

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

May 19, 2020

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

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

Scheduled date of the Annual Shareholders Meeting: June 25, 2020
Scheduled date for start of dividend payments: June 26, 2020
Filing date of securities report: June 25, 2020
Preparation of supplementary materials for financial results: Yes
Financial results presentation meeting: Yes (for securities analysts and institutional investors)

1. Consolidated Business Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019–March 31, 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	%
Fiscal year ended March 31, 2020	175,123	1.4	17,485	(12.3)	18,026	(16.6)	12,815	(13.7)
Fiscal year ended March 31, 2019	172,639	2.8	19,939	(11.8)	21,608	(3.9)	14,851	(4.1)

Note: Comprehensive income Fiscal year ended March 31, 2020: 3,157 million yen ((77.1)%)
Fiscal year ended March 31, 2019: 13,788 million yen ((32.9)%)

	Profit attributable to owners of parent per share—primary	Profit attributable to owners of parent per share—diluted	Return on equity	Ordinary income to total assets ratio	Operating income to net sales ratio
	Yen	Yen	%	%	%
Fiscal year ended March 31, 2020	74.25	74.23	6.0	6.3	10.0
Fiscal year ended March 31, 2019	85.77	85.75	7.0	7.5	11.6

Reference: Equity in earnings of affiliates
Fiscal year ended March 31, 2020: 34 million yen
Fiscal year ended March 31, 2019: 253 million yen

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2020	278,496	210,019	75.2	1,225.71
As of March 31, 2019	293,571	229,043	73.6	1,247.75

Reference: Equity As of March 31, 2020: 209,344 million yen
As of March 31, 2019: 216,041 million yen

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(3) Status of Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of year
	Million yen	Million yen	Million yen	Million yen
Fiscal year ended March 31, 2020	27,281	(17,543)	(13,894)	46,663
Fiscal year ended March 31, 2019	26,803	(17,694)	(6,437)	52,697

2. Status of Dividends

	Dividend amount per share					Total dividend payment (year)	Dividend payout ratio (consolidated)	Dividend payout to net assets ratio (consolidated)
	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	5,194	35.0	2.4
Fiscal year ended March 31, 2020	–	15.00	–	15.00	30.00	5,159	40.4	2.4
Fiscal year ending March 31, 2021 (forecast)	–	15.00	–	15.00	30.00		–	

Note: The consolidated dividend payout ratio for the fiscal year ending March 31, 2021 has not be calculated because the consolidated business results forecast has not yet been determined.

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

The impact from the global spread of the novel coronavirus (COVID-19) has made it difficult to calculate reasonable consolidated business results forecasts for the fiscal year ending March 31, 2021 at the present time. The Company has therefore refrained from specifying forecasts. We will carefully assess the impact on business results and will promptly disclose forecasts when it becomes possible to disclose reasonable forecasts.

Notes

- (1) Significant changes in subsidiaries during the fiscal period (changes in designated subsidiaries that result in changes in scope of consolidation): None
- (2) 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
- (3) Number of shares issued (common stock)
 - [1] Number of shares issued at end of the fiscal period (including treasury stock)
 - As of March 31, 2020: 177,503,370 shares
 - As of March 31, 2019: 182,503,570 shares
 - [2] Number of treasury stock at end of the fiscal period
 - As of March 31, 2020: 6,709,685 shares
 - As of March 31, 2019: 9,358,749 shares
 - [3] Average number of shares during the fiscal period
 - Fiscal year ended March 31, 2020: 172,597,255 shares
 - Fiscal year ended March 31, 2019: 173,145,331 shares

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Reference: Overview of Non-consolidated Business Results

1. Non-consolidated Business Results for the Fiscal Year Ended March 31, 2020 (April 1, 2019–March 31, 2020)

(1) Non-consolidated Operating Results

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

	Net sales		Operating income		Ordinary income	
	Million yen	%	Million yen	%	Million yen	%
Fiscal year ended March 31, 2020	106,608	3.1	9,075	5.3	13,494	3.9
Fiscal year ended March 31, 2019	103,440	1.3	8,614	(22.6)	12,989	(20.0)

	Net income		Net income per share		Diluted net income per share	
	Million yen	%	Yen		Yen	
Fiscal year ended March 31, 2020	10,703	2.7	62.01		–	
Fiscal year ended March 31, 2019	10,421	(17.7)	60.19		–	

(2) Non-consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
As of March 31, 2020	215,528	160,823	74.6	941.59
As of March 31, 2019	208,017	161,744	77.8	934.13

Reference: Equity As of March 31, 2020: 160,823 million yen

As of March 31, 2019: 161,744 million yen

* 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

(Disclaimer concerning forward-looking statements)

It is considered difficult to calculate reasonable consolidated business results forecasts for the fiscal year ending March 31, 2021 at the present time. The Company has therefore refrained from specifying forecasts. We will carefully assess the impact on business results and will promptly disclose forecasts when it becomes possible to disclose reasonable forecasts. For matters pertaining to business forecasts, please refer to “1. Overview of Operating Results, Financial Position, and Future Outlook, (4) Future Outlook” on page 4 of the Supplementary Information.

