

Summary of Consolidated Financial Results [Japanese GAAP] For the Second Quarter of the Fiscal Year Ending March 31, 2019

November 7, 2018

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): Masanobu Suzuki, President
Director in charge of inquiries: Tomoo Shibuya, Managing Director & Head of Financial Group

Filing date of quarterly securities report: November 14, 2018
Scheduled date for start of dividend payments: December 3, 2018
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, 2019 (April 1, 2018–September 30, 2018)

(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, 2019	84,859	3.1	9,546	(20.1)	11,034	(8.9)	7,446	(13.2)
First half of fiscal year ended March 31, 2018	82,326	7.1	11,943	29.3	12,108	58.8	8,580	65.8

Note: Comprehensive income First half of fiscal year ending March 31, 2019: 9,571 million yen ((32.6)%)
First half of fiscal year ended March 31, 2018: 14,202 million yen (–%)

	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, 2019	43.01	42.99
First half of fiscal year ended March 31, 2018	49.55	49.55

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2018	290,610	227,471	73.8
As of March 31, 2018	285,453	220,602	73.0

Reference: Equity As of September 30, 2018: 214,543 million yen
As of March 31, 2018: 208,315 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, 2018	–	15.00	–	15.00	30.00
Fiscal year ending March 31, 2019	–	15.00			
Fiscal year ending March 31, 2019 (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, 2019 (April 1, 2018–March 31, 2019)

(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	178,000	6.0	21,000	(7.1)	22,500	0.1	15,500	0.2	89.52

Note: Changes to the most recent forecast for consolidated business results: None

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, 2018: 182,503,570 shares
 - As of March 31, 2018: 182,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of September 30, 2018: 9,358,211 shares
 - As of March 31, 2018: 9,357,742 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First half of the fiscal year ending March 31, 2019: 173,145,594 shares
 - First half of the fiscal year ended March 31, 2018: 173,152,980 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.

Supplementary Information

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1. Qualitative Information Concerning Results for the Second Quarter

(1) Analysis of Operating Results

In the first half of this consolidated fiscal year (April 1 to September 30, 2018), the global economy as a whole continued to rebound gradually. Capital investment and consumer spending in the U.S. were firm and Europe saw a gradual rebound on the back of steady consumer spending, despite the deceleration in the pace of growth seen mainly in the manufacturing industry. In China, the pace of growth in industrial production, capital investment, and other areas decelerated, owing to concerns over trade friction. The Japanese economy staged a gradual rebound on the back of firm personal consumption, capital investments, and other aspects of domestic demand.

Amid these conditions, the Nippon Kayaku Group continued to work to implement the key themes and resolve the mid- and long-term key issues outlined in “*Take a New Step 2016*,” the mid-term business plan launched in the fiscal year ended March 31, 2017, during the current fiscal year, which marks the final year of the plan. We worked to cut costs further to reinforce our profit structure, in addition to focusing on strengthening R&D, optimal allocation of business resources into core businesses, and expanding our overseas business.

Owing to these actions, net sales for the first half of this consolidated fiscal year totaled 84,859 million yen, an increase of 2,532 million yen (3.1%) year-on-year. Sales in the pharmaceuticals business declined year-on-year while sales in the functional chemicals and the safety systems businesses outperformed.

Operating income totaled 9,546 million yen, a decrease of 2,397 million yen (20.1%) year-on-year, due to the impact of drug price revisions in the pharmaceuticals business, among other factors.

Ordinary income totaled 11,034 million yen, a decrease of 1,074 million yen (8.9%) year-on-year.

Profit attributable to owners of parent was 7,446 million yen, a decrease of 1,134 million yen (13.2%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 34,113 million yen, an increase of 701 million yen (2.1%) year-on-year.

The functional materials business recorded growth in sales over the same period of the previous fiscal year. Both domestic and overseas demand for epoxy resins for semiconductor encapsulation was steady.

The color materials business recorded growth in sales over the same period of the previous fiscal year. Sales of colorants for inkjet printers in industrial applications were firm, and sales of dyes for textiles were strong mainly in the Chinese market.

The catalysts business experienced a decline in overseas sales, causing overall sales to underperform the first half of the previous fiscal year.

The Polatechno Group outperformed the first half of the previous fiscal year due to strong sales of ProFlux™, an inorganic polarizer and components for X-ray analysis systems.

Segment profit was 3,669 million yen, an increase of 747 million yen (16.9%) year-on-year.

