expenses due to decreased sales activities as the novel coronavirus spread and growth in sales of antibody biosimilars.

[Safety Systems Business]

Sales stood at 16,989 million yen, a decrease of 7,082 million yen (29.4%) year-on-year.

Sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs underperformed the same period of the previous fiscal year owing to the slump in the automotive market in all regions outside of China,

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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 1,366 million yen, a decrease of 2,692 million yen (66.3%) from the same period of the previous fiscal year.

[Other]

Sales stood at 3,544 million yen, a decrease of 625 million yen (15.0%) year-on-year.

The agrochemicals business underperformed the same period of the previous fiscal year in both domestic sales and exports.

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

Segment profit totaled 876 million yen, a decrease of 137 million yen (13.6%) year-on-year. Growth in real estate and other business sales did not cover the decline in sales in the agrochemicals business.

(2) Analysis of Financial Position

[1] Status of Assets, Liabilities, and Net Assets

Total assets were 290,607 million yen, an increase of 12,111 million yen from the end of the previous consolidated fiscal year. The main increases were in securities, an increase of 10,389 million yen; investment securities, an increase of 2,792 million yen; and goodwill, an increase of 2,344 million yen. The main decreases were in cash and deposits, a decrease of 5,401 million yen; and merchandise and finished goods, a decrease of 2,935 million yen.

Liabilities were 75,121 million yen, an increase of 6,644 million yen compared to the end of the previous consolidated fiscal year. The main increase was in short-term loans payable, an increase of 9,462 million yen. The main decrease was in income taxes payable, a decrease of 2,018 million yen.

Net assets were 215,485 million yen, an increase of 5,466 million yen compared to the end of the previous consolidated fiscal year. The main increases were in retained earnings, an increase of 2,321 million yen (a 2,561 million yen decrease from dividends paid and a 4,883 million yen increase in profit attributable to owners of parent); and unrealized holding gains on other securities, an increase of 1,936 million yen.

[2] Cash Flows Status

Net cash provided by operating activities amounted to 11,879 million yen (versus a cash inflow of 15,746 million yen during the same period of the previous fiscal year). The positive cash flow was primarily generated from profit before income taxes of 7,108 million yen, depreciation and amortization of 6,019 million yen, and a decrease in inventories of 2,932 million yen. The above factors more than compensated for income tax paid of 3,172 million yen and a decrease in notes and accounts payable-trade of 1,187 million yen.

Net cash used in investing activities totaled 12,762 million yen (versus a cash outflow of 10,450 million yen during the same period of the previous fiscal year). The net outflow was mainly due to expenditures of 6,228 million yen for business acquisition and 6,001 million yen for the purchase of property, plant, and equipment.

Net cash inflow in financing activities amounted to 5,677 million yen (versus a cash outflow of 5,167 million yen during the same period of the previous fiscal year). This mainly resulted from a net increase in short-term loans payable of 10,512 million yen, despite the cash outflow from dividends paid of 2,556 million yen and expenditures for repayment of long-term loans of 2,222 million yen.

Reflecting the above cash flow performance, the balance of cash and cash equivalents at the end of the first half was 51,739 million yen (versus 51,297 million yen during the same period of the previous fiscal year), an increase of 5,076 million yen from the end of the previous fiscal year.

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

We examined recent economic trends and progress in operating performance in the first half of this consolidated fiscal year, and are disclosing the full-year consolidated business forecasts for the fiscal year ending March 2021 that were not disclosed previously. See the Consolidated Business Results Forecasts for the Fiscal Year Ending March 31, 2021 that was published today for further details.

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

(1) Consolidated Balance Sheets

	As of March 31, 2020	As of September 30, 2020
	Million yen	
Assets		
Current assets		
Cash and deposits	43,222	37,820
Notes and accounts receivable-trade	51,940	52,447
Electronically recorded monetary claims-operating	1,846	1,542
Securities	4,132	14,522
Merchandise and finished goods	30,987	28,051
Work in process	1,640	1,415
Raw materials and stores	14,988	15,417
Other	4,384	4,440
Allowance for doubtful accounts	(39)	(35)
Total current assets	153,102	155,623
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	40,249	41,608
Machinery, equipment and vehicles, net	24,748	25,127
Other, net	20,961	21,437
Total property, plant and equipment	85,960	88,173
Intangible assets		
Goodwill	748	3,092
Other	2,613	4,820
Total intangible assets	3,362	7,913
Investments and other assets		
Investment securities	30,661	33,454
Net defined benefit asset	1,291	1,341
Other	4,140	4,123
Allowance for doubtful accounts	(22)	(23)
Total investments and other assets	36,071	38,897
Total non-current assets	125,393	134,984
Total assets	278,496	290,607

