

Consolidated Financial Results for the Nine Months Ended December 31, 2017 (JPGAAP)



February 2, 2018

Name of listed company: NISSAN CHEMICAL INDUSTRIES, LTD.

Stock Exchange: Tokyo

Code Number: 4021

URL: <http://www.nissanchem.co.jp/>

Representative: Kojiro Kinoshita, President

Inquiry to: Hironori Yoshida, Executive Officer and Director of Finance and Accounting Department Tel. +81 3 3296 8356

Scheduled submission date of quarterly report: February 9, 2018

Supplemental information: Yes

Financial results meeting : None

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Nine Months Ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

(1) Consolidated Operating Results (% indicates the rate of increase/decrease against the same period of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent	
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%
Nine Months Ended December 31, 2017	132,680	8.7	22,392	19.7	23,947	24.0	17,734	24.6
Nine Months Ended December 31, 2016	122,069	(1.1)	18,700	(2.7)	19,312	(5.2)	14,236	(4.1)

(Note) Comprehensive Income: Nine Months Ended December 31, 2017 : 22,703 million yen , 65.7%

Nine Months Ended December 31, 2016 : 13,705 million yen , (20.1)%

	Basic Earnings per share	Diluted Earnings per share
	Yen	Yen
Nine Months Ended December 31, 2017	117.68	—
Nine Months Ended December 31, 2016	92.86	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of Yen	Millions of Yen	%
As of December 31, 2017	227,003	172,303	75.1
As of March 31, 2017	231,748	163,707	69.9

(Reference) Shareholders' equity: As of December 31, 2017 : 170,464 million yen

As of March 31, 2017 : 162,041 million yen

2. Cash Dividends

	Cash Dividends per share				
	First Quarter	Second Quarter	Third Quarter	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
Year Ended March 31, 2017	—	24.00	—	28.00	52.00
Year Ending March 31, 2018	—	32.00	—	—	—
Year Ending March 31, 2018 (Forecast)	—	—	—	34.00	66.00

(Note) Revision of the latest released dividend forecast: None

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2018 (From April 1, 2017 to March 31, 2018)

(% indicates the rate of increase/decrease against the same period of the previous year)

	Net Sales		Operating Income		Ordinary Income		Net Income Attributable to Owners of Parent		Basic Earnings per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Year Ending March 31, 2018	192,000	6.5	34,500	9.7	36,100	13.8	27,000	12.4	179.38

(Note) Revision of the latest released forecast of financial results: None

The above basic earnings per share is recalculated using the average number of share outstanding.

(The impact of the repurchase of own shares described in "Notice Regarding Repurchase of the Company's Own Shares " announced today is considered.)

4. Notes

(1) Changes in significant consolidated subsidiaries
(Changes in specified subsidiaries involving changes in scope of consolidation) : None

(2) Application of special accounting treatment to preparation of quarterly financial statements : None

(3) Changes of accounting policies and accounting estimates, and restatement

1. Changes of accounting policies due to revisions of accounting standards : None

2. Changes of accounting policies other than the above : None

3. Changes in accounting estimates : None

4. Restatements : None

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding (including treasury shares)

As of December 31, 2017 : 151,000,000 shares

As of March 31, 2017 : 154,000,000 shares

2. Number of treasury shares

As of December 31, 2017 : 546,208 shares

As of March 31, 2017 : 2,242,017 shares

3. Average number of shares outstanding

As of December 31, 2017 : 150,700,798 shares

As of December 31, 2016 : 153,315,546 shares

* The financial release is not subject to quarterly review.

* Explanations regarding appropriate use of business forecasts and other special notes

The business forecast contained in this report is based on information available at the time of disclosure.

Actual operating results may differ materially from the forecast due to various factors.

For supplemental information, please refer to our website.

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1. Qualitative Information on Quarterly Results

(1) Business Performance

During the year ended December 31, 2017 (from April 1, 2017 to December 31, 2017), the domestic economy has kept slowly recovering due to various factors including expansion of capital investment, positive business performance and employment situation.

Under these circumstances, in the Chemicals Segment, the sales of Basic Chemicals and Fine Chemicals increased. In the Performance Materials Segment, the sales of Display Materials, Semiconductor Materials and Inorganic Materials increased. In the Agricultural Chemicals Segment, Fluralaner (active ingredients of veterinary pharmaceutical) had healthy sales. In the Pharmaceutical Segment, the domestic sales of "LIVALO" (anti-cholesterol drug) decreased due to expansion of generic products.

