

Financial Section

Financial Review

Financial Review of the Year Ended March 31, 2018

Overview

The domestic economy for the current consolidated fiscal year (April 1, 2017 to March 31, 2018) continued to recover moderately as corporate earnings improvement, capital investment and consumer spending recovery amid the expansion of the global economy. Under such circumstance, in the Chemicals Segment, sales of Basic Chemicals whereas and Fine Chemicals decreased from the same period of the previous year. In the Performance Materials Segment, sales of Display Materials, Semiconductor Materials and Inorganic Materials increased. In the Agricultural Chemicals Segment, shipments of active ingredients for veterinary pharmaceuticals increased. In the Pharmaceutical Segment, the domestic sales of "LIVALO" (anti-cholesterol drug) decreased due to expansion of generic products.

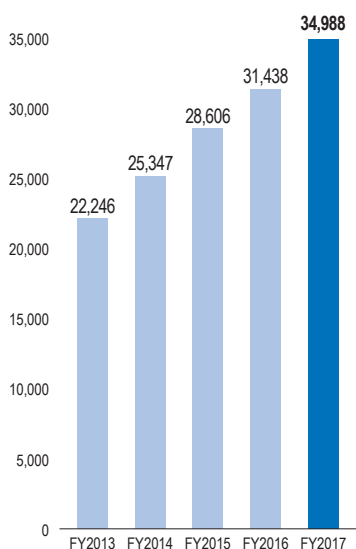
Operating Results

As a result, the Company's results for the current fiscal year were net sales 193,389 million yen (an increase of 131million yen), operating income 34,988 million yen (an increase of 3,550 million yen) and ordinary income 36,235 million yen (an increase of 4,521 million yen), and net income attributable to owners of parent 27,142 million yen (an increase of 3,116 million yen). Operating income and ordinary income reached record highs for the fourth consecutive year and net income attributable to owners of parent for the fifth consecutive year.

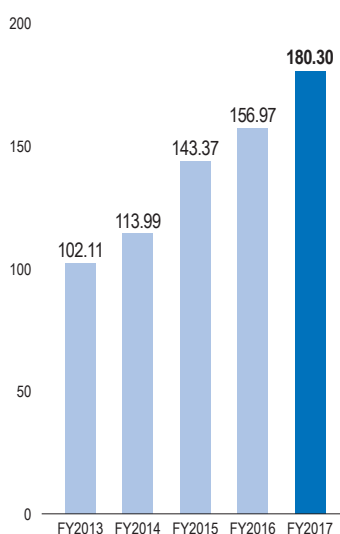
Financial Position

Total assets as of March 31, 2018 was 249,043 million yen (an increase of 17,294 million yen from the previous year) due to increases in notes and accounts receivable-trade and invest-

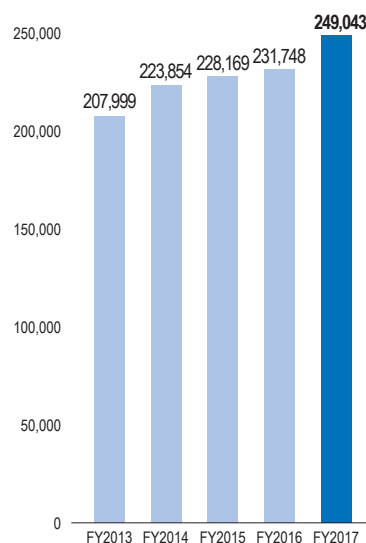
Operating Income (Millions of Yen)



Net Income per Share (Yen)



Total Assets (Millions of Yen)



ment securities.

Total liabilities as of March 31, 2018 was 72,678 million yen (an increase of 4,637 million yen) due to increases in notes and accounts payable-trade.

Net assets as of March 31, 2018 was 176,364 million yen (an increase of 12,657 million yen). As a result, the equity ratio was 70.1% (an increase of 0.2 point).