(Financial Results Presentation)

The Company had planned to hold a financial results presentation for securities analysts and institutional investors on Wednesday, May 13, 2020, but now plans to hold the presentation on Tuesday, May 26, 2020 due to the delay in announcing financial results.

Supplementary Information

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1. Overview of Operating Results, Financial Position, and Future Outlook

(1) Overview of Operating Results for the Fiscal Year Ended March 31, 2020

The global economy continued to see a gradual rebound this fiscal year, however the impact from the spread of the novel coronavirus (COVID-19) pandemic from January 2020 onward has suppressed economic activity in China, Europe, and the U.S., resulting in a deceleration in the pace of growth of the global economy. While the Japanese economy showed signs of a gradual rebound on the back of an improved employment and income environment, signs of weakness in consumer spending and other areas have appeared due to the infectious disease and the future outlook remains uncertain.

In the functional chemicals industry, which encompasses functional materials, the need is increasing for high-performance materials for use in next-generation high-speed (5G) communication devices in the information and communication fields and for various kinds of color materials for digital printing in the printing industry. The global trends in energy and resource conservation are also creating demand for high-strength, lightweight materials and high-performance catalysts for chemical reactions.

In the pharmaceuticals industry, there is need to both maintain Japan's national health insurance system and promote innovations that will deliver drugs with superior therapeutic efficacy to patients with intractable conditions. The generic drugs and biosimilars markets are experiencing high growth amid healthcare system reforms that take the costs of social security and medical care into consideration and efforts to maintain healthcare costs at a reasonable level. Domestic manufacturing of biomedicines and biosimilars is promising from the perspective of industry development.

In the automotive industry, the automotive market shrank under the added strain of the spread of COVID-19 on top of the deceleration in economic growth in China and softening of growth in the European market stemming from changes of testing methods for gas emissions, etc.

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.

The above factors led to growth in consolidated net sales to 175,123 million yen for the fiscal year ended March 31, 2020, an increase of 2,484 million yen (1.4%) year-on-year. This growth resulted from a year-on-year sales growth in the functional chemicals business and pharmaceuticals business, despite a year-on-year decline in sales in the safety systems business.

Consolidated operating income totaled 17,485 million yen, a decrease of 2,454 million yen (12.3%) year-on-year. This decline resulted from underperformance of the functional chemicals and safety systems businesses compared with the previous fiscal year, despite year-on-year growth in the pharmaceuticals business.

Consolidated ordinary income was 18,026 million yen, a decline of 3,581 million yen (16.6%) from the previous year. The decline resulted from an increase in foreign exchange losses.

Profit attributable to owners of parent was 12,815 million yen, a decrease of 2,035 million yen (13.7%) year-on-year.

Performance by business segment is as described below.

[1] Functional Chemicals Business

Sales stood at 71,540 million yen, an increase of 1,851 million yen (2.7%) year-on-year.

The functional materials business as a whole outperformed the previous fiscal year. The outperformance came from strong sales of epoxy resins used in semiconductor encapsulation due to the proliferation of high-speed (5G) communications devices and IoT and the increasingly sophisticated electronic equipment in vehicles, which more than compensated for a decline in sales of other products.

The color materials business outperformed the previous fiscal year despite year-on-year underperformance of colorants for inkjet printers for consumer use. The growth in sales resulted from strong growth in colorants for inkjet printers for industrial applications due to the growth of digital printing.

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

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 previous fiscal year.

The slump in the Chinese market in the color materials business and the decline in sales of the Polatechno Group result in a 1,525 million yen (19.7%) decline in segment profit from the previous fiscal year to 6,202 million yen.

[2] Pharmaceuticals Business

Sales stood at 47,774 million yen, an increase of 1,543 million yen (3.3%) year-on-year.

Pharmaceuticals in Japan were impacted by drug price revisions accompanying the increase in the consumption tax rate, but the segment outperformed 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.

Although sales of active pharmaceutical ingredients and contract production for the Japanese domestic market underperformed the previous fiscal year, exports and diagnostic agents outperformed the previous fiscal year.

