

Integrated Report 2020
Financial Section

Nissan Chemical Corporation

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Long Term Financial Performance Trend

(Billions of Yen)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Sales	149.0	154.2	148.6	153.8	163.7	171.2	176.9	180.3	193.4	204.9	206.8
Operating Profit	19.2	19.8	15.5	19.5	22.2	25.3	28.6	31.4	35.0	37.1	38.6
Ordinary Income	19.2	19.4	15.9	20.5	23.7	26.4	29.5	31.7	36.2	39.1	40.0
Net Income	12.8	13.0	11.0	13.9	16.7	18.2	22.4	24.0	27.1	29.4	30.8
EBITDA	30.1	30.3	25.9	29.1	30.8	33.8	38.3	40.3	45.5	48.0	49.2
OP Margin	12.8%	12.9%	10.4%	12.7%	13.6%	14.8%	16.2%	17.4%	18.1%	18.1%	18.7%
ROE	12.6%	11.9%	9.5%	11.4%	12.7%	12.7%	14.6%	15.1%	16.1%	16.6%	16.9%
EPS(¥/share)	74.00	75.94	64.52	83.74	102.11	113.99	143.37	156.97	180.30	197.67	210.09
Dividend(¥/share)	24	24	24	26	30	36	44	52	68	82	90
Dividend Payout Ratio	32.4%	31.6%	37.2%	31.0%	29.4%	31.6%	30.7%	33.1%	37.7%	41.5%	42.8%
Share Repurchase	-	2.8	-	5.0	5.0	6.0	9.0	9.0	9.0	9.0	10.0
Total Assets	181.4	183.4	190.1	199.2	208.0	223.9	228.2	231.7	246.0	247.0	249.5
Net Assets	107.7	112.4	119.6	126.7	137.8	151.3	156.9	163.7	176.4	182.1	185.5
Cash	14.8	21.1	27.9	31.9	30.8	31.3	35.3	35.7	37.7	36.2	30.6
Liabilities with Interest	42.1	39.9	38.9	38.1	36.1	35.1	33.1	30.8	28.6	26.6	24.6
Equity Ratio	58.7%	60.7%	62.4%	63.0%	65.7%	66.9%	68.1%	69.9%	71.0%	73.0%	73.7%
Capex	10.1	9.6	8.3	7.9	8.8	9.8	10.2	14.3	13.7	9.9	15.7
Depreciation	11.0	10.4	10.5	9.5	8.5	8.5	9.7	8.9	10.5	10.9	10.5
R&D Expenses	13.1	12.6	13.6	13.7	14.2	15.0	15.8	16.1	17.2	17.8	17.2
R&D Expenses/Sales	8.8%	8.2%	9.2%	8.9%	8.7%	8.7%	8.9%	8.9%	8.9%	8.7%	8.3%

FINANCIAL REVIEW

Financial Review of the Year Ended March 31, 2020

Overview

The domestic economy continued to recover moderately in the current fiscal year (April 1, 2019 to March 31, 2020) against the backdrop of an improvement in the employment and income environment. However, in addition to the sluggish exports caused by the slow down in the overseas economy, economic activity worldwide stagnated in the second half of the fiscal year due to the impacts of COVID-19. Under these circumstances, sales of Basic Chemicals decreased in the Chemicals Segment. In the Performance Materials Segment, Display Materials and Semiconductor Materials performed well. The Agricultural Chemicals Segment sales strongly increased. In the Pharmaceuticals Segment, although sales of "Custom Chemicals" (custom manufacturing and process researching services for pharmaceutical companies) increased, sales of drug discovery decreased.

Operating Results

As a result, the Company's results for the current fiscal year were net sales 206,837 million yen (an increase of 1,941 million yen), operating income 38,647 million yen (an increase of 1,556 million yen) and ordinary income 40,003 million yen (an increase of 905 million yen), and net income attributable to owners of parent 30,779 million yen (an increase of 1,407 million yen). Operating and ordinary income achieved record highs for the sixth consecutive year and net income attributable to owners of parent for the seventh consecutive year, exceeding the earnings outlook announced in November.

ROE was 16.9% and we have achieved the Mid-Term Plan Stage II target (maintain above 16%) in the current fiscal year.

Dividend was 90 yen and dividend payout ratio became 42.8%. We have repurchased share of 10.0 billion yen and total payout ratio was 75.1%.

Financial Position

Total assets as of March 31, 2020 were 249,522 million yen (an increase of 2,531 million yen from the previous year). It is mainly due to the increase of notes and accounts receivable-trade, merchandise and finished goods, and intangible assets.

Total liabilities as of March 31, 2020 were 63,993 million yen (a decrease of 922 million yen). It is mainly due to the decrease of loans payable.