Position of Cash Flow

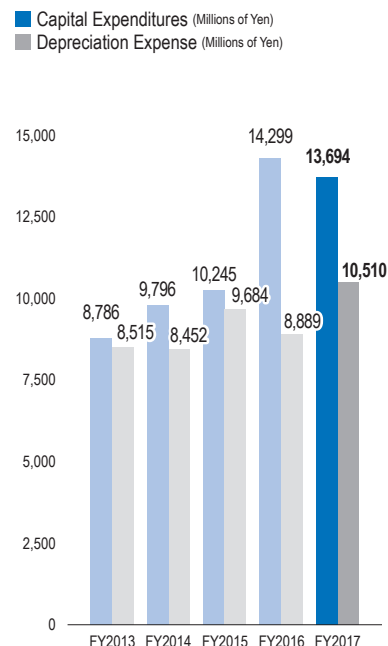
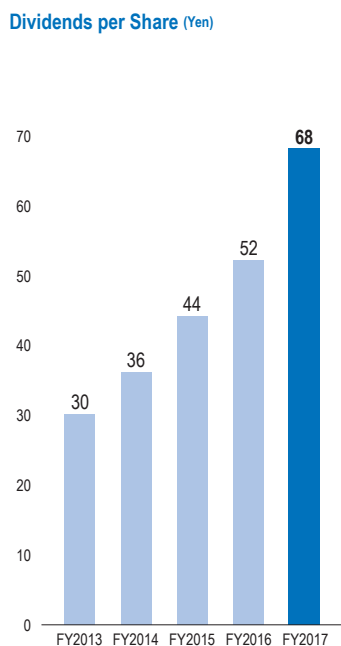
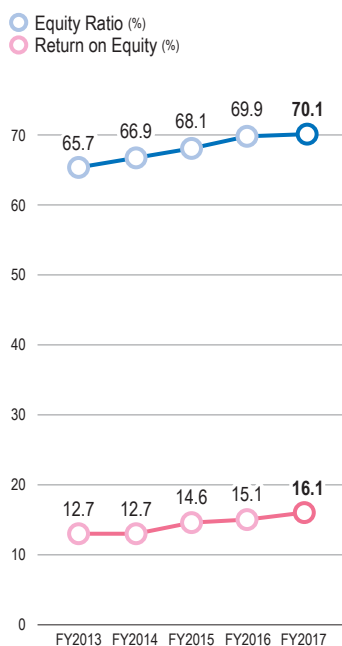
Deducting income taxes paid from income before income taxes and non-controlling interests, depreciation and changes in working capital, net cash provided by operating activities for the consolidated fiscal year ended March 31, 2018 was 37,691 million yen (32,491 million yen for the previous year).

Due to mainly investment in plant and equipment, net cash

used in investing activities for the consolidated fiscal year ended March 31, 2018 was 15,244 million yen (13,152 million yen for the previous year).

Due to share repurchase, payment of dividends and repayment of long-term loans payable, net cash used in financing activities for the consolidated fiscal year ended March 31, 2018 was 20,268 million yen (19,042 million yen for the previous year).

As a result, cash and cash equivalents for the consolidated fiscal year ended March 31, 2018 was 37,702 million yen (35,701 million yen for the previous year), reflecting 177 million yen effect of exchange rate changes. It increased by 2,000 million yen compared to the previous year.



Consolidated Balance Sheets

For FY2017 and FY2016

Assets	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Current assets			
Cash and deposits	¥ 37,702	¥ 35,701	\$ 354,776
Notes and accounts receivable - trade	65,422	60,075	615,621
Merchandise and finished goods	29,855	28,602	280,935
Work in process	115	64	1,082
Raw materials and supplies	7,797	7,778	73,370
Accounts receivable - other	1,831	2,379	17,230
Short-term loans receivable	494	1,065	4,649
Deferred tax assets	3,019	2,708	28,409
Other	2,422	2,221	22,791
Allowance for doubtful accounts	(34)	(33)	(320)
Total current assets	148,626	140,564	1,398,570
Non-current assets			
Property, plant and equipment			
Buildings and structures	63,985	62,253	602,098
Accumulated depreciation and impairment loss	(39,573)	(38,428)	(372,382)
Buildings and structures, net	24,411	23,824	229,707
Machinery, equipment and vehicles	125,451	120,540	1,180,493
Accumulated depreciation and impairment loss	(112,434)	(109,038)	(1,058,003)
Machinery, equipment and vehicles, net	13,017	11,502	122,490
Tools, furniture and fixtures	37,323	35,717	351,209
Accumulated depreciation and impairment loss	(32,261)	(30,880)	(303,576)
Tools, furniture and fixtures, net	5,061	4,837	47,624
Land	9,047	9,198	85,132
Leased assets	22	103	207
Accumulated depreciation	(22)	(90)	(207)
Leased assets, net	0	12	0
Construction in progress	2,936	2,594	27,628
Total property, plant and equipment	54,473	51,969	512,591
Intangible assets			
Software	775	610	7,293
Other	993	966	9,344
Total intangible assets	1,768	1,577	16,637
Investments and other assets			
Investment securities	38,517	32,465	362,445
Deferred tax assets	115	125	1,082
Net defined benefit asset	2,193	1,987	20,636
Other	3,440	3,156	32,370
Allowance for doubtful accounts	(92)	(98)	(866)
Total investments and other assets	44,174	37,636	415,677
Total non-current assets	100,416	91,183	944,914
Total assets	¥249,043	¥231,748	\$2,343,493

