

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

January 31, 2019

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: February 12, 2019  
Scheduled date for start of dividend payments: –  
Preparation of supplementary materials for quarterly financial results: None  
Quarterly results presentation meeting: None

## 1. Consolidated Business Results for the First Three Quarters of the Fiscal Year Ending March 31, 2019 (April 1, 2018–December 31, 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 three quarters of fiscal year ending March 31, 2019	128,901	3.3	14,563	(19.7)	15,990	(13.7)	10,580	(18.4)
First three quarters of fiscal year ended March 31, 2018	124,799	5.9	18,132	18.0	18,520	17.9	12,969	19.5

Note: Comprehensive income

First three quarters of fiscal year ending March 31, 2019: 9,459 million yen ((54.8)%)

First three quarters of fiscal year ended March 31, 2018: 20,925 million yen (82.7%)

	Profit attributable to owners of parent per share-primary	Profit attributable to owners of parent per share-diluted
	Yen	Yen
First three quarters of fiscal year ending March 31, 2019	61.11	61.09
First three quarters of fiscal year ended March 31, 2018	74.90	74.89

### (2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of December 31, 2018	288,927	224,675	73.3
As of March 31, 2018	285,600	220,619	72.9

Reference: Equity As of December 31, 2018: 211,837 million yen

As of March 31, 2018: 208,334 million yen

The provisional accounting treatment of the corporate combination that occurred during the third quarter of the fiscal year ending March 31, 2019 has been finalized and the amount of the impact from retrospective adjustments is reflected in the figures for the fiscal year ended March 31, 2018.

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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 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	0.1	89.52

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

Notes

- (1) Significant changes in subsidiaries during the first three quarters (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 December 31, 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 December 31, 2018: 9,358,485 shares
    - As of March 31, 2018: 9,357,742 shares
  - [3] Average number of shares during the fiscal period (cumulative)
    - First three quarters of fiscal year ending March 31, 2019: 173,145,466 shares
    - First three quarters of fiscal year ended March 31, 2018: 173,150,849 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 results 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 First Three Quarters

### (1) Analysis of Operating Results

The global economy as a whole continued to rebound gradually in the first three quarters of this consolidated fiscal year (April 1, 2018 to December 31, 2018). Capital investment and consumer spending in the U.S. were firm and Europe, despite the deceleration in the pace of growth, saw a gradual rebound on the back of steady consumer spending reflecting improvement of employment and income environment. 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 three quarters of this consolidated fiscal year totaled 128,901 million yen, an increase of 4,101 million yen (3.3 %) 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 14,563 million yen, a decrease of 3,568 million yen (19.7 %) year-on-year, due to the impact of drug price revisions in the pharmaceuticals business, among other factors.

Ordinary income totaled 15,990 million yen, a decrease of 2,530 million yen (13.7%) year-on-year.

Profit attributable to owners of parent was 10,580 million yen, a decrease of 2,388 million yen (18.4 %) year-on-year.

Performance by business segment is as described below.

#### [Functional Chemicals Business]

Sales stood at 51,368 million yen, an increase of 2,091 million yen (4.2%) year-on-year.

The functional materials business recorded growth in sales over the same period of the previous fiscal year. 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.

The catalysts business outperformed the same period of the previous fiscal year due to steady sales of catalysts used in production of acrylic acid.

In the Polatechno Group, sales of dye-type polarizing films were sluggish. However, sales of components for X-ray analysis systems were strong, leading to year-on-year growth in overall sales.

Segment profit was 5,549 million yen, a decrease of 733 million yen (11.7%) year-on-year.

#### [Pharmaceuticals Business]

Sales stood at 35,495 million yen, a decrease of 1,722 million yen (4.6%) 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 2,956 million yen, a decrease of 3,005 million yen (50.4%) year-on-year.

#### [Safety Systems Business]

Sales stood at 35,384 million yen, an increase of 2,982 million yen (9.2%) 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.

Despite a decline in the pace of growth in the European and Chinese markets, the overseas business was steady in general due to an increase in the automotive safety component installation rate and other factors. Air bag inflators, micro gas generators for seatbelt pretensioners, and squibs all outperformed the same period last year.

Segment profit was 5,411 million yen, an increase of 109 million yen (2.1%) year-on-year.