Net assets as of March 31, 2020 were 185,528 million yen (an increase of 3,454 million yen).

As a result of these factors, equity ratio was 73.7% (an increase of 0.7% from March 31, 2019).

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, 2020 was 35,550 million yen (32,070 million yen for the previous year).

Due to investments on plant and equipment, net cash used in investing activities for the consolidated fiscal year ended March 31, 2020 was 15,624 million yen (10,884 million yen for the previous year).

Due to share repurchase, payment for dividends and repayment of long-term loans payable, net cash used in financing activities for the consolidated fiscal year ended March 31, 2020 was 25,186 million yen (22,563 million yen for the previous year).

As a result of these factors, cash and cash equivalents for the consolidated fiscal year ended March 31, 2020 were 30,639 million yen (36,183 million yen for the previous year), reflecting exchange of 283 million yen. It decreased by 5,544 million yen compared to the previous year.

Overview by segments

The Chemicals Segment

In Basic Chemicals, although sales of high purity sulfuric acid (agent used for cleaning semiconductor) increased, sales of melamine (adhesives agent for particle board) declined due to market conditions. In Fine Chemicals, sales of "TEPIC" for electrical materials (solder resist inks, LED-sealing materials, etc.) decreased, while sales of general use (powder coating agent for paint) increased.

As a result, sales of this segment were 34,336 million yen (a decrease of 1,314 million yen) and operating income was 1,372 million yen (a decrease 1,674 million yen). Compared to the outlook, net sales were below 3.0 billion yen and operating income was below 2.0 billion yen.

As outlook of business result for the next term, we assume net sales will be 35.6 billion yen and operating income will be 2.7 billion yen.

The Performance Materials Segment

In Display Materials, sales of "SUNEVER" (LCD alignment coating) for both small-and medium-sized products such as smartphones and large-scale products such as TVs performed well. In Semiconductor Materials, sales of anti-reflective coating for semiconductors (ARC®*) increased, reflecting the strong operation of customers. In Inorganic Materials, sales of "SNOWTEX" for polishing electronic materials decreased. Sales of Organo / Monomer sol (various kinds of coating materials, resin additive) and Oilfield materials (for enhancing oil recovery) also decreased.

As a result, sales of this segment were 65,460 million yen (an increase of 2,428 million yen) and operating income was 17,353 million yen (an increase of 2,386 million yen). Compared to the outlook, net sales were above 2.0 billion yen and operating income was above 2.3 billion yen.

As outlook of business result for the next term, we assume net sales will be 70.1 billion yen and operating income will be 18.1 billion yen.

*ARC® is a registered trademark of Brewer Science, Inc.

The Agricultural Chemicals Segment

Sales of Fluralaner (active ingredients for veterinary pharmaceuticals) decreased due to the impact of inventories of customers. In domestic agrochemicals market, sales of "GRACIA" (insecticide), launched in May in Japan, were strong. "ROUNDUP" (non-selective leaf treatment herbicide) revenues increased from the previous fiscal year which was affected by

the natural disasters in the first half of this fiscal year, and remained steady in the second half of this fiscal year. In overseas agrochemicals market, sales of "TARGA" (herbicide) decreased, but sales of "GRACIA" for the Korean market and "QUINTEC" (fungicide), acquired in the third quarter, contributed to sales.

As a result, sales of this segment were 64,038 million yen (an increase of 1,313 million yen) and operating income was 19,303 million yen (an increase of 952 million yen). Compared to the outlook, net sales were below 0.3 billion yen and operating income was below 0.3 billion yen.

As outlook of business result for the next term, we assume net sales will be 65.5 billion yen and operating income will be 18.4 billion yen.

The Pharmaceuticals Segment

Sales of "LIVALO" (anti-cholesterol drug) decreased, as selling prices fell due to an increase in sales of generic drugs overseas, despite an increase in domestic shipments. In "Custom Chemicals", sales of generic-active pharmaceutical ingredients increased steadily.

As a result, sales of this segment were 6,962 million yen (a decrease of 46 million yen) and operating income was 939 million yen (a decrease of 60 million yen). Compared to the outlook, net sales were as expected and operating income was below 0.2 billion yen.

As outlook of business result for the next term, we assume net sales will be 6.4 billion yen and operating income will be 0.4 billion yen.

Trading

Sales of this segment were 67,907 million yen (an increase of 27 million yen), and operating income was 2,113 million yen (an increase of 75 million yen). Compared to the outlook, net sales were above 0.8 billion yen and operating income was as expected.

As outlook of business result for the next term, we assume net sales will be 68.2 billion yen and operating income will be 2.0 billion yen.