Liabilities	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Current Liabilities			
Notes and accounts payable - trade	¥ 18,579	¥ 14,943	\$ 174,828
Short-term loans payable	23,591	23,155	221,991
Current portion of long-term loans payable	2,554	3,070	24,033
Income taxes payable	5,156	3,288	48,518
Provision for bonuses	2,011	1,920	18,923
Provision for directors' bonuses	27	28	254
Other	10,950	11,259	103,039
Total current liabilities	62,871	57,665	591,616
Non-current liabilities			
Long-term loans payable	2,446	4,580	23,017
Deferred tax liabilities	4,341	2,649	40,849
Provision for business structure improvement	516	594	4,856
Provision for loss on business of subsidiaries and affiliates	309	309	2,908
Net defined benefit liability	126	101	1,186
Other	2,068	2,141	19,460
Total non-current liabilities	9,807	10,376	92,284
Total liabilities	72,678	68,041	683,900
Net assets			
Shareholders' equity			
Capital stock	18,942	18,942	178,244
Capital surplus	13,613	13,611	128,098
Retained earnings	133,822	126,370	1,259,264
Treasury shares	(5,962)	(7,587)	(56,102)
Total shareholders' equity	160,416	151,337	1,509,514
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	13,653	10,079	128,475
Foreign currency translation adjustment	125	243	1,176
Remeasurements of defined benefit plans	390	380	3,670
Total Accumulated other comprehensive income	14,170	10,703	133,340
Non-controlling interests	1,778	1,666	16,731
Total net assets	176,364	163,707	1,659,584
Total liabilities and net assets	¥249,043	¥231,748	\$2,343,493

Consolidated Statements of Income / Consolidated Statements of Comprehensive Income

For FY2017 and FY2016

Consolidated Statements of Income

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Net sales	¥193,389	¥180,289	\$1,819,789
Cost of sales	113,513	105,916	1,068,157
Gross profit	79,876	74,372	751,633
Selling, general and administrative expenses	44,887	42,934	422,386
Operating income	34,988	31,438	329,237
Non-operating income			
Interest income	26	20	245
Dividend income	817	726	7,688
Equity in earnings of affiliates	1,324	701	12,459
Other	768	805	7,227
Total non-operating income	2,937	2,253	27,637
Non-operating expenses			
Interest expenses	126	156	1,186
Loss on disposal of non-current assets	591	601	5,561
Plant stop losses	270	274	2,541
Impairment loss	—	220	—
Foreign exchange losses	460	314	4,329
Other	240	411	2,258
Total non-operating expenses	1,690	1,978	15,903
Ordinary income	36,235	31,713	340,971
Extraordinary income	—	—	—
Extraordinary losses	—	—	—
Income before income taxes and non-controlling interests	36,235	31,713	340,971
Income taxes - current	9,146	7,439	86,064
Income taxes - deferred	(214)	81	(2,014)
Total income taxes	8,932	7,520	84,050
Net income	27,302	24,192	256,912
Net income attributable to non-controlling interests	159	166	1,496
Net income attributable to owners of parent	¥ 27,142	¥ 24,026	\$ 255,406

Consolidated Statements of Comprehensive Income

	(Millions of Yen)		(Thousands of U.S. Dollars)
	FY2017	FY2016	FY2017
Net income	¥27,302	¥24,192	\$256,912
Other comprehensive income			
Valuation difference on available-for-sale securities	3,575	(436)	33,641
Foreign currency translation adjustment	(124)	188	(1,167)
Remeasurements of defined benefit plans, net of tax	10	(174)	94
Share of other comprehensive income of affiliates accounted for using equity method	(1)	1	(9)
Total other comprehensive income	3,460	(420)	32,559
Comprehensive income	30,763	23,771	289,480
(Comprehensive income attribute to)			
Owners of parent	30,609	23,584	288,030
Non-controlling interests	¥ 153	¥ 186	\$ 1,440

Consolidated Statements of Changes in Net Assets

For FY2017

	(Millions of Yen)				
	Total shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of current period	¥18,942	¥13,611	¥126,370	¥(7,587)	¥151,337
Changes of items during period					
Dividends of surplus			(9,063)		(9,063)
Net income attributable to owners of parent			27,142		27,142
Share repurchase				(9,002)	(9,002)
Cancellation of treasury shares			(10,627)	10,627	—
Change in treasury shares of parent arising from transactions with non controlling shareholders		2			2
Net changes of items other than shareholders' equity					
Total changes of items during period	—	2	7,452	1,624	9,078
Balance at end of current period	¥18,942	¥13,613	¥133,822	¥(5,962)	¥160,416

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Balance at beginning of current period	¥10,079	¥243	¥380	¥10,703	¥1,666
Changes of items during period						
Dividends of surplus						(9,063)
Net income attributable to owners of parent						27,142
Share repurchase						(9,002)
Cancellation of treasury shares						—
Change in treasury shares of parent arising from transactions with non controlling shareholders						2
Net changes of items other than shareholders' equity	3,574	(118)	10	3,466	111	3,578
Total changes of items during period	3,574	(118)	10	3,466	111	12,657
Balance at end of current period	¥13,653	¥125	¥390	¥14,170	¥1,778	¥176,364

Consolidated Statements of Changes in Net Assets

For FY2016

	(Millions of Yen)				
	Total shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of current period	¥18,942	¥13,611	¥115,878	¥(4,281)	¥144,151
Changes of items during period					
Dividends of surplus			(7,680)		(7,680)
Net income attributable to owners of parent			24,026		24,026
Change in scope of consolidation			(157)		(157)
Share repurchase				(9,002)	(9,002)
Disposal of treasury shares		0		0	0
Cancellation of treasury shares		(0)	(5,695)	5,695	—
Net changes of items other than shareholders' equity					
Total changes of items during period	—	—	10,492	(3,305)	7,186
Balance at end of current period	¥18,942	¥13,611	¥126,370	¥(7,587)	¥151,337