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[Other]

Sales totaled 6,652 million yen, an increase of 750 million yen (12.7%) 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 989 million yen, an increase of 100 million yen (11.2%) year-on-year.

## (2) Analysis of Financial Position

### Status of Assets, Liabilities, and Net Assets

Total assets were 288,927 million yen, an increase of 3,326 million yen compared to the end of the previous consolidated fiscal year. The main increases were in inventories, an increase of 4,241 million yen; property, plant and equipment, an increase of 3,279 million yen; and electronically recorded monetary claims-operating, an increase of 356 million yen. The main decreases were in cash and deposits, a decrease of 2,334 million yen; and advance payments, a decrease of 2,274 million yen (included in other, current assets).

Liabilities were 64,251 million yen, a decline of 729 million yen compared to the end of the previous consolidated fiscal year. The main decreases were in long-term loans payable, a decrease of 2,238 million yen; and accrued expenses, a decrease of 743 million yen (included in other, current liabilities). The main increases were in short-term loans payable, an increase of 1,832 million yen; and notes and accounts payable-trade, an increase of 438 million yen.

Net assets were 224,675 million yen, an increase of 4,056 million year compared to the end of the previous consolidated fiscal year. The main increase was in profit attributable to owners of parent, an increase of 10,580 million yen. The main decreases were in dividends paid, a decrease of 5,194 million yen; translation adjustments, a decrease of 1,586 million yen; and unrealized holding gains on other securities, a decrease of 553 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 December 31, 2018
	Million yen	
Assets		
Current assets		
Cash and deposits	42,411	40,077
Notes and accounts receivable-trade	53,313	52,838
Electronically recorded monetary claims-operating	1,762	2,118
Securities	8,584	8,731
Merchandise and finished goods	25,574	27,305
Work in process	1,933	1,865
Raw materials and stores	18,782	21,360
Other	5,487	3,746
Allowance for doubtful accounts	(34)	(28)
Total current assets	157,814	158,015
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,124	39,545
Machinery, equipment and vehicles, net	25,090	25,282
Other, net	19,014	21,679
Total property, plant and equipment	83,228	86,508
Intangible assets		
Goodwill	1,074	1,034
Other	2,508	2,543
Total intangible assets	3,582	3,577
Investments and other assets		
Investment securities	34,645	34,981
Net defined benefit asset	3,247	2,850
Other	3,051	2,989
Allowance for doubtful accounts	(28)	(25)
Total investments and other assets	40,915	40,796
Total non-current assets	127,727	130,882
Deferred assets	58	29
Total assets	285,600	288,927

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	As of March 31, 2018	As of December 31, 2018
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	16,236	16,675
Short-term loans payable	6,714	8,546
Accounts payable-other	10,568	10,363
Income taxes payable	1,334	1,194
Other	7,891	7,740
Total current liabilities	42,746	44,521
Non-current liabilities		
Long-term loans payable	7,577	5,338
Net defined benefit liability	496	385
Other	14,160	14,005
Total non-current liabilities	22,234	19,729
Total liabilities	64,980	64,251
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	17,596	17,602
Retained earnings	172,476	177,862
Treasury stock	(10,489)	(10,490)
Total shareholders' equity	194,516	199,907
Accumulated other comprehensive income		
Unrealized holding gains on other securities	11,730	11,176
Translation adjustments	2,252	666
Remeasurements of defined benefit plans	(165)	86
Total accumulated other comprehensive income	13,817	11,930
Non-controlling interests	12,284	12,838
Total net assets	220,619	224,675
Total liabilities and net assets	285,600	288,927