Others

Sales of this segment were 22,394 million yen (a decrease of 2,215 million yen) and operating income was 693 million yen (a decrease of 229 million yen).

As outlook of business result for the next term, we assume net sales will be 25.0 billion yen and operating income will be 0.7 billion yen.

Consolidated Balance Sheets

(Thousands of
U.S. dollars)

	(Millions of Yen)		
	FY2019	FY2018	FY2019
Assets			
Current assets			
Cash and deposits	30,639	36,183	281,531
Notes and accounts receivable - trade	72,509	69,193	666,259
Merchandise and finished goods	33,131	32,215	304,429
Work in process	153	41	1,406
Raw materials and supplies	10,590	9,742	97,308
Accounts receivable - other	2,765	2,207	25,407
Short-term loans receivable	2,045	512	18,791
Other	2,387	2,427	21,933
Allowance for doubtful accounts	(26)	(32)	(239)
Total current assets	<u>154,196</u>	<u>152,490</u>	<u>1,416,852</u>
Non-current assets			
Property, plant and equipment			
Buildings and structures	67,110	65,942	616,650
Accumulated depreciation and impairment loss	(42,260)	(40,690)	(388,312)
Buildings and structures, net	<u>24,850</u>	<u>25,251</u>	<u>228,338</u>
Machinery, equipment and vehicles	135,476	130,490	1,244,841
Accumulated depreciation and impairment loss	(123,035)	(117,523)	(1,130,525)
Machinery, equipment and vehicles, net	<u>12,440</u>	<u>12,966</u>	<u>114,307</u>
Tools, furniture and fixtures	39,625	38,458	364,100
Accumulated depreciation and impairment loss	(35,829)	(34,385)	(329,220)
Tools, furniture and fixtures, net	<u>3,796</u>	<u>4,073</u>	<u>34,880</u>
Land	8,995	9,059	82,652
Construction in progress	1,499	1,378	13,774
Total property, plant and equipment	<u>51,581</u>	<u>52,729</u>	<u>473,959</u>
Intangible assets			
Software	566	721	5,201
Other	6,812	796	62,593
Total intangible assets	<u>7,379</u>	<u>1,517</u>	<u>67,803</u>
Investments and other assets			
Investment securities	30,873	35,229	283,681
Deferred tax assets	721	110	6,625
Net defined benefit asset	1,609	2,089	14,785
Other	3,244	2,917	29,808
Allowance for doubtful accounts	(84)	(92)	(772)
Total investments and other assets	<u>36,364</u>	<u>40,253</u>	<u>334,136</u>
Total non-current assets	<u>95,325</u>	<u>94,500</u>	<u>875,907</u>
Total assets	<u>249,522</u>	<u>246,990</u>	<u>2,292,769</u>

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Liabilities			
Current liabilities			
Notes and accounts payable - trade	16,876	17,809	155,068
Short-term loans payable	22,898	23,605	210,402
Current portion of long-term loans payable	640	1,860	5,881
Income taxes payable	6,167	4,330	56,666
Provision for bonuses	2,151	2,137	19,765
Provision for directors' bonuses	26	25	239
Other	11,254	10,430	103,409
Total current liabilities	<u>60,015</u>	<u>60,198</u>	<u>551,456</u>
Non-current liabilities			
Long-term loans payable	1,076	1,116	9,887
Deferred tax liabilities	76	823	698
Provision for business structure improvement	284	370	2,610
Provision for loss on business of subsidiaries and affiliates	309	309	2,839
Provision for share awards for directors (and other officers)	46	-	423
Net defined benefit liability	208	152	1,911
Other	1,976	1,945	18,157
Total non-current liabilities	<u>3,978</u>	<u>4,717</u>	<u>36,552</u>
Total liabilities	<u>63,993</u>	<u>64,916</u>	<u>588,009</u>
Net assets			
Shareholders' equity			
Capital stock	18,942	18,942	174,051
Capital surplus	13,613	13,613	125,085
Retained earnings	146,997	143,200	1,350,703
Treasury shares	(2,470)	(6,291)	(22,696)
Total shareholders' equity	<u>177,082</u>	<u>169,464</u>	<u>1,627,143</u>
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	7,782	10,634	71,506
Foreign currency translation adjustment	(896)	(11)	(8,233)
Remeasurements of defined benefit plans	(51)	258	(469)
Total accumulated other comprehensive income	<u>6,834</u>	<u>10,880</u>	<u>62,795</u>
Non-controlling interests	<u>1,610</u>	<u>1,728</u>	<u>14,794</u>
Total net assets	<u>185,528</u>	<u>182,074</u>	<u>1,704,751</u>
Total liabilities and net assets	<u>249,522</u>	<u>246,990</u>	<u>2,292,769</u>