	Accumulated other comprehensive income					
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	Balance at beginning of current period	¥10,515	¥171	¥554	¥11,241	¥1,531
Changes of items during period						
Dividends of surplus						(7,680)
Net income attributable to owners of parent						24,026
Change in scope of consolidation						(157)
Share repurchase						(9,002)
Disposal of treasury shares						0
Cancellation of treasury shares						—
Net changes of items other than shareholders' equity	(435)	72	(174)	(537)	134	(403)
Total changes of items during period	(435)	72	(174)	(537)	134	6,782
Balance at end of current period	¥10,079	¥243	¥380	¥10,703	¥1,666	¥163,707

For FY2017

	(Thousands of U.S. dollars)				
	Total shareholders' equity				Total shareholders' equity
	Capital stock	Capital surplus	Retained earnings	Treasury shares	
Balance at beginning of current period	\$178,244	\$128,079	\$1,189,141	\$(71,394)	\$1,424,080
Changes of items during period					
Dividends of surplus			(85,283)		(85,283)
Net income attributable to owners of parent			255,406		255,406
Share repurchase				(84,709)	(84,709)
Cancellation of treasury shares			(100,000)	100,000	—
Change in treasury shares of parent arising from transactions with non controlling shareholders				19	19
Net changes of items other than shareholders' equity					
Total changes of items during period	—	19	70,123	15,282	85,424
Balance at end of current period	\$178,244	\$128,098	\$1,259,264	\$(56,102)	\$1,509,514

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	\$ 94,843	\$2,287	\$3,576	\$100,715	\$15,677	\$1,540,482	
Changes of items during period							
Dividends of surplus						(85,283)	
Net income attributable to owners of parent						255,406	
Share repurchase						(84,709)	
Cancellation of treasury shares						—	
Change in treasury shares of parent arising from transactions with non controlling shareholders						19	
Net changes of items other than shareholders' equity	33,631	(1,110)	94	32,615	1,045	33,669	
Total changes of items during period	33,631	(1,110)	94	32,615	1,045	119,102	
Balance at end of current period	\$128,475	\$1,176	\$3,670	\$133,340	\$16,731	\$1,659,584	

Consolidated Statements of Cash Flows

For FY2017 and FY2016

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Cash flows from operating activities			
Income before income taxes and non-controlling interests	¥36,235	¥31,713	\$340,971
Depreciation	10,510	8,889	98,899
Impairment loss	—	220	—
Interest and dividend income	(844)	(746)	(7,942)
Interest expenses	126	156	1,186
Increase (decrease) in provision for business structure improvement	—	(86)	—
Loss (gain) on disposal of non-current assets	591	601	5,561
Decrease (increase) in notes and accounts receivable - trade	(5,266)	(2,573)	(49,553)
Decrease (increase) in inventories	(1,309)	2,054	(12,318)
Increase (decrease) in notes and accounts payable - trade	3,494	(334)	32,879
Other	(328)	(474)	(3,086)
Subtotal	43,209	39,419	406,596
Interest and dividend income received	1,881	2,175	17,700
Interest expenses paid	(125)	(156)	(1,176)
Income taxes paid	(7,273)	(8,947)	(68,439)
Net cash provided by (used in) operating activities	37,691	32,491	354,672
Cash flows from investing activities			
Purchase of investment securities	(759)	(787)	(7,142)
Proceeds from sales of investment securities	65	2,988	612
Purchase of property, plant and equipment	(13,768)	(12,394)	(129,557)
Payments for retirement of property, plant and equipment	(405)	(477)	(3,811)
Purchase of intangible assets	(585)	(1,091)	(5,505)
Net decrease (increase) in short-term loans receivable	546	(12)	5,138
Purchase of long-term prepaid expenses	(67)	(834)	(630)
Other	(270)	(542)	(2,541)
Net cash provided by (used in) investing activities	(15,244)	(13,152)	(143,446)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	501	220	4,714
Proceeds from long-term loans payable	420	550	3,952
Repayments of long-term loans payable	(3,070)	(3,060)	(28,889)
Cash dividends paid	(9,063)	(7,680)	(85,283)
Dividends paid to non-controlling interests	(39)	(52)	(367)
Share repurchase	(9,002)	(9,002)	(84,709)
Other	(14)	(17)	(132)
Net cash provided by (used in) financing activities	(20,268)	(19,042)	(190,722)
Effect of exchange rate change on cash and cash equivalents	(177)	94	(1,666)
Net increase (decrease) in cash and cash equivalents	2,000	390	18,820
Cash and cash equivalents at the beginning of period	35,701	35,335	335,946
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	—	(25)	—
Cash and cash equivalents at end of period	¥37,702	¥35,701	\$354,776

Notes to Consolidated Financial Statements

1. Basis for presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act, the related accounting regulations, and the accounting principles generally accepted in Japan (“J-GAAP”), which differ in certain aspects from the application and disclosure requirements of the accounting principles generally accepted in the United States of America (“US-GAAP”) and International Financial Reporting Standards (“IFRS”).