Segment profit was totaled 4,135 million yen, an increase of 74 million yen (1.8%) year-on-year.

[3] Safety Systems Business

Sales stood at 46,990 million yen, a decrease of 228 million yen (0.5%) year-on-year.

Business in Japan outperformed the previous fiscal year as firm sales of airbag inflators more than compensated for underperformance in sales of micro gas generators for seatbelt pretensioners compared to the previous fiscal year.

The overseas business saw sales decline from the previous year due to the slump in the automotive market. Sales of airbag inflators, micro gas generators for seatbelt pretensioners, and squibs all underperformed the previous fiscal year.

A decline in sales in overseas business led to segment profit of 6,191 million yen, a decrease of 899 million yen (12.7%) from the previous fiscal year.

[4] Other

Sales stood at 8,817 million yen, a decrease of 682 million yen (7.2%) year-on-year.

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

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

Segment profit totaled 1,543 million yen, a decrease of 45 million yen (2.9%) year-on-year.

(2) Overview of Financial Position for the Fiscal Year Ended March 31, 2020

Total assets were 278,496 million yen, a decrease of 15,074 million yen from the end of the previous fiscal year. The main decreases were in securities, a decrease of 6,641 million yen; raw materials and stores, a decrease of 5,691 million yen; and investment securities, a decrease of 4,764 million yen. The main increase was in merchandise and finished goods, an increase of 3,735 million yen.

Liabilities were 68,477 million yen, an increase of 3,948 million yen compared to the end of the previous consolidated fiscal year. The main increase was in bonds payable, an increase of 12,000 million yen. The main decreases were in long-term loans payable, a decrease of 2,596 million yen; and deferred tax liabilities, a decrease of 2,488 million yen.

Net assets were 210,019 million yen, a decrease of 19,023 million yen compared to the end of the previous consolidated fiscal year. The main decreases were in non-controlling interests, a decrease of 12,327 million yen; translation adjustments, a decrease of 5,217 million yen; and unrealized holding gains on other securities, a decrease of 3,518 million yen. The main increase was in treasury stock, an increase of 2,619 million yen.

(3) Overview of Cash Flows for the Fiscal Year Ended March 31, 2020

	Fiscal year ended March 31, 2019 (April 1, 2018–March 31, 2019)	Fiscal year ended March 31, 2020 (April 1, 2019–March 31, 2020)	Comparative change
	Million yen		
Cash flows from operating activities	26,803	27,281	478
Cash flows from investing activities	(17,694)	(17,543)	151
Cash flows from financing activities	(6,437)	(13,894)	(7,456)
Cash and cash equivalents at end of the year	52,697	46,663	(6,034)

Net cash provided by operating activities amounted to 27,281 million yen (versus a cash inflow of 26,803 million yen in the previous fiscal year). The positive cash flow was primarily generated from profit before income taxes of

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18,141 million yen, and depreciation and amortization of 12,384 million yen. The above factors more than compensated for income tax paid of 6,140 million yen, and gain on sales of investment securities of 676 million yen.

Net cash used in investing activities totaled 17,543 million yen (versus a cash outflow of 17,694 million yen in the previous fiscal year). The net outflow was mainly due to expenditures of 15,276 million yen for the purchase of property, plant and equipment and expenditures of 813 million yen for the purchase of intangible assets.

Net cash used in financing activities amounted to 13,894 million yen (versus a cash outflow of 6,437 million yen in the previous fiscal year). This was mainly due to expenditures for acquisition of equity in subsidiaries that did not accompany a change in the scope of consolidation of 13,808 million yen, dividends paid of 5,181 million yen, expenditures for repayment of long-term loans of 4,315 million yen, and payment for purchase of treasury stock of 2,987 million yen, despite a cash inflow of 12,000 million yen in proceeds from issuance of corporate bonds.

Reflecting the above cash flow performance, the balance of cash and cash equivalents at the end of the fiscal year ended March 31, 2020 was 46,663 million yen, a decrease of 6,034 million yen from the end of the previous fiscal year.

Reference: Trends in Cash Flow Indicators

	Fiscal year ended March 31, 2016	Fiscal year ended March 31, 2017	Fiscal year ended March 31, 2018	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Equity ratio (%)	69.3	71.1	72.9	73.6	75.2
Market-value-based equity ratio (%)	73.0	95.8	78.7	77.1	61.0
Ratio of cash flow to interest-bearing liabilities (years)	1.1	0.5	0.7	0.5	0.4
Interest coverage ratio	143.3	249.2	125.7	146.6	152.4

Equity ratio: Equity divided by total assets

Market-value-based equity ratio: Total market value of shares divided by total assets

Ratio of cash flow to interest-bearing liabilities: Interest-bearing debt divided by operating cash flows

Interest coverage ratio: Operating cash flows divided by interest payments

Notes 1: Each indicator is calculated using consolidated financial figures.