Consolidated Statements of Income

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Net sales	206,837	204,896	1,900,551
Cost of sales	122,379	119,911	1,124,497
Gross profit	84,458	84,985	776,054
Selling, general and administrative expenses	45,810	47,893	420,932
Operating income	38,647	37,091	355,113
Non-operating income			
Interest income	26	31	239
Dividend income	785	981	7,213
Equity in earnings of affiliates	945	970	8,683
Other	852	1,142	7,829
Total non-operating income	2,609	3,126	23,973
Non-operating expenses			
Interest expenses	123	110	1,130
Loss on disposal of non-current assets	443	630	4,071
Plant stop losses	298	249	2,738
Foreign exchange losses	235	24	2,159
Other	151	104	1,387
Total non-operating expenses	1,252	1,119	11,504
Ordinary income	40,003	39,098	367,573
Extraordinary income			
Gain on sales of investment securities	1,834	-	16,852
Total extraordinary income	1,834	-	16,852
Extraordinary losses			
Licensing arrangement fee	834	-	7,663
Total extraordinary losses	834	-	7,663
Income before income taxes and non-controlling interests	41,003	39,098	376,762
Income taxes - current	10,102	8,690	92,824
Income taxes - deferred	36	893	331
Total income taxes	10,138	9,583	93,154
Net income	30,864	29,514	283,598
Net income attributable to non-controlling interests	84	141	772
Net income attributable to owners of parent	30,779	29,372	282,817

Consolidated Statements of Comprehensive Income

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Net income	30,864	29,514	283,598
Other comprehensive income			
Valuation difference on available-for-sale securities	(2,851)	(3,018)	(26,197)
Foreign currency translation adjustment	(976)	(159)	(8,968)
Remeasurements of defined benefit plans, net of tax	(309)	(132)	(2,839)
Share of other comprehensive income of entities accounted for using equity method	(0)	(0)	(0)
Total other comprehensive income	<u>(4,137)</u>	<u>(3,311)</u>	<u>(38,013)</u>
Comprehensive income	<u>26,726</u>	<u>26,203</u>	<u>245,576</u>
(Comprehensive income attributable to)			
Owners of parent	26,733	26,083	245,640
Non-controlling interests	(6)	119	(55)

Consolidated Statements of Changes in Net Assets
For FY2019

(Millions of Yen)

	Total shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥18,942	¥13,613	¥143,200	(¥6,291)	¥169,464
Changes of items during period					
Dividends of surplus			(12,360)		(12,360)
Net income attributable to owners of parent			30,779		30,779
Share repurchase				(10,801)	(10,801)
Disposal of treasury shares			(0)	0	0
Cancellation of treasury shares			(14,622)	14,622	-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	3,797	3,821	7,618
Balance at end of current period	¥18,942	¥13,613	¥146,997	(¥2,470)	¥177,082

	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	¥10,634	(¥11)	¥258	¥10,880	¥1,728	¥182,074
Changes of items during period						
Dividends of surplus						(12,360)
Net income attributable to owners of parent						30,779
Share repurchase						(10,801)
Disposal of treasury shares						0
Cancellation of treasury shares						-
Net changes of items other than shareholders' equity	(2,851)	(884)	(309)	(4,046)	(117)	(4,164)
Total changes of items during period	(2,851)	(884)	(309)	(4,046)	(117)	3,454
Balance at end of current period	¥7,782	(¥896)	(¥51)	¥6,834	¥1,610	¥185,528

For FY2018

(Millions of Yen)

	Total shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	¥18,942	¥13,613	¥133,822	(¥5,962)	¥160,416
Changes of items during period					
Dividends of surplus			(11,320)		(11,320)
Net income attributable to owners of parent			29,372		29,372
Share repurchase				(9,004)	(9,004)
Cancellation of treasury shares			(8,674)	8,674	-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	9,377	(329)	9,048
Balance at end of current period	¥18,942	¥13,613	¥143,200	(¥6,291)	¥169,464

	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	¥13,653	¥125	¥390	¥14,170	¥1,778	¥176,364
Changes of items during period						
Dividends of surplus						(11,320)
Net income attributable to owners of parent						29,372
Share repurchase						(9,004)
Cancellation of treasury shares						-
Net changes of items other than shareholders' equity	(3,019)	(137)	(132)	(3,289)	(49)	(3,338)
Total changes of items during period	(3,019)	(137)	(132)	(3,289)	(49)	5,709
Balance at end of current period	¥10,634	(¥11)	¥258	¥10,880	¥1,728	¥182,074

For FY2019

(Thousands of U.S. dollars)