In preparing these consolidated financial statements, certain reclassification and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers in other countries.

2. Summary of Significant Accounting Policies

a. Consolidation

The consolidated financial statements as of March 31, 2018 include the account of Nissan Chemical Industries, Ltd. (the “Company”) and its eight main (eight in FY2016) subsidiaries (together, the “Companies”). The Company does not consolidate other subsidiaries due to their immateriality in terms of consolidated total assets, net sales, net income, and retained earnings.

Under the control or influence concept, those companies in which the Company, either directly or indirectly, is able to exercise control over operations are fully consolidated. Those companies over which the Company has the ability to exercise significant influence are accounted for by the equity method.

Investments in two affiliated companies (two in FY2016) are accounted for by the equity method.

The assets and liabilities of the newly consolidated subsidiaries are stated at fair value as of the respective dates on which they were acquired.

All significant inter-company balances and transactions have been eliminated in consolidation.

All material unrealized profits included in assets resulting from transactions within the Companies are eliminated.

b. Securities

The Company’s marketable securities are reported at fair value. Unrealized holding gains and losses, net of the related tax effect, on marketable securities are excluded from earnings. Instead, they are reported as a separate component of other comprehensive income until realized. Realized gains and losses for securities are included in earnings, and are derived using the moving average method for determining the cost of securities sold.

Non-marketable securities in companies over which the Company is incapable of exercising significant influence are stated at cost and reviewed periodically for impairment.

c. Inventories

Inventories are stated at the lower of cost or net realizable value. The cost is determined by the average method.

d. Property, Plant and Equipment (excluding Leased Assets)

Property, plant and equipment are stated at cost. In general, the depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of these assets.

The estimated useful life ranges are two years to fifty years for buildings and structures, and two years to twelve years for machinery and equipment.

e. Goodwill and other Intangible Assets

Goodwill is amortized by the straight-line method within 20 years. Other intangible assets are also amortized the using straight-line method.

The most typical intangible asset is Software, and its useful life is five years.

f. Leased Assets

Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method, using the contract term as the useful life.

g. Allowance for Doubtful Accounts

The allowance for doubtful accounts is the Companies’ best estimate for the amount of probable credit losses in the Companies’ existing trade receivables.

An additional reserve for individual receivable is recorded when the Companies’ become aware of a customer’s inability to meet its financial obligations, such as when a customer files for bankruptcy or when its operating results or financial position deteriorates.

If the customer’s circumstances change, estimates of the recoverability of receivables are further adjusted.

h. Provision for Bonuses

The Companies provide accrued bonuses for employees based on the estimated amounts to be paid for the fiscal year.

i. Provision for Directors’ Bonuses

The Companies provide accrued bonuses for members of the Board of Directors based on the estimated amounts to be paid for the fiscal year.

j. Provision for Business Structure Improvement

The Company provides a reserve at the estimated amount to cover the expenses and losses to be incurred in association with structural improvement.

k. Provision for Loss on Business of Subsidiaries and Affiliates

The Company provides a reserve at the estimated amount to cover the losses on business of subsidiaries and affiliates in consideration of their financial position.

I. Provision for Retirement Benefits

The Company has a defined benefit plan and a retirement plan that substantially covers all of its employees.

The method for calculating the estimated amount of all retirement benefits to be paid at future retirement dates is based on the benefit formula.

Actuarial gains and losses are primarily amortized using the declining-balance method over the average of the estimated remaining service years (16 years) commencing from the period which the gains and losses occurred.

Certain consolidated subsidiaries use a simplified method for calculating retirement benefits.

In this method, the retirement benefit obligation is the same amount as the necessary payment related to retirement benefits.

m. Translation of Foreign Currency

The assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the exchange rate in effect on the balance sheet date. Revenue and expense items are translated at the prevailing average exchange rates for the year. Gains and losses resulting from foreign currency transactions are included in other income (deductions), and those resulting from the translation of financial statements are excluded from the statements of income. Instead, they are accumulated in net assets as a component of accumulated other comprehensive income (loss).

n. Derivatives and Hedge Accounting

The Company enters into interest rate swap contracts to hedge the risk of changes in interest rates over borrowings.

Derivatives are carried at fair value with all changes in unrealized gains and losses charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gains or losses, net of the applicable income taxes, are reported as components of accumulated other comprehensive income (loss).

If interest rates swap contracts meet certain criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

o. Cash and Cash Equivalent

The Companies consider cash equivalents include all highly fluid investments, which have been purchased with original maturities of three months or less.