As a result of previously mentioned factors, the sales for this period were 132,680 million yen (an increase of 10,611 million yen from the same period of the previous year). Operating income was 22,392 million yen (an increase of 3,691 million yen). Ordinary income was 23,947 million yen (an increase of 4,634 million yen). Net income attributable to owners of parent was 17,734 million yen (an increase of 3,497 million yen). Compared to the target, the sales were above 400 million yen, operating income were above 700 million yen, ordinary income were above 1,100 million yen and net income attributable to owners of parent were above 700 million yen.

Explanations by segments are as below.

Chemicals

In the Basic Chemicals, the sales of melamine (adhesive agent for particle board) decreased, on the other hand, high purity sulfuric acid (agent used for cleaning semiconductor) increased. In the Fine Chemicals, the sales of "TEPIC" (epoxy compound for LED sealants) increased, while "HI-LITE" (chlorinated isocyanuric acid for sterilizing) decreased. In addition, the profit rate of Chemical Segment decreased because of the price increase of raw fuel.

As a result of these factors, the sales of this segment were 25,924 million yen (an increase of 355 million yen). Operating income was 2,519 million yen (a decrease of 86 million yen). Compared to the target, the sales and operating income were the same.

Performance Materials

In the Display Materials, "SUNEVER" (LCD alignment coating) for smartphone had healthy sales. In the Semiconductor Materials, bottom anti-reflective coating for semiconductors (ARC®) and multi-layer process materials (OptiStack®) had healthy sales by some customers opening a new factory and recovery of the capacity utilization ratio. In the Inorganic Materials, "SNOWTEX" (semiconductor polishing, hard coating, etc.) for polishing agents for electronic substrate materials and Organo / Monomer sol (various kinds of coating materials, resin additive) increased the sales.

As a result of these factors, the sales of this segment were 44,178 million yen (an increase of 4,851 million yen). Operating income was 11,676 million yen (an increase of 1,709 million yen). Compared to the target, the sales were above 500 million yen and operating income were above 700 million yen.

*ARC® and OptiStack® are registered trade mark of Brewer Science, Inc.

Agricultural Chemicals

The sales of Fluralaner (active ingredients for veterinary pharmaceuticals) increased. "ROUNDUP MAXLOAD AL", herbicide for general household and "ALTAIR" (paddy rice herbicide) had healthy sales. In addition, agricultural chemicals for overseas were also well shipped.

As a result of these factors, the sales of this segment were 32,494 million yen (an increase of 4,254 million yen). Operating income was 7,459 million yen (an increase of 2,609 million yen). Compared to the target, the sales were below 600 million yen and operating income were above 200 million yen.

Pharmaceuticals

The shipment of “LIVALO” decreased in Japan due to expansion of generic products, while increased in overseas. Also, “Custom Chemicals” (custom manufacturing and process researching services for pharmaceutical companies) had healthy sales.

As a result of these factors, the sales of this segment were 5,834 million yen (a decrease of 288 million yen). Operating income was 1,053 million yen (a decrease of 326 million yen). Compared to the target, the sales were the same and operating income were above 100 million yen.

Trading

The sales of this segment were 44,992 million yen (an increase of 3,675 million yen). Operating income was 1,432 million yen (an increase of 150 million yen). Compared to the target, the sales were above 100 million yen and operating income were below 100 million yen.

Others

The sales of this segment were 14,293 million yen (a decrease of 150 million yen). Operating income was 270 million yen (an increase of 89 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of December 31, 2017 were 227,003 million yen (a decrease of 4,745 million yen from March 31, 2017). It is mainly due to the decrease of notes and accounts receivable – trade.

Also, total liabilities as of December 31, 2017 were 54,700 million yen (a decrease of 13,341 million yen). It is mainly due to the decrease of loans payable.

Net assets as of December 31, 2017 were 172,303 million yen (an increase of 8,596 million yen).

As a result of these factors, equity ratio was 75.1% (an increase of 5.2% from March 31, 2017).

(Position of Cash Flow)

Deducting income taxes paid from income before income taxes and non-controlling interests, depreciation and gain and loss on working capital, net cash provided by operating activities for the nine months ended December 31, 2017 were 34,325 million yen (30,536 million yen for the same period of the previous year).

Due to the investment on plant and equipment, net cash used in investing activities for the nine months ended December 31, 2017 were 12,030 million yen (7,835 million yen).

Due to the decrease in loans payable, payment for dividends and share repurchase, net cash used in financing activities for the nine months ended December 31, 2017 were 31,605 million yen (30,145 million yen).

As a result of these factors, cash and cash equivalents at the end of this period were 26,508 million yen, reflecting exchange of 117 million yen. It decreased by 9,192 million yen from March 31, 2017 (28,010 million yen).