	Total shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	\$174,051	\$125,085	\$1,315,814	(\$57,806)	\$1,557,144
Changes of items during period					
Dividends of surplus			(113,572)		(113,572)
Net income attributable to owners of parent			282,817		282,817
Share repurchase				(99,247)	(99,247)
Disposal of treasury shares			(0)	0	0
Cancellation of treasury shares			(134,356)	134,356	-
Net changes of items other than shareholders' equity					
Total changes of items during period	-	-	34,889	35,110	69,999
Balance at end of current period	\$174,051	\$125,085	\$1,350,703	(\$22,696)	\$1,627,143

	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	\$97,712	(\$101)	\$2,371	\$99,972	\$15,878	\$1,673,013
Changes of items during period						
Dividends of surplus						(113,572)
Net income attributable to owners of parent						282,817
Share repurchase						(99,247)
Disposal of treasury shares						0
Cancellation of treasury shares						-
Net changes of items other than shareholders' equity	(26,197)	(8,123)	(2,839)	(37,177)	(1,075)	(38,262)
Total changes of items during period	(26,197)	(8,123)	(2,839)	(37,177)	(1,075)	31,738
Balance at end of current period	\$71,506	(\$8,233)	(\$469)	\$62,795	\$14,794	\$1,704,751

Consolidated Statements of Cash Flows

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Cash flows from operating activities			
Income before income taxes and non-controlling interests	41,003	39,098	376,762
Depreciation and amortization	10,516	10,914	96,628
Amortization of goodwill	28	1	257
Interest and dividend income	(811)	(1,013)	(7,452)
Loss (gain) on sales of investment securities	(1,834)	(296)	(16,852)
Interest expenses	123	110	1,130
Loss (gain) on disposal of non-current assets	443	630	4,071
Decrease (increase) in notes and accounts receivable - trade	(3,656)	(3,877)	(33,594)
Decrease (increase) in inventories	(2,352)	(4,304)	(21,612)
Increase (decrease) in notes and accounts payable - trade	(715)	(671)	(6,570)
Other	(263)	(617)	(2,417)
Subtotal	42,481	39,974	390,343
Interest and dividend income received	1,565	1,633	14,380
Interest expenses paid	(123)	(111)	(1,130)
Income taxes paid	(8,373)	(9,426)	(76,937)
Net cash provided by (used in) operating activities	35,550	32,070	326,656
Cash flows from investing activities			
Purchase of investment securities	(657)	(910)	(6,037)
Proceeds from sales of investment securities	3,206	450	29,459
Purchase of property, plant and equipment	(8,904)	(9,747)	(81,816)
Payments for retirement of property, plant and equipment	(391)	(525)	(3,593)
Purchase of intangible assets	(285)	(192)	(2,619)
Payments for transfer of business	(6,335)	-	(58,210)
Net decrease (increase) in short-term loans receivable	(1,538)	(2)	(14,132)
Purchase of long-term prepaid expenses	(645)	(46)	(5,927)
Other	(73)	90	(671)
Net cash provided by (used in) investing activities	(15,624)	(10,884)	(143,563)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(653)	(46)	(6,000)
Proceeds from long-term loans payable	600	530	5,513
Repayments of long-term loans payable	(1,860)	(2,554)	(17,091)
Cash dividends paid	(12,360)	(11,320)	(113,572)
Dividends paid to non-controlling interests	(111)	(167)	(1,020)
Share repurchase	(10,801)	(9,004)	(99,247)
Other	0	(0)	0
Net cash provided by (used in) financing activities	(25,186)	(22,563)	(231,425)
Effect of exchange rate change on cash and cash equivalents	(283)	(141)	(2,600)
Net increase (decrease) in cash and cash equivalents	(5,544)	(1,518)	(50,942)
Cash and cash equivalents at beginning of period	36,183	37,702	332,473
Cash and cash equivalents at end of period	30,639	36,183	281,531

(Note 1) The consolidated financial statements are a translation of the Japanese annual securities report's consolidated financial statements.

(Note 2) The consolidated financial statements are expressed in Japanese yen as of and for the year ended March 31, 2020 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 ¥108.83 to US \$1, which is the approximate closing exchange rate reported by the Tokyo Foreign Exchange Market on March 31, 2020. 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.