[Pharmaceuticals Business]

Sales stood at 23,067 million yen, a decrease of 1,023 million yen (4.2%) year-on-year.

Pharmaceuticals in Japan recorded growth in sales for the biosimilar, INFLIXIMAB BS for I.V. Infusion (an antibody drug), and new product TEMOZOLOMIDE Tab. (anti-cancer drug). Sales of pharmaceuticals in Japan underperformed the same period of the previous fiscal year overall, due to the impact from drug price revisions for generic anti-cancer drugs and long-listed products.

Exports recorded year-on-year decline overall. BLEOs (anti-cancer drugs) outperformed, while ETOPOSIDES (anti-cancer drugs) and high potency active pharmaceutical ingredients underperformed the same period of the previous fiscal year.

Sales of active pharmaceutical ingredients and contracted production for the Japanese domestic market increased year-on-year.

Sales of diagnostic agents decreased year-on-year.

Segment profit totaled 1,666 million yen, a decrease of 1,793 million yen (51.8%) year-on-year.

[Safety Systems Business]

Sales stood at 23,480 million yen, an increase of 2,434 million yen (11.6%) year-on-year.

Business in Japan was steady due to year-on-year growth in sales of both airbag inflators and micro gas generators for seatbelt pretensioners.

Business overseas outperformed the same period of the previous fiscal year in sales of airbag inflators, micro gas generators for seatbelt pretensioners and squibs. This was due to the strong demand in emerging countries in addition to the strong demand in the North American, European, and Chinese markets.

Segment profit was 3,702 million yen, an increase of 140 million yen (3.9%) year-on-year.

[Other]

Sales totaled 4,197 million yen, an increase of 420 million yen (11.1%) compared to the same period of the previous fiscal year.

The agrochemicals business saw year-on-year growth in both domestic sales and exports.

Sales in real estate and other business decreased compared to the same period of the previous fiscal year.

Segment profit totaled 657 million yen, a decrease of 48 million yen (6.8%) year-on-year.

(2) Analysis of Financial Position

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

Total assets were 290,610 million yen, an increase of 5,156 million yen from the end of the previous consolidated fiscal year. The main increases were in property, plant and equipment, an increase of 3,354 million yen; inventories, an increase of 3,350 million yen; investment securities, an increase of 1,261 million yen; and securities, an increase of 973 million yen. The main decreases were in advance payments, a decrease of 2,272 million yen (included in other, current assets); and notes and accounts receivable-trade, a decrease of 1,537 million yen.

Total liabilities stood at 63,139 million yen, a decrease of 1,712 million yen from the end of the previous consolidated fiscal year. The main decreases were in long-term loans payable, a decrease of 1,593 million yen; and short-term loans payable, a decrease of 1,067 million yen. The main increase was in income taxes payable, an increase of 847 million yen.

Net assets were 227,471 million yen, an increase of 6,868 million yen from the end of the previous consolidated fiscal year. The main increases were in profit attributable to owners of parent, an increase of 7,446 million yen; unrealized holding gains on other securities, an increase of 731 million yen; and translation adjustments, an increase of 475 million yen. The main decrease was in dividends paid, a decrease of 2,597 million yen.

[2] Cash Flows Status

Net cash provided by operating activities came to 14,465 million yen (versus a cash inflow of 9,127 million yen in the first half of the previous fiscal year). Although cash flow was negatively impacted by an increase of 3,279 million yen in inventories and 2,368 million yen in income tax paid, positive cash flow was generated from profit before income taxes of 10,817 million yen, depreciation and amortization of 5,679 million yen, and a reduction in advance payments of 2,266 million yen.

Net cash used in investing activities came to 7,950 million yen (versus a cash outflow of 6,839 million yen in the first half of the previous fiscal year). This was mainly due to expenditures of 7,175 million yen on the purchase of property, plant and equipment.

Net cash used in financing activities was 5,907 million yen (versus a cash outflow of 6,172 million yen in the first half of the previous fiscal year). This mainly reflects 2,738 million yen expended for repayment of long-term loans, and 2,590 million yen in dividends paid.

Consequently, the balance of cash and cash equivalents at the end of the first half stood at 51,362 million yen, an increase of 830 million yen compared to the end of the previous consolidated fiscal year (the balance of cash and cash equivalents at the end of the first half of the previous fiscal year was 49,182 million yen).