(3) Forecast of Consolidated Business Results and Other Forward-looking Information

There is no change in the forecast of consolidated business results for the fiscal year ending March 31, 2018 from the statement announced on November 6, 2017.

(4) Basic policy on distribution of earnings

The Company's basic policy of profit allocation is returning to shareholders by improving company value through increasing revenue in the medium and long terms.

We aim to realize dividend payout ratio to be 40% in FY2018 and maintain total payout ratio to be 70% in medium-term business plan “Vista2021” launched from April 2016.

2. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
Assets		
Current assets		
Cash and deposits	35,701	26,508
Notes and accounts receivable - trade	60,075	47,242
Merchandise and finished goods	28,602	34,628
Work in process	64	915
Raw materials and supplies	7,778	9,170
Other	8,375	7,384
Allowance for doubtful accounts	(33)	(39)
Total current assets	140,564	125,810
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	23,824	23,546
Other, net	28,145	30,850
Total property, plant and equipment	51,969	54,397
Intangible assets		
Goodwill	0	6
Other	1,576	1,679
Total intangible assets	1,577	1,686
Investments and other assets		
Investment securities	32,465	39,425
Other	5,269	5,776
Allowance for doubtful accounts	(98)	(92)
Total investments and other assets	37,636	45,109
Total non-current assets	91,183	101,192
Total assets	231,748	227,003

(Millions of Yen)

	As of March 31, 2017	As of December 31, 2017
Liabilities		
Current liabilities		
Notes and accounts payable - trade	14,943	19,391
Short-term loans payable	26,225	9,978
Income taxes payable	3,288	1,670
Provision for bonuses	1,920	616
Provision for directors' bonuses	28	21
Other	11,259	12,102
Total current liabilities	57,665	43,780
Non-current liabilities		
Long-term loans payable	4,580	3,345
Provision for business structure improvement	594	532
Provision for loss on business of subsidiaries and affiliates	309	309
Net defined benefit liability	101	115
Other	4,791	6,617
Total non-current liabilities	10,376	10,919
Total liabilities	68,041	54,700
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,611	13,613
Retained earnings	126,370	124,414
Treasury shares	(7,587)	(1,961)
Total shareholders' equity	151,337	155,008
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,079	14,229
Foreign currency translation adjustment	243	884
Remeasurements of defined benefit plans	380	342
Total accumulated other comprehensive income	10,703	15,455
Non-controlling interests	1,666	1,838
Total net assets	163,707	172,303
Total liabilities and net assets	231,748	227,003

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

- Consolidated Statements of Income

(Millions of Yen)

	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017
Net sales	122,069	132,680
Cost of sales	72,187	77,384
Gross profit	49,881	55,296
Selling, general and administrative expenses	31,181	32,904
Operating income	18,700	22,392
Non-operating income		
Interest income	13	18
Dividend income	538	613
Equity in earnings of affiliates	236	1,020
Other	784	614
Total non-operating income	1,573	2,266
Non-operating expenses		
Interest expenses	121	99
Loss on disposal of non-current assets	333	257
Plant stop losses	192	218
Other	314	136
Total non-operating expenses	961	711
Ordinary income	19,312	23,947
Extraordinary income	-	-
Extraordinary losses	-	-
Income before income taxes and non-controlling interests	19,312	23,947
Income taxes - current	4,137	5,649
Income taxes - deferred	795	411
Total income taxes	4,932	6,060
Net income	14,379	17,886
Net income attributable to non-controlling interests	142	152
Net income attributable to owners of parent	14,236	17,734

- Consolidated Statements of Comprehensive Income

(Millions of Yen)

	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017
Net income	14,379	17,886
Other comprehensive income		
Valuation difference on available-for-sale securities	(534)	4,150
Foreign currency translation adjustment	(85)	705
Remeasurements of defined benefit plans, net of tax	(55)	(38)
Share of other comprehensive income of entities accounted for using equity method	1	(0)
Total other comprehensive income	(674)	4,816
Comprehensive income	13,705	22,703
(Comprehensive income attributable to)		
Owners of parent	13,575	22,486
Non-controlling interests	129	216

(3) Consolidated Statements of Cash Flows

(Millions of Yen)