3. U.S. dollar Amounts

The accompanying consolidated financial statements are expressed in Japanese yen as of and for the year ended March 31, 2018 after being converted from the currency of the country in which the Company operates. The translation of Japanese yen amounts to United States dollar amounts is included solely for the convenience of the readers outside Japan, and has been made at the rate of ¥106.27 to US \$1, which is the approximate closing exchange rate reported by the Tokyo Foreign Exchange Market on March 31, 2018. This translation should not be construed to indicate that the Japanese yen amounts shown can be converted to United States dollars at the above rate.

4. Unapplied Accounting Standards

Accounting Standards Board of Japan released "Accounting Standard for Revenue Recognition" and "Implementation Guidance on Accounting Standard for Revenue Recognition" on March 30, 2018.

The Companies have not applied the above standard and guidance for the current consolidated fiscal year.

The applying timing is under consideration.

The impact on consolidated financial statements is under evaluation as well.

5. Collateral Assets and Liabilities

Collateral assets and liabilities as of FY2017 and FY2016 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Investment securities	¥122	¥ 97	\$1,148
Accounts payable	¥340	¥253	\$3,199
Accrued expenses	¥ —	¥ 0	\$ —

6. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for FY2017 and FY2016 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
	¥17,228	¥16,078	\$162,115

7. Comprehensive Income

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥5,200	¥(582)	\$48,932
Reclassification adjustment	(29)	(47)	(273)
Amount before tax effect	5,170	(629)	48,650
Tax effect	(1,595)	192	(15,009)
Valuation difference on available-for-sale securities, net of tax	3,575	(436)	33,641
Foreign currency translation adjustment:			
Gains (losses) arising during the year	(124)	188	(1,167)
Reclassification adjustment	—	—	—
Amount before tax effect	(124)	188	(1,167)
Tax effect	—	—	—
Foreign currency translation adjustment, net of tax	(124)	188	(1,167)
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	88	(144)	828
Reclassification adjustment	(73)	(107)	(687)
Amount before tax effect	15	(252)	141
Tax effect	(4)	77	(38)
Remeasurements of defined benefit plans, net of tax	10	(174)	94
Share of other comprehensive income of affiliates accounted for using equity methods			
Gains (losses) arising during the year	(1)	1	(9)
Total other comprehensive income	¥3,460	¥(420)	\$32,559

8. Common Shares

(1) Dividends

Cash dividends charged to retained earnings for the years ended March 31, 2018 and 2017 represent the dividends paid out during those years. The accompanying consolidated financial statements do not include any provisions for a dividend approved by the Annual Shareholders Meeting of 36 yen per share with an aggregate 5,380 million yen for the year ended March 31, 2018.

(2) Retained Earnings

Retained earnings on a consolidated basis consist of legal reserve and retained earnings. In accordance with provisions of the Companies Act of Japan, the Company has provided a legal reserve as an appropriation of retained earnings. The Code states that while neither legal capital surplus nor legal retained earnings are available for dividends, both may be used to reduce or eliminate a deficit by a resolution of the shareholders' meeting, or may be transferred to stated capital common stock by a resolution of the Board of Directors. Legal reserve in the accompanying consolidated financial statement includes only that of the Company. Retained earnings of the Company and its consolidated subsidiaries include a certain special reserve for the purpose of obtaining tax benefits in accordance with the Special Taxation Law of Japan.

9. Investment Securities

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Equity securities	¥30,022	¥24,031	\$282,507
Unlisted securities of affiliates	6,812	6,636	64,101
Unlisted securities	1,682	1,797	15,828
	¥38,517	¥32,465	\$362,445

10. Short-term Debt and Long-term Debt

Short-term debt consisting of an unsecured bank overdraft as of March 31, 2018 was 23,591 million yen.

The weighted average interest rate on short-term debt outstanding as of March 31, 2018 was 0.56%.

The weighted average interest rate on long-term debt outstanding as of March 31, 2018 was 0.77%.

The weighted average interest rate on the current portion of long-term debt outstanding as of March 31, 2018 was 0.89%.

Long-term debt as of FY2017 and FY2016 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Long-term debt	¥5,000	¥7,650	\$47,050
Less current portion	(2,554)	(3,070)	(24,033)
	¥2,446	¥4,580	\$23,017

Long-term debt payments due after FY2018 were as follows:

Year ending March 31	(Millions of Yen)	(Thousands of U.S. dollars)
FY2019	¥1,754	\$16,505
FY2020	414	3,896
FY2021	194	1,826
FY2022 and thereafter	84	790
	¥2,446	\$23,017

11. Retirement Benefits

(1) The liability for retirement benefits as of FY2017 and FY2016 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Retirement benefit obligation	¥12,156	¥12,031	\$114,388
Plan asset	(14,349)	(14,018)	(135,024)
	(2,193)	(1,987)	(20,636)
Unfunded retirement benefit obligation	126	101	1,186
Net retirement benefit obligation	(2,067)	(1,885)	(19,450)
Net defined benefit liability	126	101	1,186
Net defined benefit asset	(2,193)	(1,987)	(20,636)
Net retirement benefit obligation	¥ (2,067)	¥ (1,885)	\$ (19,450)

(2) Actuarial assumptions

The principal actuarial assumptions as of FY2017 and FY2016 were as follows:

	FY2017	FY2016
Discount rate	0.8%	0.8%
Long-term expected rate of return	2.0%	2.0%
Expected rate of salary increase (forecast)	3.6 to 9.0%	3.6 to 9.0%

(Note) Expected rate of salary increase is calculated based on our point system.