2: The total market value of shares is calculated on the number of total shares outstanding (less treasury stock) at end of year.

3: Operating cash flows makes use of the cash flows from operating activities.

4: Interest-bearing debt includes all liabilities declared in the Consolidated Balance Sheets on which interest is paid.

(4) Future Outlook

Regarding the future business environment surrounding the Nippon Kayaku Group, the global economy will see a slowdown in the U.S. economy under the impact of the novel coronavirus (COVID-19) and persisting uncertainty over U.S.-China trade friction. Protracted suppression of economic activity in Europe and China may also add to the risk of an economic slowdown. Severe conditions in the Japanese economy are expected to persist under the impact of COVID-19. We must also pay careful attention to the risk that the spread of infection could cause an even greater slowdown in the Japanese and overseas economies.

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.

- In the functional chemicals business, we will work on development of distinctive products such as high-performance resins for printed circuit boards used in rapidly proliferating high-speed (5G) communications in the information and communications fields, epoxy resins used in carbon fiber-reinforced plastics, colorants for inkjet printers for digital printing, materials for thermal paper, and high yield catalysts for the manufacture of acrylic acid and methacrylic acid, which contribute to energy and resource conservation.
- In the pharmaceuticals business, we will move forward with clinical trials of polymeric micelle anti-cancer drugs and strive to achieve rapid market penetration of Portrazza[®], a new biologic humanized EGFR

antagonist monoclonal antibody anti-cancer drug, by providing information on appropriate use. We are also working on the key issues of achieving greater market penetration of the antibody biosimilars, TRASTUZUMAB BS and INFLIXIMAB BS, and expanding our product line-up in cancer-related areas, including distinctive generic drugs.

- In the safety systems business, we will work to develop new products in airbag inflators, micro gas generators for seatbelt pretensioners, squibs, actuators for vehicle hood-raising devices to protect pedestrians, and other products. We will also focus on developing new automotive safety components for rapidly evolving automated driving technologies.

The consolidated business results forecasts for next fiscal year have not yet been determined because of the difficulty of calculating reasonable business forecasts at the present time due to the impact of COVID-19. We will carefully assess the impact on business results and will promptly disclose forecasts when it becomes possible to disclose reasonable forecasts.

(5) Basic Policy Concerning Profit Dividends and Dividends for the Fiscal Year Ended March 31, 2020 and Fiscal Year Ending March 31, 2021

The Nippon Kayaku Group focuses heavily on returning profits to shareholders. A medium-term payout ratio has been set at roughly 40% of profit attributable to owners of parent. This takes into account stable and consistent profit returns and the level of retained earnings. Retained earnings are to be allocated for capital investment and R&D investment in growing businesses to enhance the value of the Nippon Kayaku Group.

The year-end dividend for the fiscal year ended March 31, 2020 is expected to be 15.0 yen per share. Combined with the dividend paid at the end of the second-quarter, total dividends per share for the full year will be 30 yen.

We plan to continue paying annual dividend of 30 yen per share next fiscal year, 15 yen per share as second quarter dividend and 15 yen per share as year-end dividend.

2. Basic Stance on Selection of Accounting Principles

The Nippon Kayaku Group, for the time being, employs generally accepted accounting principles in Japan to prepare its consolidated financial statements. This decision takes into account comparability of different fiscal periods in the consolidated financial statements and with industry peers.

It should be noted that the Company plans to adopt the use of the International Financial Reporting Standards (IFRS) in a timely and adequate fashion should certain circumstances in Japan and abroad give rise to this need.

3. Consolidated Financial Statements and Notes to Consolidated Financial Statements

(1) Consolidated Balance Sheets

	As of March 31, 2019	As of March 31, 2020
	Million yen	
Assets		
Current assets		
Cash and deposits	42,432	43,222
Notes and accounts receivable-trade	52,917	51,940
Electronically recorded monetary claims-operating	2,000	1,846
Securities	10,773	4,132
Merchandise and finished goods	27,251	30,987
Work in process	1,719	1,640
Raw materials and stores	20,680	14,988
Other	4,211	4,384
Allowance for doubtful accounts	(29)	(39)
Total current assets	161,958	153,102
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	39,800	40,249
Machinery, equipment and vehicles, net	25,194	24,748
Land	9,061	8,961
Construction in progress	9,894	8,521
Other, net	3,296	3,479
Total property, plant and equipment	87,246	85,960
Intangible assets		
Goodwill	1,000	748
Other	2,492	2,613
Total intangible assets	3,493	3,362
Investments and other assets		
Investment securities	35,426	30,661
Long-term loans receivable	0	632
Long-term prepaid expenses	365	804
Net defined benefit asset	2,448	1,291
Deferred tax assets	667	707
Other	1,969	1,996
Allowance for doubtful accounts	(25)	(22)
Total investments and other assets	40,852	36,071
Total non-current assets	131,592	125,393
Deferred assets		
Start-up costs	21	-
Total deferred assets	21	-
Total assets	293,571	278,496