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	As of March 31, 2020	As of September 30, 2020
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,914	14,796
Short-term loans payable	4,359	13,822
Accounts payable-other	8,917	9,964
Income taxes payable	2,646	628
Other	6,961	6,585
Total current liabilities	38,800	45,796
Non-current liabilities		
Bonds payable	12,000	12,000
Long-term loans payable	6,182	4,972
Net defined benefit liability	426	435
Other	11,067	11,917
Total non-current liabilities	29,676	29,325
Total liabilities	68,477	75,121
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	15,757	15,757
Retained earnings	184,156	186,477
Treasury stock	(7,871)	(7,872)
Total shareholders' equity	206,975	209,295
Accumulated other comprehensive income		
Unrealized holding gains on other securities	7,856	9,793
Translation adjustments	(4,589)	(3,470)
Remeasurements of defined benefit plans	(897)	(804)
Total accumulated other comprehensive income	2,369	5,517
Non-controlling interests	675	672
Total net assets	210,019	215,485
Total liabilities and net assets	278,496	290,607

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

	First half of the fiscal year ended March 31, 2020	First half of the fiscal year ending March 31, 2021
	Million yen	
Net sales	85,608	80,518
Cost of sales	56,325	54,537
Gross profit on sales	29,282	25,981
Selling, general and administrative expenses	20,236	19,004
Operating income	9,045	6,976
Non-operating income		
Interest income	131	98
Dividend income	419	387
Equity in earnings of affiliates	132	131
Other	463	485
Total non-operating income	1,147	1,102
Non-operating expenses		
Interest expense	87	59
Foreign exchange losses	732	505
Other losses	224	172
Total non-operating expenses	1,044	737
Ordinary income	9,149	7,341
Extraordinary income		
Gain on sales of non-current assets	3	0
Gain on sales of investment securities	30	—
Total extraordinary income	33	0
Extraordinary loss		
Loss on disposal of non-current assets	253	232
Loss on valuation of investment securities	87	—
Total extraordinary loss	341	232
Profit before income taxes	8,840	7,108
Income taxes-current	2,607	1,002
Income taxes-deferred	(168)	1,223
Total income taxes	2,438	2,226
Profit	6,402	4,882
Profit attributable to non-controlling interests	64	(0)
Profit attributable to owners of parent	6,337	4,883

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Consolidated Statements of Comprehensive Income

	First half of the fiscal year ended March 31, 2020	First half of the fiscal year ending March 31, 2021
	Million yen	
Profit	6,402	4,882
Other comprehensive income		
Unrealized holding gains on other securities	(1,178)	1,939
Translation adjustments	(3,533)	1,123
Remeasurements of defined benefit plans	70	91
Share of other comprehensive income of companies accounted for by the equity-method	(0)	(1)
Total other comprehensive income	(4,641)	3,152
Comprehensive income	1,760	8,035
Comprehensive income attributable to:		
Owners of parent	1,925	8,031
Non-controlling interests	(165)	4

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(3) Consolidated Statements of Cash Flows

