

Summary of Consolidated Financial Results [Japanese GAAP] For the Second Quarter of the Fiscal Year Ending March 31, 2020

November 7, 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): Atsuhiko Wakumoto, President
Director in charge of inquiries: Tsutomu Kawamura, General Manager of Finance & Accounting Division,
Financial Group

Filing date of quarterly securities report: November 13, 2019
Scheduled date for start of dividend payments: December 2, 2019
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, 2020 (April 1, 2019–September 30, 2019)

(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, 2020	85,608	0.9	9,045	(5.4)	9,149	(17.2)	6,337	(15.2)
First half of fiscal year ended March 31, 2019	84,859	3.1	9,563	(19.9)	11,051	(8.7)	7,474	(12.9)

Note: Comprehensive income First half of fiscal year ending March 31, 2020: 1,760 million yen ((81.6)%)
First half of fiscal year ended March 31, 2019: 9,590 million yen ((32.5)%)

	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, 2020	36.60	36.59
First half of fiscal year ended March 31, 2019	43.17	43.15

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

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio
	Million yen	Million yen	%
As of September 30, 2019	287,017	228,093	75.0
As of March 31, 2019	293,571	229,043	73.6

Reference: Equity As of September 30, 2019: 215,369 million yen
As of March 31, 2019: 216,041 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, 2019	–	15.00	–	15.00	30.00
Fiscal year ending March 31, 2020	–	15.00			
Fiscal year ending March 31, 2020 (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, 2020 (April 1, 2019–March 31, 2020)

(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	179,000	3.7	17,000	(14.7)	17,500	(19.0)	12,800	(13.8)	73.93

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, 2019: 177,503,570 shares
 - As of March 31, 2019: 182,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of September 30, 2019: 4,359,265 shares
 - As of March 31, 2019: 9,358,749 shares
 - [3] Average number of shares during the fiscal period (cumulative)
 - First half of the fiscal year ending March 31, 2020: 173,144,521 shares
 - First half of the fiscal year ended March 31, 2019: 173,145,594 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

The figures in the provisional accounting for a business combination in the previous consolidated fiscal year have been confirmed, and the content confirmed in the provisional accounting is reflected in the figures for the second quarter of the previous consolidated fiscal year.

(1) Analysis of Operating Results

In the first half of this consolidated fiscal year (April 1 to September 30, 2019), the global economy as a whole saw slow growth. This was mainly due to the deceleration of external demand in the manufacturing industry, while consumer spending remained steady on the back of an improved employment and income environment in the U.S. and Europe. The trend of deceleration in economic growth persisted in China, owing to the impact from trade friction between the U.S. and China, among other factors. The Japanese economy showed signs of a gradual rebound despite weak exports. This resulted mainly from moderate growth in capital investment and a resurgence in consumer spending.

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 this fiscal year. 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.

Sales for the first half of this consolidated fiscal year outperformed the same period last fiscal year in the functional chemicals business, the pharmaceuticals business, and the safety systems business, resulting in total net sales of 85,608 million yen, an increase of 749 million yen (0.9%) year-on-year.

Operating income totaled 9,045 million yen, a decrease of 518 million yen (5.4%) year-on-year.

Ordinary income totaled 9,149 million yen, a decrease of 1,902 million yen (17.2%) year-on-year due to an increase in exchange losses.

Profit attributable to owners of parent was 6,337 million yen, a decrease of 1,136 million yen (15.2%) year-on-year.

Performance by business segment is as described below.

[Functional Chemicals Business]

Sales stood at 34,141 million yen, an increase of 27 million yen (0.1%) year-on-year.

The functional materials business recorded growth in sales over the same period of the previous fiscal year. This growth was resulted from strong sales of epoxy resins for smartphones and 5G base stations, which more than covered for the deceleration in demand from the semiconductor market.

The color materials business outperformed the first half of last fiscal year, boosted by strong sales of colorants for inkjet printers for industrial applications and materials for thermal paper.

The catalyst business underperformed the same period of the previous fiscal year.

In the Polatechno Group, sales of components for X-ray analysis systems were strong, but sluggish sales of dye-type polarizing films resulted in underperformance of the Polatechno Group as a whole, compared with the same period of the previous fiscal year.