12. Income Taxes

The Company is subject to a number of taxes based on income. The statutory income tax rates were approximately 30.86% for the year ended March 31, 2018 and 30.86% for the year ended March 31, 2017.

The tax effects on significant temporary differences which resulted in deferred tax assets and liabilities as of FY2017 and FY2016 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2017	FY2016	FY2017
Deferred tax assets:			
Tax effect on investment in subsidiary to be liquidated	¥ 1,124	¥1,124	\$ 10,577
Inventory	672	746	6,324
Provision for bonuses	620	589	5,834
Prepaid consignment research expenses	541	369	5,091
Unrealized profit of inventories	407	384	3,830
Other	2,555	2,441	24,043
Gross deferred tax assets	5,921	5,656	55,717
Less: Valuation allowance	(49)	(49)	(461)
Total deferred tax assets	5,871	5,606	55,246
Deferred tax liabilities:			
Unrealized gain on securities	(6,107)	(4,477)	(57,467)
Net defined benefit asset	(645)	(596)	(6,069)
Reserve for advanced depreciation of non-current assets	(268)	(276)	(2,522)
Other	(57)	(72)	(536)
Total deferred tax liabilities	(7,078)	(5,422)	(66,604)
Net deferred tax assets	¥(1,206)	¥ 184	\$(11,348)

The differences between the statutory tax rate and the effective tax rate for the years ended FY2017 and FY2016 were as follows:

	FY2017	FY2016
Statutory tax rate	30.86%	30.86%
(Reconciliation)		
Elimination of intercompany dividend income	2.51%	2.69%
Entertainment and other permanently non-deductible expense	0.41	0.46
Difference of tax rate for foreign consolidated subsidiaries	(0.47)	(0.65)
Equity in earnings of affiliates	(1.13)	(0.68)
Dividend and other items excluded permanently from taxable income	(2.64)	(2.80)
Tax credit	(5.26)	(6.20)
Other, net	0.37	0.04
Effective tax rate	24.65%	23.72%

13. Segment Information

(1) General Information about reportable segments

In regard to reportable segments, the Company is able to obtain discrete financial data from its component units.

Accordingly, its segments are subject to regular review to help the Board of Directors decide how to allocate managerial resources and evaluate business performance.

Divisions by products and services are located at headquarters. Each division works out a comprehensive strategy applicable to their products and services and carries out their business activities.

The Company consists of segments based on the following divisions:

Segment	Main Products
Chemicals	Basic chemicals (melamine, sulfuric acid, nitric acid, ammonia, etc.) Fine chemicals (epoxy compound for LED sealants, solder resist and painting, flame retardants, chlorinated cyanuric acid for sterilizing, etc.)
Performance Materials	Display materials (LCD alignment coating, etc.) Semiconductor materials (bottom anti-reflective coating for semiconductors, etc.) Inorganic materials (hard coating materials, electronic information materials, polishing materials, etc.)
Agricultural Chemicals	Agrochemicals (herbicides, insecticides, fungicides, combination fungicide and insecticide, and plant growth regulators) Animal health products
Pharmaceuticals	LIVALO® (anti-cholesterol drugs), etc. Finetech® (custom manufacturing and process researching services for pharmaceutical companies)
Trading	Trading, etc.
Others	Transportation, landscaping, engineering, fertilizer, etc.

(2) Basis for the measurement of reported segment income or loss, segment assets, and other material items

The accounting policies for the reportable segments are consistent with the Company's accounting policies used in the preparation of its consolidated financial statements.

Intersegment sales and income (loss) are recognized based on current market prices.

(3) Information on sales, income (loss), assets, and other item amounts by reportable segment

FY2016	Millions of Yen							Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Adjustment (Note)	
Net sales								
Sales to outside customers	¥25,723	¥46,403	¥47,791	¥ 7,966	¥42,281	¥10,108	¥ 14	¥180,289
Intersegment sales	9,057	6,406	4,160	26	12,916	13,921	(46,489)	—
Total sales	34,780	52,809	51,952	7,992	55,198	24,029	(46,474)	180,289
Segment income (loss)	3,820	12,533	13,201	1,656	1,697	966	(2,437)	31,438
Segment assets	26,113	48,028	55,588	10,182	19,782	10,731	61,322	231,748
Other items								
Depreciation and amortization	1,613	4,763	1,336	705	59	330	79	8,887
Amortization of goodwill	—	—	—	—	2	—	—	2
Increase of property, plant and equipment, and intangible assets	¥ 2,000	¥ 8,404	¥ 2,416	¥ 903	¥ 46	¥ 299	¥ 229	¥ 14,299

Notes: The adjustments are as follows:

(1) The (2,437) million yen adjustment in segment income includes (285) million yen in intersegment eliminations, 14 million yen sales not attributable to any reporting segment, and (2,165) million yen corporate expenses not attributable to any reportable segment.