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	As of March 31, 2019	As of March 31, 2020
	Million yen	
Liabilities		
Current liabilities		
Notes and accounts payable-trade	15,575	15,914
Short-term loans payable	5,472	4,359
Accounts payable-other	10,670	8,917
Accrued expenses	4,924	4,698
Income taxes payable	2,542	2,646
Provision for sales returns	30	20
Provision for sales rebates	371	452
Provision for directors' bonuses	258	238
Notes payable-facilities	78	0
Other	1,487	1,551
Total current liabilities	41,412	38,800
Non-current liabilities		
Bonds payable	-	12,000
Long-term loans payable	8,778	6,182
Deferred tax liabilities	8,647	6,159
Provision for directors' retirement benefits	26	33
Provision for repairs	106	53
Net defined benefit liability	418	426
Long-term deposits received	4,227	3,976
Other	911	845
Total non-current liabilities	23,116	29,676
Total liabilities	64,528	68,477
Net assets		
Shareholders' equity		
Common stock	14,932	14,932
Additional paid-in capital	17,596	15,757
Retained earnings	182,133	184,156
Treasury stock	(10,490)	(7,871)
Total shareholders' equity	204,171	206,975
Accumulated other comprehensive income		
Unrealized holding gains on other securities	11,374	7,856
Translation adjustments	627	(4,589)
Remeasurements of defined benefit plans	(133)	(897)
Total accumulated other comprehensive income	11,869	2,369
Non-controlling interests	13,002	675
Total net assets	229,043	210,019
Total liabilities and net assets	293,571	278,496

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

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
	Million yen	
Net sales	172,639	175,123
Cost of sales	109,461	117,059
Gross profit on sales	63,177	58,063
Reversal of provision for sales returns	31	30
Provision for sales returns	30	20
Net gross profit	63,178	58,073
Selling, general and administrative expenses		
Selling expenses	19,615	18,428
General and administrative expenses	23,622	22,159
Total selling, general, and administrative expenses	43,238	40,587
Operating income	19,939	17,485
Non-operating income		
Interest income	208	266
Dividend income	707	740
Equity in earnings of affiliates	253	34
Foreign exchange gains	293	-
Insurance dividends received	222	113
Other	631	681
Total non-operating income	2,317	1,836
Non-operating expenses		
Interest expense	194	165
Foreign exchange losses	-	541
Expenses from under-utilized real estate	75	63
Other losses	379	524
Total non-operating expenses	649	1,295
Ordinary income	21,608	18,026
Extraordinary income		
Gain on sale of non-current assets	352	393
Gain on sales of investment securities	8	676
Total extraordinary income	361	1,069
Extraordinary loss		
Loss on disposal of non-current assets	409	555
Impairment loss	-	273
Loss on valuation of investment securities	276	125
Total extraordinary loss	686	954
Profit before income taxes	21,283	18,141
Income taxes-current	5,304	6,059
Income taxes-deferred	298	(797)
Total income taxes	5,602	5,262
Profit	15,681	12,879
Profit attributable to non-controlling interests	829	63
Profit attributable to owners of parent	14,851	12,815

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Consolidated Statements of Comprehensive Income

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
	Million yen	
Profit	15,681	12,879
Other comprehensive income		
Unrealized holding gains on other securities	(349)	(3,511)
Translation adjustments	(1,576)	(5,444)
Remeasurements of defined benefit plans	31	(753)
Share of other comprehensive income of companies accounted for by the equity-method	1	(12)
Total other comprehensive income	(1,892)	(9,721)
Comprehensive income	13,788	3,157
Comprehensive income attributable to:		
Owners of parent	12,902	3,316
Non-controlling interests	885	(158)

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For the Fiscal Year Ended March 31, 2020

(3) Consolidated Statements of Changes in Net Assets

Fiscal year ended March 31, 2019 (April 1, 2018–March 31, 2019)