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

	First three quarters of fiscal year ended March 31, 2018	First three quarters of fiscal year ending March 31, 2019
	Million yen	
Net sales	124,799	128,901
Cost of sales	75,012	81,974
Gross profit on sales	49,787	46,927
Selling, general and administrative expenses	31,655	32,364
Operating income	18,132	14,563
Non-operating income		
Interest income	67	138
Dividend income	621	680
Equity in earnings of affiliates	308	255
Foreign exchange gains	—	244
Other	589	682
Total non-operating income	1,586	2,001
Non-operating expenses		
Interest expense	138	178
Foreign exchange losses	299	—
Provision for environmental measures	415	—
Other losses	344	396
Total non-operating expenses	1,197	575
Ordinary income	18,520	15,990
Extraordinary income		
Gain on sales of non-current assets	2	30
Total extraordinary income	2	30
Extraordinary loss		
Loss on disposal of non-current assets	274	314
Loss on valuation of investment securities	—	269
Total extraordinary loss	274	584
Profit before income taxes	18,249	15,436
Income taxes-current	4,550	3,705
Income taxes-deferred	142	412
Total income taxes	4,692	4,118
Profit	13,556	11,318
Profit attributable to non-controlling interests	587	737
Profit attributable to owners of parent	12,969	10,580



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Consolidated Statements of Comprehensive Income

	First three quarters of fiscal year ended March 31, 2018	First three quarters of fiscal year ending March 31, 2019
	Million yen	
Profit	13,556	11,318
Other comprehensive income		
Unrealized holding gains on other securities	2,544	(550)
Translation adjustments	4,395	(1,564)
Remeasurements of defined benefit plans	425	259
Share of other comprehensive income of companies accounted for by the equity-method	2	(3)
Total other comprehensive income	7,369	(1,858)
Comprehensive income	20,925	9,459
Comprehensive income attributable to:		
Owners of parent	20,182	8,692
Non-controlling interests	743	766

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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

##### I. First three quarters of the fiscal year ended March 31, 2018 (April 1, 2017– December 31, 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	49,277	37,218	32,402	118,897	5,901	124,799	–	124,799
Intersegment sales and transfers	141	0	0	141	83	224	(224)	–
Total	49,418	37,218	32,402	119,039	5,985	125,024	(224)	124,799
Segment profit	6,282	5,962	5,301	17,546	889	18,435	(303)	18,132

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

Note 2: The 303 million yen downward adjustment to segment profit reflects a negative 372 million yen in corporate expense not allocable to the reportable segments and 69 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. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment

material changes in the amount of goodwill

In the functional chemicals business segment, POLATECHNO CO., LTD., a consolidated subsidiary of the Nippon Kayaku Group, acquired all of the shares in RaySpec Limited during the third quarter of the fiscal year ended March 31, 2018, thereby including RaySpec in the scope of consolidation. This resulted in a 1,298-million-yen increase in the amount of goodwill in the third quarter of the fiscal year ended March 31, 2018. Because the allocation of the acquisition cost had not been completed as of the end of the third quarter, the amount of goodwill was a provisional calculation.

##### II. First three quarters of the fiscal year ending March 31, 2019 (April 1, 2018– December 31, 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	51,368	35,495	35,384	122,248	6,652	128,901	–	128,901
Intersegment sales and transfers	138	0	–	138	82	220	(220)	–
Total	51,507	35,495	35,384	122,387	6,734	129,122	(220)	128,901
Segment profit	5,549	2,956	5,411	13,917	989	14,906	(343)	14,563

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

Note 2: The 343 million yen downward adjustment to segment profit reflects a negative 450 million yen in corporate expense not allocable to the reportable segments and 107 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. Information concerning impairment losses on non-current assets, goodwill, etc. by reportable segment

Material changes in the amount of goodwill

The business combination with RaySpec Limited, which occurred on December 26, 2017, was accounted for provisionally in the third quarter of the previous consolidated fiscal year and was finalized in the third quarter of the fiscal year ending March 31, 2019. This resulted in a decrease in the amount of goodwill in the functional chemicals business segment. Further details are provided in the Notes (Business Combinations, etc.).

Business Combinations, etc.

The business combination with RaySpec Limited, which occurred on December 26, 2017, was accounted for provisionally in the third quarter of the previous consolidated fiscal year and was finalized in the third quarter of the fiscal year ending March 31, 2019.

The finalization of the provisional accounting estimate resulted in a material revision to the initial amount allocated for the acquisition cost. This is reflected in the comparative information included in quarterly consolidated financial statements for the third quarter of the fiscal year ending March 31, 2019. This mainly involved the allocation of 778 million yen to “Other” under “Intangible assets” and 135 million yen to “Deferred tax liabilities,” and resulted in a decrease in goodwill of 637 million yen from the provisional calculation of 1,298 million yen, to 661 million yen.