The corporate expenses are mainly group administrative expenses which do not belong to segments.

(2) The 61,322 million yen adjustment in segment assets includes (9,338) million yen in intersegment eliminations and 70,660 million yen in corporate assets not attributable to any reportable segment. The corporate assets are mainly group administrative assets which do not belong to segments.

(3) The 79 million yen adjustment in depreciation and amortization is corporate expenses.

(4) The 229 million yen adjustment in increase of property, plant and equipment and intangible assets is corporate assets. The corporate assets are mainly group administrative assets which do not belong to segments.

FY2017	Millions of Yen							Adjustment (Note)	Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others			
Net sales									
Sales to outside customers	¥25,546	¥51,973	¥54,262	¥7,493	¥44,474	¥ 9,638	¥ —	¥193,389	
Intersegment sales	9,390	6,789	3,876	26	15,012	11,822	(46,917)	—	
Total sales	34,937	58,762	58,138	7,520	59,486	21,461	(46,917)	193,389	
Segment income (loss)	3,410	14,200	16,370	1,233	1,826	612	(2,665)	34,988	
Segment assets	26,976	52,938	56,571	9,118	23,393	9,658	70,387	249,043	
Other items									
Depreciation and amortization	1,733	5,925	1,416	713	52	319	347	10,508	
Amortization of goodwill	1	—	—	—	—	—	—	1	
Increase of property, plant and equipment, and intangible assets	¥ 2,594	¥ 7,209	¥ 2,541	¥ 679	¥ 23	¥ 304	¥ 341	¥ 13,694	

Notes: The adjustments are as follows:

- (1) The (2,665) million yen adjustment in segment income includes (254) million yen in intersegment eliminations, and (2,410) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to segments.
- (2) The 70,387 million yen adjustment in segment assets includes (8,200) million yen in intersegment eliminations and 78,588 million yen in corporate assets not attributable to any reportable segment. The corporate assets are mainly group administrative assets which do not belong to segments.
- (3) The 347 million yen adjustment in depreciation and amortization is corporate expenses.
- (4) The 341 million yen adjustment in increase of property, plant and equipment and intangible assets is corporate assets. The corporate assets are mainly group administrative assets which do not belong to segments.

FY2017	Thousands of U.S. dollars							Adjustment (Note)	Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others			
Net sales									
Sales to outside customers	\$240,388	\$489,066	\$510,605	\$70,509	\$418,500	\$ 90,694	\$ —	\$1,819,789	
Intersegment sales	88,360	63,884	36,473	245	141,263	111,245	(441,489)	—	
Total sales	328,757	552,950	547,078	70,763	559,763	201,948	(441,489)	1,819,789	
Segment income (loss)	32,088	133,622	154,042	11,603	17,183	5,759	(25,078)	329,237	
Segment assets	253,844	498,146	532,333	85,800	220,128	90,882	662,341	2,343,493	
Other items									
Depreciation and amortization	16,308	55,754	13,325	6,709	489	3,002	3,265	98,880	
Amortization of goodwill	9	—	—	—	—	—	—	9	
Increase of property, plant and equipment, and intangible assets	\$ 24,410	\$ 67,837	\$ 23,911	\$ 6,389	\$ 216	\$ 2,861	\$ 3,209	\$ 128,860	

Overseas operations, which represent sales to customers outside Japan for FY2017 and FY2016 were as follows:

FY2016	Millions of Yen				
	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	¥103,077	¥ 15,513	¥ 39,286	¥ 22,412	¥ 180,289
FY2017	Millions of Yen				
	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	¥104,523	¥ 20,218	¥ 39,339	¥ 29,308	¥ 193,389
FY2017	Thousands of U.S. dollars				
	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	\$983,561	\$190,251	\$370,180	\$275,788	\$1,819,789

14. Amounts per Share

Net income per share is based on the weighted average number of shares of common stock outstanding during the year.

Cash dividends per share attributable to the period represent dividends declared as applicable to the year.

Amounts per share of net income and cash dividends for FY2017 and FY2016 were as follows:

	(Yen)		(U.S. dollars)
	FY2017	FY2016	FY2017
Net income	¥180.30	¥156.97	\$1.70
Cash dividends	¥ 68.00	¥ 52.00	\$0.64

Independent Auditor's Report

Independent Auditor's Report

To the Board of Directors of
Nissan Chemical Industries, Ltd.

We have audited the accompanying consolidated financial statements of Nissan Chemical Industries, Ltd. and consolidated subsidiaries, which comprise the consolidated balance sheets as of March 31, 2018, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese Yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nissan Chemical Industries, Ltd. and its consolidated subsidiaries as of March 31, 2018, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2018 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3 to the consolidated financial statements.

Yaesu Audit & Co.
Tokyo, Japan
June 27, 2018



As the audit is for the fiscal year from April 1, 2017 to March 31, 2018, the above report does not reflect the company name change on July 1, 2018.