	Shareholders' equity				
	Common stock	Additional Paid-in Capital	Retained earnings	Treasury stock	Total shareholders' equity
	Million yen				
Balance at beginning of the fiscal year	14,932	17,596	172,476	(10,489)	194,516
Changes during the fiscal year					
Dividends paid			(5,194)		(5,194)
Profit attributable to owners of parent			14,851		14,851
Purchase of treasury stock				(1)	(1)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders		(0)			(0)
Net change in items other than shareholders' equity					
Total changes during the fiscal year	–	(0)	9,656	(1)	9,655
Balance at end of the fiscal year	14,932	17,596	182,133	(10,490)	204,171

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Unrealized holding gains on other securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
	Million yen					
Balance at beginning of the fiscal year	11,730	2,252	(165)	13,817	12,284	220,619
Changes during the fiscal year						
Dividends paid				–		(5,194)
Profit attributable to owners of parent				–		14,851
Purchase of treasury stock				–		(1)
Change in treasury stocks of parent arising from transactions with non-controlling shareholders						(0)
Net change in items other than shareholders' equity	(356)	(1,624)	32	(1,948)	717	(1,231)
Total changes during the fiscal year	(356)	(1,624)	32	(1,948)	717	8,423
Balance at end of the fiscal year	11,374	627	(133)	11,869	13,002	229,043

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Nippon Kayaku Co., Ltd.
Summary of Consolidated Financial Results [Japanese GAAP]
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Fiscal year ended March 31, 2020 (April 1, 2019–March 31, 2020)

	Shareholders' equity				
	Common stock	Additional Paid-in Capital	Retained earnings	Treasury stock	Total shareholders' equity
	Million yen				
Balance at beginning of the fiscal year	14,932	17,596	182,133	(10,490)	204,171
Changes during the fiscal year					
Dividends paid			(5,194)		(5,194)
Profit attributable to owners of parent			12,815		12,815
Purchase of treasury stock				(2,987)	(2,987)
Cancellation of treasury shares		(7)	(5,599)	5,606	—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders		(1,830)			(1,830)
Net change in items other than shareholders' equity					
Total changes during the fiscal year	—	(1,838)	2,022	2,619	2,803
Balance at end of the fiscal year	14,932	15,757	184,156	(7,871)	206,975

	Accumulated other comprehensive income				Non-controlling interests	Total net assets
	Unrealized holding gains on other securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
	Million yen					
Balance at beginning of the fiscal year	11,374	627	(133)	11,869	13,002	229,043
Changes during the fiscal year						
Dividends paid				—		(5,194)
Profit attributable to owners of parent				—		12,815
Purchase of treasury stock				—		(2,987)
Cancellation of treasury shares						—
Change in treasury stocks of parent arising from transactions with non-controlling shareholders						(1,830)
Net change in items other than shareholders' equity	(3,518)	(5,217)	(763)	(9,499)	(12,327)	(21,826)
Total changes during the fiscal year	(3,518)	(5,217)	(763)	(9,499)	(12,327)	(19,023)
Balance at end of the fiscal year	7,856	(4,589)	(897)	2,369	675	210,019

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(4) Consolidated Statements of Cash Flows

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Million yen		
Cash flows from operating activities		
Profit before income taxes	21,283	18,141
Depreciation and amortization	11,969	12,384
Impairment loss	–	273
Increase (decrease) in other provisions	(114)	17
Interest and dividend income	(916)	(1,006)
Interest expense	194	165
Foreign exchange losses (gains)	136	1,288
Equity in (earnings) losses of affiliates	(253)	(34)
Gain on sales of property, plant and equipment	(352)	(393)
Loss (gain) on disposal of property, plant and equipment	408	555
Loss (gain) on sales of intangible assets	1	–
Loss (gain) on valuation of investment securities	276	125
Loss (gain) on sales of investment securities	(8)	(676)
(Increase) decrease in notes and accounts receivable-trade	(369)	88
(Increase) decrease in inventories	(3,759)	789
(Increase) decrease in prepaid expenses	(5)	(34)
(Increase) decrease in accounts receivable-other	(563)	(36)
(Increase) decrease in advance payments	2,257	(33)
Increase (decrease) in notes and accounts payable-trade	(641)	768
Increase (decrease) in notes and accounts payable-other	(806)	(496)
Increase (decrease) in accrued expenses	(280)	(148)
Increase (decrease) in net defined benefit liability	(49)	46
(Increase) decrease in net defined benefit asset	814	112
Other	919	462
Subtotal	30,142	32,361
Interest and dividends received	1,124	1,186
Interest paid	(182)	(179)
Income tax paid	(4,510)	(6,140)
Income tax refund	229	53
Net cash provided by operating activities	26,803	27,281
Cash flows from investing activities		
Net decrease (increase) in time deposits	(217)	(471)
Proceeds from withdrawal of time deposits	210	378
Purchase of property, plant and equipment	(15,224)	(15,276)
Proceeds from sales of property, plant and equipment	376	395
Purchase of intangible assets	(526)	(813)
Purchase of investment securities	(1,397)	(809)
Proceeds from sales of investment securities	33	961
Proceeds from redemption of investment securities	–	181
Payments of long-term loans receivable	–	(632)
Collection of long-term loans receivable	15	12
Payments for long-term prepaid expenses	(206)	(614)
Payment for retirement of property, plant and equipment	(322)	(363)
Purchase of shares of subsidiaries and associates	(180)	(100)
Decrease (increase) in short-term loans receivable	(180)	(280)
Payments for other investments	(17)	(72)
Other	(58)	(38)
Net cash used in investing activities	(17,694)	(17,543)