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

In the future, the Nippon Kayaku Group anticipates continued firm growth in the global economy as economic growth in the U.S. and Europe continues. However, there is concern over a downswing in the global economic environment due to increased uncertainty over the future caused by trade friction and the political climate. Although the gradual recovery of the Japanese economy is expected to persist as employment and income levels continue to improve, we need to keep a cautious eye on the impact that a downswing in the global economy would have.

Under these conditions, the Nippon Kayaku Group aims to construct a solid financial structure which flexibly adapts to changes in the business environment, as well as expand existing businesses in global growth markets, accelerate the development of new businesses and new products, and enhance profits.

Nippon Kayaku Group did not revise its full-year forecasts for the fiscal year ending March 31, 2019, which were announced on October 30, 2018.

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

(1) Consolidated Balance Sheets

	As of March 31, 2018	As of September 30, 2018
	Million yen	
Assets		
Current assets		
Cash and deposits	42,411	42,264
Notes and accounts receivable-trade	53,313	51,776
Electronically recorded monetary claims-operating	1,762	2,109
Securities	8,584	9,557
Merchandise and finished goods	25,574	26,928
Work in process	1,933	2,279
Raw materials and stores	18,782	20,432
Other	5,487	3,362
Allowance for doubtful accounts	(34)	(28)
Total current assets	157,814	158,682
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,124	39,587
Machinery, equipment and vehicles, net	25,090	25,423
Other, net	19,014	21,572
Total property, plant and equipment	83,228	86,583
Intangible assets		
Goodwill	1,673	1,616
Other	1,763	1,852
Total intangible assets	3,436	3,469
Investments and other assets		
Investment securities	34,645	35,907
Net defined benefit asset	3,247	2,945
Other	3,051	3,008
Allowance for doubtful accounts	(28)	(25)
Total investments and other assets	40,915	41,835
Total non-current assets	127,581	131,888
Deferred assets	58	39
Total assets	285,453	290,610

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	As of March 31, 2018	As of September 30, 2018
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,236	16,847
Short-term loans payable	6,714	5,647
Accounts payable-other	10,568	10,500
Income taxes payable	1,334	2,182
Other	7,891	7,445
Total current liabilities	42,746	42,623
Non-current liabilities		
Long-term loans payable	7,577	5,983
Net defined benefit liability	496	505
Other	14,030	14,025
Total non-current liabilities	22,104	20,515
Total liabilities	64,851	63,139
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	17,596	17,600
Retained earnings	172,460	177,309
Treasury stock	(10,489)	(10,490)
Total shareholders' equity	194,501	199,352
Accumulated other comprehensive income		
Unrealized holding gains on other securities	11,730	12,462
Translation adjustments	2,249	2,725
Remeasurements of defined benefit plans	(165)	2
Total accumulated other comprehensive income	13,814	15,190
Non-controlling interests	12,287	12,927
Total net assets	220,602	227,471
Total liabilities and net assets	285,453	290,610

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 half of the fiscal year ended March 31, 2018	First half of the fiscal year ending March 31, 2019
	Million yen	
Net sales	82,326	84,859
Cost of sales	49,288	53,950
Gross profit on sales	33,038	30,909
Selling, general and administrative expenses	21,094	21,362
Operating income	11,943	9,546
Non-operating income		
Interest income	41	92
Dividend income	390	407
Equity in earnings of affiliates	229	152
Foreign exchange gains	—	690
Other	419	441
Total non-operating income	1,081	1,784
Non-operating expenses		
Interest expense	82	85
Foreign exchange losses	192	—
Provision for environmental measures	415	—
Other losses	226	211
Total non-operating expenses	916	297
Ordinary income	12,108	11,034
Extraordinary income		
Gain on sales of non-current assets	1	2
Total extraordinary income	1	2
Extraordinary loss		
Loss on disposal of non-current assets	159	219
Total extraordinary loss	159	219
Profit before income taxes	11,950	10,817
Income taxes-current	3,570	2,955
Income taxes-deferred	(618)	(165)
Total income taxes	2,952	2,789
Profit	8,998	8,027
Profit attributable to non-controlling interests	418	581
Profit attributable to owners of parent	8,580	7,446

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Consolidated Statements of Comprehensive Income