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, 2020 include the account of Nissan Chemical Corporation. (the "Company") and its eight main (eight in FY2019) 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 FY2019) 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 weighted 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 2 years to 50 years for buildings and structures, and 2 years to 12 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 using the 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 by the straight-line method with no residual value, using the lease term as the useful life.

g. Allowance for Doubtful Accounts

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 Company become aware of a customer's inability to meet its financial obligations, such as when customers files for bankruptcy or when the 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 share-based remuneration for directors (and other officers)

The Company provides for the estimated amount of share benefit obligations as of the end of the current consolidated fiscal year to cover the benefit of shares to the Company's directors, etc., in accordance with the regulations for the delivery of shares to directors, etc.,

k. 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.

l. 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.

m. 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.

n. Translation of Foreign Currency

The assets and liabilities of the Company's subsidiaries located outside Japan are translated into Japanese yen at the spot 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).

o. 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.

p. 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, 2020 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 ¥108.83 to US \$1, which is the approximate closing exchange rate reported by the Tokyo Foreign Exchange Market on March 31, 2020. 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

a. Revenue Recognition

Accounting Standards Board of Japan released "Accounting Standard for Revenue Recognition" and "Implementation Guidance on Accounting Standard for Revenue Recognition" on March 31, 2020.

The above standard and guidance are scheduled to be applied in the fiscal year ending in March 31, 2022.

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

b. Fair Value Measurement

Accounting Standards Board of Japan released "Accounting Standard for Fair Value Measurement", "Accounting Standard for Measurement of Inventories", Accounting Standard for Financial Instruments and , "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" on March 31, 2020.

The above standard and guidance are scheduled to be applied in the fiscal year ending in March 31, 2022.

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

c. Accounting Policy Disclosures, Accounting Changes and Error Corrections

Accounting Standards Board of Japan released "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" on March 31, 2020.

The above standard and guidance are scheduled to be applied in the fiscal year ending in March 31, 2021.

d. Accounting Estimates

Accounting Standards Board of Japan released "Accounting Standard for Disclosure of Accounting Estimates" on March 31, 2020.

The above standard and guidance are scheduled to be applied in the fiscal year ending in March 31, 2021.

5. Reclassifications

(Notes to Consolidated Statements of Cash Flows)

In the previous fiscal year, "Amortization of goodwill" which was included in "Depreciation and amortization" under "Cash flows from operating activities" has increased in importance, it is presented as a separate item from the current fiscal year. In order to reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, 1 million yen presented as "Depreciation and amortization" under "Cash flows from operating activities" has been reclassified as "Amortization of goodwill" of 1 million yen in the consolidated statement of cash flows for the previous fiscal year.

In the previous fiscal year, "Loss (gain) on sales of investment securities" which was included in "Other" under "Cash flows from operating activities" has increased in importance, it is presented as a separate item from the current fiscal year. In order to reflect this change in presentation, the consolidated financial statements for the previous fiscal year have been reclassified.

As a result, (296) million yen presented as "Other" under "Cash flows from operating activities" has been reclassified as "Loss (gain) on sales of investment securities" of (296) million yen in the consolidated statement of cash flows for the previous fiscal year.

6. Collateral Assets and Liabilities

Collateral assets and liabilities as of FY2019 and FY2018 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Investment securities	¥126	¥142	\$1,158
Accounts payable	¥282	¥369	\$2,591

7. Research and Development Expenses

Research and development expenses included in selling, general and administrative expenses for FY2019 and FY2018 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
	¥17,161	¥17,751	\$157,686

8. Comprehensive Income

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	(¥2,275)	(¥4,054)	(\$20,904)
Reclassification adjustment	(1,834)	(296)	(16,852)
Amount before tax effect	(4,109)	(4,350)	(37,756)
Tax effect	1,258	1,332	11,559
Valuation difference on available-for-sale securities, net of tax	<u>(2,851)</u>	<u>(3,018)</u>	<u>(26,197)</u>
Foreign currency translation adjustment:			
Gains (losses) arising during the year	(976)	(159)	(8,968)
Reclassification adjustment	-	-	-
Amount before tax effect	(976)	(159)	(8,968)
Tax effect	-	-	-
Foreign currency translation adjustment, net of tax	<u>(976)</u>	<u>(159)</u>	<u>(8,968)</u>
Remeasurements of defined benefit plans:			
Gains (losses) arising during the year	(396)	(114)	(3,639)
Reclassification adjustment	(49)	(75)	(450)
Amount before tax effect	(446)	(190)	(4,098)
Tax effect	137	57	1,259
Remeasurements of defined benefit plans, net of tax	<u>(309)</u>	<u>(132)</u>	<u>(2,839)</u>
Share of other comprehensive income of affiliates accounted for using equity methods:			
Gains (losses) arising during the year	(0)	(0)	(0)
Total other comprehensive income	<u>(¥4,137)</u>	<u>(¥3,311)</u>	<u>(\$38,013)</u>

9. Common Shares

(1) Dividends

Cash dividends charged to retained earnings for the years ended March 31, 2020 and 2019 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 48 yen per share with an aggregate 6,990 million yen for the year ended March 31, 2020.