Segment profit was 2,590 million yen, a decrease of 1,095 million yen (29.7%) year-on-year.

[Pharmaceuticals Business]

Sales stood at 23,225 million yen, an increase of 158 million yen (0.7%) year-on-year.

Pharmaceuticals in Japan recorded growth in sales for the antibody biosimilar, INFLIXIMAB BS for I.V. Infusion, and for Trastuzumab BS for I.V. infusion. Sales for the pharmaceuticals business as a whole outperformed the first half of last fiscal year. Growth in sales of the generic anti-cancer drugs OXALIPLATIN for I.V. Infusion NK, TEMOZOLOMIDE Tab., and other generic anti-cancer drugs boosted performance, despite the year-on-year underperformance of long-listed products as the switch to generic drugs continued.

Exports as a whole underperformed year-on-year due to a decline in exports of BLEOs and ETOPOSIDES (anti-cancer drugs), despite year-on-year growth in high potency active pharmaceutical ingredients.

Sales of active pharmaceutical ingredients and contracted production for the Japanese domestic market, and diagnostic agents underperformed the first half of last fiscal year.

Segment profit totaled 2,409 million yen, an increase of 743 million yen (44.6%) year-on-year.

[Safety Systems Business]

Sales stood at 24,071 million yen, an increase of 590 million yen (2.5%) year-on-year.

Business in Japan outperformed the same period of the previous fiscal year due to firm sales of both airbag inflators and micro gas generators for seatbelt pretensioners.

The overseas business saw an increase in the automotive safety component installation rate; however, the sluggish market in China caused air bag inflators, micro gas generators for seatbelt pretensioners, and squibs all to underperform the same period of the previous fiscal year.

Segment profit was 3,431 million yen, a decrease of 271 million yen (7.3%) year-on-year.

[Other]

Sales totaled 4,170 million yen, a decrease of 27 million yen (0.6%) compared to the same period of the previous fiscal year.

The agrochemicals business outperformed the same period of the previous fiscal year in both domestic sales and exports, resulting in year-on-year growth for the business as a whole.

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

Segment profit totaled 795 million yen, an increase of 137 million yen (20.9%) year-on-year.

(2) Analysis of Financial Position

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

Total assets were 287,017 million yen, a decrease of 6,554 million yen from the end of the previous consolidated fiscal year. The main decreases were in securities, a decrease of 4,752 million yen; notes and accounts receivable-trade, a decrease of 4,260 million yen; and investment securities, a decrease of 1,749 million yen. The main increases were in cash and deposits, an increase of 3,432 million yen; and long-term loans receivable, an increase of 632 million yen.

Liabilities were 58,923 million yen, a decline of 5,605 million yen compared to the end of the previous consolidated fiscal year. The main decreases were in long-term loans payable, a decrease of 2,177 million yen; accounts payable-other, a decrease of 1,885 million yen; income taxes payable, a decrease of 917 million yen; and deferred tax liabilities, a decrease of 675 million yen. The main increase was in notes and accounts payable-trade, an increase of 570 million yen.

Net assets were 228,093 million yen, a decrease of 949 million yen compared to the end of the previous consolidated fiscal year. The main decreases were in translation adjustments, a decrease of 3,299 million yen; and dividends paid, a decrease of 2,597 million yen. The main increase was in profit attributable to owners of parent, an increase of 6,337 million yen.

[2] Cash Flows Status

Net cash provided by operating activities amounted to 15,746 million yen (versus a cash inflow of 14,465 million yen during the first half of the previous fiscal year). The positive cash flow was primarily generated from profit before income taxes of 8,840 million yen, depreciation and amortization of 5,983 million yen, and a decrease in notes and accounts receivable-trade of 3,577 million yen. The above factors more than compensated for income tax paid of 3,524 million yen and an increase in inventories of 1,118 million yen.

Net cash used in investing activities totaled 10,450 million yen (versus a cash outflow of 7,950 million yen during the first half of the previous fiscal year). The net outflow was mainly due to expenditures of 8,702 million yen for the purchase of property, plant and equipment.