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

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Million yen		
Cash flows from financing activities		
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	–	(13,808)
Net increase (decrease) in short-term loans payable	(182)	(167)
Proceeds from long-term loans payable	5,574	1,000
Repayment of long-term loans	(5,467)	(4,315)
Refund of construction cooperation fund	(748)	–
Proceeds from issuance of bonds	–	12,000
Purchase of treasury shares of subsidiaries	(77)	(48)
Purchase of treasury stock	(1)	(2,987)
Dividends paid	(5,182)	(5,181)
Dividends paid to non-controlling interests	(215)	(219)
Other	(136)	(167)
Net cash provided by financing activities	(6,437)	(13,894)
Effect of exchange rate change on cash and cash equivalents	(505)	(1,878)
Increase (decrease) in cash and cash equivalents	2,165	(6,034)
Cash and cash equivalents at beginning of the year	50,532	52,697
Cash and cash equivalents at end of the year	52,697	46,663

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(5) Notes to Consolidated Financial Statements
(Notes Regarding Assumptions for the Going Concern)
No items to report

(Business Combinations, etc.)

(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

(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%

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 Implemented

These transactions qualify as transactions under common control specified in the Revised Accounting Standard for Business Combinations (ASBJ Statement No.21, January 16, 2019) and Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No.10, January 16, 2019) and Nippon Kayaku is handling these as transactions under common control.

(Segment Information and Other Items)

Segment Information

[1] Summary of reportable segments

The reportable segments of the Nippon Kayaku Group are structural units of the Group for which separate financial information can be acquired. These segments are subject to be examined periodically by the Board of Directors in order to evaluate business results and make decisions on the allocation of business resources.

Business groups are established by product for each reportable segment within the Nippon Kayaku Group. Each group develops comprehensive domestic and overseas strategies for the products it handles, and introduces business activities accordingly.

In light of this, the Nippon Kayaku Group primarily consists of product- and service-specific segments that are based on business divisions. “Functional chemicals business,” “Pharmaceuticals business,” and “Safety systems business” are three reportable segments.

The types of primary products and services provided by the reportable segments are shown in the table below.

Reportable segment	Sales segment	Primary products
Functional chemicals business	Functional materials	Epoxy resins, epoxy resin hardeners, reactive flame retardants, UV-curable resins, liquid crystal sealants, resist for MEMS, adhesives for touch panels
	Color materials	Functional colorants, colorants for inkjet printers, dyes for inkjet textile printing, disperse dyes, cationic dyes, acid dyes, reactive dyes, direct dyes, sulfur dyes, functional chemicals for textiles and paper, special dyes for non-textile applications, materials for thermal paper
	Catalysts	Catalysts for the production of acrylic acid and methacrylic acid, plant licensing business
	Polatechno Group	Components for LCD displays, LCD projector components, components for X-ray analysis systems
Pharmaceuticals business		Anti-cancer drugs, biological drugs, cardiovascular agents, vitamin compounds and other metabolic agents, diagnostic drugs, embolization materials, pharmaceutical API and intermediates, food and food additives, preservatives for food quality
Safety systems business		Airbag inflators, micro gas generators for seatbelt pretensioners, squibs

[2] Methods for calculating the amounts for sales, profit (loss), assets, liabilities, and other items by reportable segment

The profit reported in each reportable segment is operating profit. Intersegment sales and transfers are calculated based primarily on market prices and manufacturing costs.