(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.

10. Investment securities

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Equity securities	¥20,664	¥25,620	\$189,874
Unlisted securities of affiliates	7,604	7,118	69,870
Unlisted securities	2,603	2,490	23,918
	<u>¥30,873</u>	<u>¥35,229</u>	<u>\$283,681</u>

11. Short-term Debt and Long-term Debt

Short-term debt consisting of an unsecured bank overdraft as of March 31, 2020 was 22,898 million yen.

The weighted average interest rate on short-term debt outstanding as of March 31, 2020 was 0.60%.

The weighted average interest rate on long-term debt outstanding as of March 31, 2020 was 0.58%.

The weighted average interest rate on the current portion of long-term debt outstanding as of March 31, 2020 was 0.51%.

Long-term debt as of FY2019 and FY2018 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Long-term debt	¥1,716	¥2,976	\$15,768
Less current portion	(640)	(1,860)	(5,881)
	¥1,076	¥1,116	\$9,887

Long-term debt payments due after FY2020 were as follows:

Year ending March 31	(Millions of Yen)	(Thousands of U.S. dollars)
FY2021	¥420	\$3,859
FY2022	310	2,848
FY2023	226	2,077
FY2024 and thereafter	120	1,103
	¥1,076	\$9,887

12. Retirement Benefits

(1) The liability for retirement benefits as of FY2019 and FY2018 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Retirement benefit obligation	¥12,697	¥12,571	\$116,668
Plan asset	(14,289)	(14,661)	(131,297)
	(1,592)	(2,089)	(14,628)
Unfunded retirement benefit obligation	190	152	1,746
Net retirement benefit obligation	(1,401)	(1,936)	(12,873)
Net defined benefit liability	208	152	1,911
Net defined benefit asset	(1,609)	(2,089)	(14,785)
Net retirement benefit obligation	(¥1,401)	(¥1,936)	(\$12,873)

(2) Actuarial assumptions

The principal actuarial assumptions as of FY2019 and FY2018 were as follows:

	FY2019	FY2018
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.

13. Income Taxes

The Company is subject to a number of taxes based on income. The statutory income tax rates were approximately 30.62% for the year ended March 31, 2020 and 30.62% for the year ended March 31, 2019.

The tax effects on significant temporary differences which resulted in deferred tax assets and liabilities as of FY2019 and FY2018 were as follows:

	(Millions of Yen)		(Thousands of U.S. dollars)
	FY2019	FY2018	FY2019
Deferred tax assets:			
Inventory	¥757	¥716	\$6,956
Provision for bonuses	655	660	6,019
Overdepreciation	648	566	5,954
Prepaid consignment research expenses	520	585	4,778
Unrealized gain on inventories	431	433	3,960
Other	2,081	2,051	19,122
Gross deferred tax assets	5,094	5,014	46,807
Less: Valuation allowance	(37)	(39)	(340)
Total deferred tax assets	5,057	4,975	46,467
Deferred tax liabilities:			
Unrealized gain on securities	(3,732)	(4,832)	(34,292)
Net defined benefit asset	(427)	(594)	(3,924)
Reserve for advanced depreciation of non-current assets	(252)	(260)	(2,316)
Other	—	(1)	—
Total deferred tax liabilities	(4,412)	(5,688)	(40,540)
Net deferred tax assets	¥645	(¥712)	\$5,927

The differences between the statutory tax rate and the effective tax rate for the years ended FY2019 and FY2018 were as follows:

	FY2019	FY2018
Statutory tax rate	30.62%	30.62%
(Reconciliation)		
Elimination of intercompany dividend income	2.03%	2.32%
Entertainment and other permanently non-deductible expense	0.33	0.38
Difference of tax rate for foreign consolidated subsidiaries	(0.30)	(0.50)
Equity in earnings of affiliates	(0.71)	(0.76)
Dividend and other items excluded permanently from taxable income	(2.12)	(2.42)
Tax credit	(4.72)	(5.00)
Other, net	(0.40)	(0.14)
Effective tax rate	24.73%	24.51%

14. Business combination

(Business combination through acquisition)

The Company has entered into a business transfer agreement dated November 29, 2019 regarding the acquisition of the fungicide quinoxifen business of Corteva Agriscience, Inc. and has taken over the business as of the same date.

a. Overview of business combination

(1) Name of company and business description

Name of the partner company: Corteva Agriscience, Inc
Business description: the fungicide "Quinoxifen" business

(2) Main purpose of the business combination

In addition to drug discovery, we are expanding our fungicide portfolio through acquisitions and in-licensing in order to further develop our agricultural chemicals business.