Net cash used in financing activities amounted to 5,167 million yen (versus a cash outflow of 5,907 million yen during the first half of the previous fiscal year). This was mainly due to expenditures for repayment of long-term loans of 2,171 million yen and dividends paid of 2,590 million yen.

Reflecting the above cash flow performance, the balance of cash and cash equivalents at the end of the first half was 51,297 million yen (versus 51,362 million yen during the first half of the previous fiscal year), a decrease of 1,400 million yen from the end of the previous fiscal year.

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

The global economy will benefit from the anticipated firmness of the U.S. and European economies, and this will affect the future business environment surrounding the Nippon Kayaku Group. 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. The Chinese economy is expected to improve, due in part to various government policies which will underpin growth. Although a continued rebound in the Japanese economy is expected as employment and income environment continues to improve and also due to support from various government policies, 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.

The business results forecasts for fiscal year ending March 31, 2020 have been revised from the forecasts announced on May 10, 2019. See the Notice of Revision to the Business Results Forecasts posted on the corporate website today for further details.

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

(1) Consolidated Balance Sheets

	As of March 31, 2019	As of September 30, 2019
	Million yen	
Assets		
Current assets		
Cash and deposits	42,432	45,864
Notes and accounts receivable-trade	52,917	48,657
Electronically recorded monetary claims-operating	2,000	1,939
Securities	10,773	6,021
Merchandise and finished goods	27,251	28,606
Work in process	1,719	2,142
Raw materials and stores	20,680	19,220
Other	4,211	4,014
Allowance for doubtful accounts	(29)	(23)
Total current assets	161,958	156,442
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,800	39,347
Machinery, equipment and vehicles, net	25,194	26,033
Other, net	22,252	22,106
Total property, plant and equipment	87,246	87,487
Intangible assets		
Goodwill	1,000	842
Other	2,492	2,480
Total intangible assets	3,493	3,322
Investments and other assets		
Investment securities	35,426	33,676
Net defined benefit asset	2,448	2,460
Other	3,003	3,646
Allowance for doubtful accounts	(25)	(22)
Total investments and other assets	40,852	39,761
Total non-current assets	131,592	130,571
Deferred assets	21	2
Total assets	293,571	287,017

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	As of March 31, 2019	As of September 30, 2019
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,575	16,145
Short-term loans payable	5,472	5,187
Accounts payable-other	10,670	8,784
Income taxes payable	2,542	1,625
Other	7,151	7,064
Total current liabilities	41,412	38,807
Non-current liabilities		
Long-term loans payable	8,778	6,600
Net defined benefit liability	418	421
Other	13,919	13,093
Total non-current liabilities	23,116	20,115
Total liabilities	64,528	58,923
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	17,596	17,589
Retained earnings	182,133	180,274
Treasury stock	(10,490)	(4,884)
Total shareholders' equity	204,171	207,912
Accumulated other comprehensive income		
Unrealized holding gains on other securities	11,374	10,195
Translation adjustments	627	(2,671)
Remeasurements of defined benefit plans	(133)	(67)
Total accumulated other comprehensive income	11,869	7,457
Non-controlling interests	13,002	12,724
Total net assets	229,043	228,093
Total liabilities and net assets	293,571	287,017

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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, 2019	First half of the fiscal year ending March 31, 2020
	Million yen	
Net sales	84,859	85,608
Cost of sales	53,950	56,325
Gross profit on sales	30,909	29,282
Selling, general and administrative expenses	21,345	20,236
Operating income	9,563	9,045
Non-operating income		
Interest income	92	131
Dividend income	407	419
Equity in earnings of affiliates	152	132
Foreign exchange gains	690	–
Other	441	463
Total non-operating income	1,784	1,147
Non-operating expenses		
Interest expense	85	87
Foreign exchange losses	–	732
Other losses	211	224
Total non-operating expenses	297	1,044
Ordinary income	11,051	9,149
Extraordinary income		
Gain on sales of non-current assets	2	3
Gain on sales of investment securities	–	30
Total extraordinary income	2	33
Extraordinary loss		
Loss on disposal of non-current assets	219	253
Loss on valuation of investment securities	–	87
Total extraordinary loss	219	341
Profit before income taxes	10,834	8,840
Income taxes-current	2,955	2,607
Income taxes-deferred	(172)	(168)
Total income taxes	2,782	2,438
Profit	8,052	6,402
Profit attributable to non-controlling interests	577	64
Profit attributable to owners of parent	7,474	6,337