	First half of the fiscal year ended March 31, 2018	First half of the fiscal year ending March 31, 2019
	Million yen	
Profit	8,998	8,027
Other comprehensive income		
Unrealized holding gains on other securities	1,300	734
Translation adjustments	3,626	638
Remeasurements of defined benefit plans	274	173
Share of other comprehensive income of companies accounted for by the equity-method	1	(3)
Total other comprehensive income	5,203	1,543
Comprehensive income	14,202	9,571
Comprehensive income attributable to:		
Owners of parent	13,673	8,822
Non-controlling interests	528	748

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(3) Consolidated Statements of Cash Flows

	First half of the fiscal year ended March 31, 2018	First half of the fiscal year ending March 31, 2019
	Million yen	
Cash flows from operating activities		
Profit before income taxes	11,950	10,817
Depreciation and amortization	5,596	5,679
Increase (decrease) in provision for environmental measures	(361)	—
Increase (decrease) in other provisions	(117)	(186)
Interest and dividend income	(432)	(500)
Interest expense	82	85
Foreign Exchange losses (gains)	(470)	(75)
Equity in (earnings) losses of affiliates	(229)	(152)
Loss (gain) on sales of property, plant and equipment	(1)	(2)
Loss (gain) on disposal of property, plant and equipment	159	219
(Increase) decrease in notes and accounts receivable-trade	(4,283)	1,279
(Increase) decrease in inventories	(1,505)	(3,279)
(Increase) decrease in prepaid expenses	(91)	(95)
(Increase) decrease in accounts receivable-other	977	340
(Increase) decrease in advance payments	161	2,266
Increase (decrease) in notes and accounts payable-trade	1,961	520
Increase (decrease) in notes and accounts payable-other	(2,724)	(1,452)
Increase (decrease) in accrued expenses	729	(44)
Increase (decrease) in net defined benefit liability	14	8
(Increase) decrease in net defined benefit asset	303	551
Other	11	105
Subtotal	11,732	16,083
Interest and dividends received	598	622
Interest paid	(80)	(83)
Income tax paid	(3,136)	(2,368)
Income tax refund	13	211
Net cash provided by operating activities	9,127	14,465
Cash flows from investing activities		
Net decrease (increase) in time deposits	(270)	(105)
Proceeds from withdrawal of time deposits	265	103
Purchase of property, plant and equipment	(6,307)	(7,175)
Proceeds from sales of property, plant and equipment	6	6
Purchase of intangible assets	(119)	(284)
Purchase of shares of subsidiaries and associates	—	(180)
Payments for long-term prepaid expenses	(82)	(98)
Payment for retirement of property, plant and equipment	(233)	(159)
Other	(97)	(57)
Net cash used in investing activities	(6,839)	(7,950)

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	First half of the fiscal year ended March 31, 2018	First half of the fiscal year ending March 31, 2019
	Million yen	
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(8)	(7)
Repayment of long-term loans	(2,623)	(2,738)
Repayment of construction cooperation fund	(374)	(374)
Purchase of treasury stock	(16)	(0)
Dividends paid	(3,022)	(2,590)
Dividends paid to non-controlling interests	(104)	(108)
Other	(21)	(87)
Net cash provided by financing activities	(6,172)	(5,907)
Effect of exchange rate change on cash and cash equivalents	1,282	222
Increase (decrease) in cash and cash equivalents	(2,602)	830
Cash and cash equivalents at beginning of period	51,785	50,532
Cash and cash equivalents at end of period	49,182	51,362

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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, 2018 (April 1, 2017–September 30, 2017)

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	33,412	24,090	21,046	78,549	3,777	82,326	–	82,326
Intersegment sales and transfers	92	0	0	92	54	147	(147)	–
Total	33,504	24,090	21,046	78,641	3,832	82,473	(147)	82,326
Segment profit	4,417	3,459	3,562	11,438	706	12,144	(201)	11,943

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 201 million yen downward adjustment to segment profit reflects a negative 242 million yen in corporate expense not allocable to the reportable segments and 41 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.

II. First half of the fiscal year ending March 31, 2019 (April 1, 2018–September 30, 2018)

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	34,113	23,067	23,480	80,661	4,197	84,859	–	84,859
Intersegment sales and transfers	90	0	–	90	55	146	(146)	–
Total	34,204	23,067	23,480	80,752	4,253	85,006	(146)	84,859
Segment profit	3,669	1,666	3,702	9,038	657	9,696	(149)	9,546

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 149 million yen downward adjustment to segment profit reflects a negative 237 million yen in corporate expense not allocable to the reportable segments and 87 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.