	First half of the fiscal year ended March 31, 2020	First half of the fiscal year ending March 31, 2021
	Million yen	
Cash flows from operating activities		
Profit before income taxes	8,840	7,108
Depreciation and amortization	5,983	6,019
Amortization of goodwill	99	259
Increase (decrease) in other provisions	(152)	(159)
Interest and dividend income	(550)	(485)
Interest expense	87	59
Foreign exchange losses (gains)	935	(297)
Equity in (earnings) losses of affiliates	(132)	(131)
Loss (gain) on sales of property, plant and equipment	(3)	(0)
Loss (gain) on disposal of property, plant and equipment	253	232
Loss on valuation of investment securities	87	—
(Increase) decrease in notes and accounts receivable-trade	3,577	18
(Increase) decrease in inventories	(1,118)	2,932
(Increase) decrease in prepaid expenses	(238)	(289)
(Increase) decrease in accounts receivable-other	458	834
(Increase) decrease in advance payments	7	2
Increase (decrease) in notes and accounts payable-trade	866	(1,187)
Increase (decrease) in notes and accounts payable-other	(895)	(427)
Increase (decrease) in accrued expenses	294	(260)
Increase (decrease) in net defined benefit liability	23	30
(Increase) decrease in net defined benefit asset	69	57
Other	92	141
Subtotal	18,586	14,456
Interest and dividends received	725	646
Interest paid	(94)	(62)
Income tax paid	(3,524)	(3,172)
Income tax refund	52	12
Net cash provided by operating activities	15,746	11,879
Cash flows from investing activities		
Net decrease (increase) in time deposits	(257)	(94)
Proceeds from withdrawal of time deposits	273	215
Purchase of property, plant and equipment	(8,702)	(6,001)
Proceeds from sales of property, plant and equipment	4	3
Purchase of intangible assets	(460)	(163)
Purchase of securities	(243)	—
Short-term loan advances	—	(146)
Proceeds from redemption of investment securities	89	86
Purchase of shares of subsidiaries and associates	(100)	(146)
Payments of long-term loans receivable	(632)	—
Payments for long-term prepaid expenses	(34)	(135)
Payment for retirement of property, plant and equipment	(196)	(200)
Payments for acquisition of businesses	—	(6,228)
Other	(191)	48
Net cash used in investing activities	(10,450)	(12,762)

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	First half of the fiscal year ended March 31, 2020	First half of the fiscal year ending March 31, 2021
	Million yen	
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(211)	10,512
Repayment of long-term loans	(2,171)	(2,222)
Purchase of treasury stock	(0)	(0)
Dividends paid	(2,590)	(2,556)
Dividends paid to non-controlling interests	(111)	(7)
Other	(81)	(47)
Net cash provided by financing activities	(5,167)	5,677
Effect of exchange rate change on cash and cash equivalents	(1,528)	281
Increase (decrease) in cash and cash equivalents	(1,400)	5,076
Cash and cash equivalents at beginning of period	52,697	46,663
Cash and cash equivalents at end of period	51,297	51,739

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(4) 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)

I. First half of the fiscal year ended March 31, 2020 (April 1, 2019–September 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	34,141	23,225	24,071	81,437	4,170	85,608	–	85,608
Intersegment sales and transfers	65	0	–	65	49	114	(114)	–
Total	34,206	23,225	24,071	81,503	4,219	85,723	(114)	85,608
Segment profit	3,503	3,649	4,059	11,212	1,014	12,226	(3,180)	9,045

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 3,180 million yen downward adjustment to segment profit reflects a negative 3,200 million yen in corporate expense not allocable to the reportable segments and 19 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

II. First half of the fiscal year ending March 31, 2021 (April 1, 2020–September 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	34,850	25,134	16,989	76,973	3,544	80,518	–	80,518
Intersegment sales and transfers	66	0	–	66	48	114	(114)	–
Total	34,916	25,134	16,989	77,040	3,592	80,633	(114)	80,518
Segment profit	3,647	4,334	1,366	9,347	876	10,224	(3,247)	6,976

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 3,247 million yen downward adjustment to segment profit reflects a negative 3,269 million yen in corporate expense not allocable to the reportable segments and 22 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.

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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 half of the consolidated fiscal year under review of 1,541 million yen in the functional chemicals business, 905 million yen in the pharmaceuticals business, 907 million yen in the safety systems business, and 158 million yen in the other businesses, and a decrease of 3,512 million yen in adjustments to segment profit compared calculations under the previous method.

The segment information provided for the first half 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, increasing total goodwill by 2,602 million yen.

(Additional Information)

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

There are no significant changes to assumptions, including assumptions for the timing of bringing the novel coronavirus under control, noted in "Additional Information, Accounting estimates of the impact from the spread of the novel coronavirus" appended to the securities report for the previous consolidated fiscal year.

(Significant Subsequent Events)

(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. Nippon Kayaku took over this business as scheduled on October 1, 2020.

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 became effective:
October 1, 2020

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 executed 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 to the names, location of headquarters, capital, and fiscal year-end of either company as a

result of this absorption-type split. However, the description of the main business of the split company after the absorption-type split was changed to the land leasing business. The accompanying amendments to the Articles of Incorporation for the split company were approved at the Annual Shareholders Meeting held on June 24, 2020.

(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 accounted for 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). This absorption-type split was eliminated as an internal company transaction in the consolidated financial statements and it therefore had no impact on profit and loss.