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Consolidated Statements of Comprehensive Income

	First half of the fiscal year ended March 31, 2019	First half of the fiscal year ending March 31, 2020
	Million yen	
Profit	8,052	6,402
Other comprehensive income		
Unrealized holding gains on other securities	734	(1,178)
Translation adjustments	633	(3,533)
Remeasurements of defined benefit plans	173	70
Share of other comprehensive income of companies accounted for by the equity-method	(3)	(0)
Total other comprehensive income	1,538	(4,641)
Comprehensive income	9,590	1,760
Comprehensive income attributable to:		
Owners of parent	8,847	1,925
Non-controlling interests	743	(165)

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(3) Consolidated Statements of Cash Flows

	First half of the fiscal year ended March 31, 2019	First half of the fiscal year ending March 31, 2020
	Million yen	
Cash flows from operating activities		
Profit before income taxes	10,834	8,840
Depreciation and amortization	5,713	5,983
Increase (decrease) in other provisions	(186)	(152)
Interest and dividend income	(500)	(550)
Interest expense	85	87
Foreign exchange losses (gains)	(75)	935
Equity in (earnings) losses of affiliates	(152)	(132)
Loss (gain) on sales of property, plant and equipment	(2)	(3)
Loss (gain) on disposal of property, plant and equipment	219	253
Loss (gain) on valuation of investment securities	—	87
(Increase) decrease in notes and accounts receivable-trade	1,279	3,577
(Increase) decrease in inventories	(3,279)	(1,118)
(Increase) decrease in prepaid expenses	(95)	(238)
(Increase) decrease in accounts receivable-other	340	458
(Increase) decrease in advance payments	2,266	7
Increase (decrease) in notes and accounts payable-trade	520	866
Increase (decrease) in notes and accounts payable-other	(1,452)	(895)
Increase (decrease) in accrued expenses	(44)	294
Increase (decrease) in net defined benefit liability	8	23
(Increase) decrease in net defined benefit asset	551	69
Other	53	191
Subtotal	16,083	18,586
Interest and dividends received	622	725
Interest paid	(83)	(94)
Income tax paid	(2,368)	(3,524)
Income tax refund	211	52
Net cash provided by operating activities	14,465	15,746
Cash flows from investing activities		
Net decrease (increase) in time deposits	(105)	(257)
Proceeds from withdrawal of time deposits	103	273
Purchase of property, plant and equipment	(7,175)	(8,702)
Proceeds from sales of property, plant and equipment	6	4
Purchase of intangible assets	(284)	(460)
Purchase of securities	—	(243)
Proceeds from redemption of securities	—	89
Purchase of shares of subsidiaries and associates	(180)	(100)
Payments of long-term loans receivable	—	(632)
Payments for long-term prepaid expenses	(98)	(34)
Payment for retirement of property, plant and equipment	(159)	(196)
Other	(57)	(191)
Net cash used in investing activities	(7,950)	(10,450)

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	First half of the fiscal year ended March 31, 2019	First half of the fiscal year ending March 31, 2020
	Million yen	
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(7)	(211)
Repayment of long-term loans	(2,738)	(2,171)
Repayment of construction cooperation fund	(374)	—
Purchase of treasury stock	(0)	(0)
Dividends paid	(2,590)	(2,590)
Dividends paid to non-controlling interests	(108)	(111)
Other	(87)	(81)
Net cash provided by financing activities	(5,907)	(5,167)
Effect of exchange rate change on cash and cash equivalents	222	(1,528)
Increase (decrease) in cash and cash equivalents	830	(1,400)
Cash and cash equivalents at beginning of period	50,532	52,697
Cash and cash equivalents at end of period	51,362	51,297

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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)

Nippon Kayaku canceled 5,000,000 treasury shares on May 20, 2019, pursuant to the resolution passed by the Board of Directors on May 10, 2019. This consequently reduced additional paid-in capital by 7 million yen, retained earnings by 5,599 million yen, and treasury shares by 5,606 million yen during the first half of the consolidated fiscal year under review.