	Nine Months Ended December 31, 2016	Nine Months Ended December 31, 2017
Cash flows from operating activities		
Income before income taxes and non-controlling interests	19,312	23,947
Depreciation and amortization	6,183	7,441
Interest and dividend income	(552)	(631)
Interest expenses	121	99
Loss (gain) on disposal of non-current assets	333	257
Decrease (increase) in notes and accounts receivable - trade	12,548	13,169
Decrease (increase) in inventories	(3,549)	(8,023)
Increase (decrease) in notes and accounts payable - trade	3,884	4,171
Other	(555)	(302)
Subtotal	37,726	40,129
Interest and dividend income received	1,576	1,309
Interest expenses paid	(101)	(85)
Income taxes paid	(8,664)	(7,026)
Net cash provided by (used in) operating activities	30,536	34,325
Cash flows from investing activities		
Purchase of investment securities	(308)	(757)
Proceeds from sales of investment securities	2,988	65
Purchase of property, plant and equipment	(8,225)	(10,663)
Payments for retirement of property, plant and equipment	(249)	(217)
Purchase of intangible assets	(992)	(407)
Net decrease (increase) in short-term loans receivable	326	591
Purchase of long-term prepaid expenses	(824)	(60)
Other	(549)	(581)
Net cash provided by (used in) investing activities	(7,835)	(12,030)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(15,916)	(15,954)
Repayments of long-term loans payable	(1,480)	(1,535)
Cash dividends paid	(7,680)	(9,063)
Dividends paid to non-controlling interests	(52)	(39)
Share repurchase	(5,001)	(5,001)
Other	(13)	(11)
Net cash provided by (used in) financing activities	(30,145)	(31,605)
Effect of exchange rate change on cash and cash equivalents	143	117
Net increase (decrease) in cash and cash equivalents	(7,300)	(9,192)
Cash and cash equivalents at beginning of period	35,335	35,701
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	(25)	-
Cash and cash equivalents at end of period	28,010	26,508

(4) Notes to Consolidated Financial Statements

(Notes on Assumption of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

The Company canceled 2,000,000 treasury shares on May 9, 2017 based on the resolution of Board of Directors' meeting held on April 25, 2017. In addition, the Company canceled 1,000,000 treasury shares on August 31, 2017 based on the resolution of Board of Directors' meeting held on August 22, 2017. As a result, retained earnings and treasury shares decreased by 10,627 million yen during the third quarter of current consolidated fiscal year.

Also, the Company repurchased its own shares based on the resolution of Board of Directors' meeting held on May 12, 2017. As a result, treasury shares increased by 4,999 million yen during the third quarter of current consolidated fiscal year.

Segment Information

1. Information Regarding Sales, Income (Loss) of Reportable Segments

1) For the Nine Months Ended December 31, 2016 (From April 1, 2016 to December 31, 2016)

(Millions of Yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	18,724	34,645	25,125	6,095	31,761	5,701	122,054	14	122,069
Intersegment Sales	6,844	4,682	3,114	26	9,556	8,741	32,966	(32,966)	-
Total Sales	25,569	39,327	28,240	6,122	41,317	14,443	155,021	(32,951)	122,069
Segment Income or Loss (Operating Income or Loss)	2,605	9,966	4,850	1,380	1,281	181	20,265	(1,564)	18,700

Notes: (1) The (1,564) million yen adjustment in segment income includes (240) million yen in intersegment eliminations, 14 million yen sales not attributable to any reporting segment, and (1,338) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.

2) For the Nine Months Ended December 31, 2017 (From April 1, 2017 to December 31, 2017)

(Millions of Yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated Total
Sales									
Sales to outside customers	18,836	39,070	29,516	5,807	33,813	5,635	132,680	-	132,680
Intersegment Sales	7,087	5,108	2,977	26	11,179	8,657	35,037	(35,037)	-
Total Sales	25,924	44,178	32,494	5,834	44,992	14,293	167,718	(35,037)	132,680
Segment Income or Loss (Operating Income or Loss)	2,519	11,676	7,459	1,053	1,432	270	24,412	(2,020)	22,392

Notes: (1) The (2,020) million yen adjustment in segment income includes (218) million yen in intersegment eliminations and (1,801) million yen corporate expenses not attributable to any reportable segment. The corporate expenses are mainly group administrative expenses which do not belong to any segment.

(Significant Subsequent Events)

The Company, at the board of Director's meeting held on February 2, 2018, has decided to repurchase its shares in the market under Article 156 of the Japanese Corporation Act, as applied pursuant to Article 165, Paragraph 3 of the same Act.

1. Purpose of repurchase

To facilitate flexible implementation of capital policy in response to changes in the business environment.

2. Details of repurchase

- (1) Class of shares : Common shares of the company
- (2) Total number of shares : Up to 1,000,000 shares
(Rate of the maximum shares to be acquired to the total outstanding shares: 0.66%)
- (3) Total amount : Up to 4,000,000,000 yen
- (4) Period of repurchase : From February 5, 2018 to April 27, 2018

(For reference) Number of treasury shares as of December 31, 2017

Total number of shares issued : 150,453,792 shares
(excluding treasury shares)
Number of treasury shares : 546,208 shares