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[3] Information concerning the amounts for sales, profit (loss), assets, liabilities, and other items by reportable segment

Fiscal year ended March 31, 2019 (April 1, 2018–March 31, 2019)

	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	69,688	46,231	47,218	163,138	9,500	172,639	–	172,639
Intersegment sales and transfers	179	0	–	179	107	286	(286)	–
Total	69,868	46,231	47,218	163,318	9,608	172,926	(286)	172,639
Segment profit	7,728	4,061	7,091	18,881	1,588	20,470	(530)	19,939
Segment assets	99,957	56,618	67,625	224,202	20,214	244,416	49,155	293,571
Other items								
Depreciation and amortization	4,254	2,148	4,527	10,930	620	11,550	419	11,969
Amortization of goodwill	190	–	–	190	30	220	–	220
Impairment loss	–	–	–	–	–	–	–	–
Changes in the amount of property, plant and equipment and intangible assets	5,588	1,254	9,177	16,020	365	16,385	568	16,954

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 amounts of adjustments are as shown below.

(1) The 530 million yen downward adjustment to segment profit reflects a negative 599 million yen in corporate expense not allocable to the reportable segments and 68 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.

(2) The 49,155 million yen adjustment to segment assets factors in 49,246 million yen in corporate assets not allocable to reportable segments and a negative 90 million yen in eliminations for intersegment transactions. Corporate assets primarily consist of excess operating funds (cash and securities) and long-term investment funds (investment securities, etc.) belonging to the parent company.

(3) The 419 million yen adjustment to depreciation and amortization is related to corporate assets.

(4) The 568 million yen increase adjustment to property, plant and equipment and intangible assets is related to the administrative divisions of the parent company head office.

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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Fiscal year ended March 31, 2020 (April 1, 2019–March 31, 2020)

	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	71,540	47,774	46,990	166,305	8,817	175,123	–	175,123
Intersegment sales and transfers	141	0	–	141	97	239	(239)	–
Total	71,682	47,774	46,990	166,447	8,915	175,363	(239)	175,123
Segment profit	6,202	4,135	6,191	16,529	1,543	18,073	(587)	17,485
Segment assets	102,337	51,707	63,272	217,316	19,472	236,788	41,707	278,496
Other items								
Depreciation and amortization	4,418	2,026	4,795	11,240	633	11,874	510	12,384
Amortization of goodwill	170	–	–	170	30	200	–	200
Impairment loss	273	–	–	273	–	273	–	273
Changes in the amount of property, plant and equipment and intangible assets	5,078	1,256	7,713	14,048	733	14,782	519	15,301

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 amounts of adjustments are as shown below.

(1) The 587 million yen downward adjustment to segment profit reflects a negative 612 million yen in corporate expense not allocable to the reportable segments and 24 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.

(2) The 41,707 million yen adjustment to segment assets factors in 44,771 million yen in corporate assets not allocable to reportable segments and a negative 3,064 million yen in eliminations for intersegment transactions. Corporate assets primarily consist of excess operating funds (cash and securities) and long-term investment funds (investment securities, etc.) belonging to the parent company.

(3) The 510 million yen adjustment to depreciation and amortization is related to corporate assets.

(4) The 519 million yen increase adjustment to property, plant and equipment and intangible assets is related to the administrative divisions of the parent company head office.

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

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

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

1. Summary of Transaction

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

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

(2) Date of business combination

Date of Board of Directors resolution approving the absorption-type split agreement (Nippon Kayaku):
March 31, 2020

Date of Board of Directors resolution approving the absorption-type split agreement (Polatechno):
March 27, 2020

Conclusion date of absorption-type split agreement:
May 22, 2020 (planned date)

Date on which the absorption-type split agreement will become effective:
October 1, 2020 (planned date)

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

(3) Legal form of business combination

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

(4) Name of company after business combination

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

(5) Other information concerning the summary of the transaction

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

2. Summary of Accounting Standards Implemented

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

(Acceptance of Business Transfer)

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

Summary of Business Combination

(1) Reason for business transfer

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

(2) Name of counterparty

Henkel AG & Co. KGaA

(3) Description of business transferred

The Company accepted transfer of the entire business from Henkel. Nippon Kayaku will operate the business in Japan and overseas in countries other than China and Taiwan. The business will be operated by Kayaku Chemical (Wuxi) Co., Ltd.*¹ in China and by Taiwan Nippon Kayaku Co., Ltd.*² in Taiwan. We will work to expand the business in the future through the synergies achieved, including expanding product sales through Nippon Kayaku Group and Henkel sales channels and pursuing new product development.

*¹A consolidated subsidiary of Nippon Kayaku in Wuxi, Jiangsu Province, China

*²A consolidated subsidiary of Nippon Kayaku in Taipei, Taiwan

(4) Business transfer date

April 1, 2020

(5) Legal form of transfer

Business transfer for cash