(Segment Information and Other Items)

I. First half of the fiscal year ended 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	3,686	1,666	3,702	9,055	657	9,713	(149)	9,563

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.

Note 4: The amount of the retroactive adjustment to the provisional accounting for a business combination confirmed in the third quarter of fiscal year ended March 31, 2019 is reflected in the figures for the first half of the previous consolidated fiscal year.

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

(Material change in the amount of goodwill)

The business combination with RaySpec Limited which was implemented on December 26, 2017, was subject to provisional accounting in fiscal year ended March 31, 2018 and confirmed during the previous consolidated fiscal year. This has resulted in a decrease in the amount of goodwill in the functional chemicals business segment.

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II. First half of the fiscal year ending 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	34,141	23,225	24,071	81,437	4,170	85,608	–	85,608
Sales to third parties	65	0	–	65	49	114	(114)	–
Intersegment sales and transfers								
Total	34,206	23,225	24,071	81,503	4,219	85,723	(114)	85,608
Segment profit	2,590	2,409	3,431	8,431	795	9,227	(181)	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 181 million yen downward adjustment to segment profit reflects a negative 201 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.

(Significant Subsequent Events)

(Regarding the Acquisition of Shares via Tender Offer and the Demand for the Sale of Shares)

Nippon Kayaku decided to acquire the consolidated subsidiary POLATECHNO CO., LTD. (hereafter, “Polatechno”) via tender offer (hereafter, “this tender offer”), based on the Financial Instruments & Exchange Act. The resolution was approved at the Board of Directors meeting held on August 27, 2019. This tender offer was executed and the acquisition was completed on October 10, 2019.

A Demand for the Sale of Shares will be subsequently exercised based on Article 179, Paragraph 1 of the Companies Act, and Nippon Kayaku intends to make Polatechno a wholly owned subsidiary on November 12, 2019.

1. Summary of Business Combination

(1) Name and business description of the business to be combined

Name of company: POLATECHNO CO., LTD.

Business description: Manufacture and sale of components for LCD displays, components for LCD projectors, etc.

(2) Dates of business combination

Acquisition via tender offer: October 18, 2019

(deemed acquisition date: October 1, 2019)

Acquisition via the Demand for the Sale of Shares: November 12, 2019

(scheduled date; deemed acquisition date: October 1, 2019)

(3) Legal form of business combination

Acquisition of shares for cash

(4) Name of company after combination

No change.

(5) Percentage of subsidiary shares held after additional acquisition:

Percentage of shares held prior to business combination: 66.45%

Percentage of shares held after tender offer: 99.20%

Percentage of shares held after the Demand for the Sale of Shares: 100.00% (plan)

2. Breakdown of the cost of acquiring additional shares of the subsidiary and type of payment (including the shares Nippon Kayaku intends to acquire via the Demand for the Sale of Shares)

Acquisition for cash: 13,808 million yen

Acquisition cost: 13,808 million yen

3. Overview of Accounting Method

These transactions qualify as transactions under common control specified in the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, September 13, 2013) and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, September 13, 2013) and Nippon Kayaku intends to base its accounting method on these.

(Acquisition of Treasury Shares)

Nippon Kayaku has decided to acquire treasury shares as described below. The resolution has been approved at the Board of Directors meeting held on November 7, 2019. The acquisition is based on Article 156 of the Companies Act, applied as specified in Article 165, Paragraph 3 of the same Act.

1. Reason for acquiring treasury shares

To enable flexible execution of capital policy according to changes in the management environment

2. Summary of treasury share acquisition terms

(1) Class of shares to be acquired: Common shares

(2) Total number of shares to be acquired: 2,500,000 shares (maximum)

(Percentage of total number of shares issued
(excluding treasury shares): 1.44%)

(3) Total cost of share acquisition: 3,000,000,000 yen (maximum)

(4) Acquisition period: From November 8, 2019 to March 31, 2020

(5) Acquisition method: Market purchase on the Tokyo Stock Exchange