(3) Date of business combination

November 29, 2019

(4) Legal form of business combination

Business acquisition with cash as consideration

(5) Name of the combined company

There is no change.

(6) Main reason for determining the acquiring company

The Company acquired the business in exchange for cash.

b. Period of the results of the acquired business included in the consolidated financial statements

November 29, 2019 to March 31, 2020

c. Acquisition cost of acquired business and breakdown by type of consideration

	(Millions of Yen)	(Thousands of U.S. dollars)
Consideration for acquisition Cash	6,335	\$58,210
Acquisition cost	6,335	\$58,210

d. Details and amounts of major acquisition-related costs

	(Millions of Yen)	(Thousands of U.S. dollars)
Remuneration, fees, etc. for advisory services	10	\$92

e. Amount of goodwill incurred, reason for its occurrence, amortization method and amortization period

(1) Amount of goodwill generated

(Millions of Yen)	(Thousands of U.S. dollars)
325	\$2,986

(2) Cause of Occurrence

This goodwill arose from the future excess earning power expected from future business development.

(3) Amortization method and amortization period

Equal amortization over 5 years

f. Amount of assets received and liabilities assumed on the date of business combination and their major breakdown

	(Millions of Yen)	(Thousands of U.S. dollars)
Fixed assets	6,335	\$58,210
Total assets	6,335	\$58,210

g. Amount allocated to intangible fixed assets other than goodwill, its breakdown by major type, and weighted average amortization period by major type

Type	(Millions of Yen)		(Thousands of U.S. dollars)
	Amount	Weighted average amortization period	
Product Registration	5,240	9 year	\$48,148
Non-compete agreements	770	6 year	\$7,075
Total	6,010	9 year	\$55,224

h. Estimated amount and calculation method of the effect on the consolidated statement of income for the current consolidated fiscal year on the assumption that the business combination was completed as of the beginning of the consolidated fiscal year

As the amount of impact is immaterial, it has been omitted.

15. 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.

Therefore, 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, 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 chemicals and process researching services for pharmaceutical companies)
Trading	Trading, etc.
Others	Transportation, landscaping, engineering, fertilizer, etc.

(2) Basis for the measurement of reported segment sales, profit or loss, segment assets, liabilities, 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 transfers are based on current market prices.

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

FY2018	Millions of Yen							Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Adjustments (Note)	
Net sales								
Sales to outside customers	¥25,991	¥55,655	¥57,513	¥6,968	¥48,562	¥10,188	16	¥204,896
Intersegment sales	9,660	7,376	5,211	40	19,317	14,421	(56,028)	—
Total	35,651	63,031	62,724	7,009	67,880	24,610	(56,011)	204,896
Segment profit(loss)	3,046	14,966	18,351	1,000	2,037	923	(3,234)	37,091
Segment assets	28,669	51,256	61,818	9,063	25,507	11,479	59,196	246,990
Other items								
Depreciation and amortization	1,805	6,059	1,680	645	49	322	350	10,913
Amortization of goodwill	1	—	—	—	—	—	—	1
Increase of property, plant and equipment, and intangible asset	¥2,021	¥3,246	¥3,326	¥502	¥122	¥438	¥280	¥9,938

Notes: The adjustments are as follows:

(1) The (3,234) million yen adjustments in segment profit includes (405) million yen in intersegment eliminations, 16 million yen sales not allocated to any reporting segments, and (2,845) million yen corporate expenses not allocated to any reportable segments.

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

(2) The 59,196 million yen adjustments in segment assets includes (11,968) million yen in intersegment eliminations and 71,165 million yen in corporate assets not allocated to any reportable segments. The corporate assets are mainly group administrative assets which do not belong to segments.

(3) The 350 million yen adjustments in depreciation and amortization is corporate expenses.

(4) The 280 million yen adjustments 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.

FY2019	Millions of Yen							Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Adjustments (Note)	
Net sales								
Sales to outside customers	¥24,893	¥57,831	¥58,693	¥6,905	¥48,235	¥10,265	¥13	¥206,837
Intersegment sales	9,443	7,629	5,345	56	19,672	12,128	(54,276)	—
Total	34,336	65,460	64,038	6,962	67,907	22,394	(54,262)	206,837
Segment profit (loss)	1,372	17,353	19,303	939	2,113	693	(3,127)	38,647
Segment assets	27,711	50,172	73,909	10,555	25,243	11,976	49,952	249,522
Other items								
Depreciation and amortization	1,865	5,069	2,197	591	85	360	345	10,516
Amortization of goodwill	1	—	27	—	—	—	—	28
Increase of property, plant and equipment, and intangible asset	¥3,134	¥3,276	¥7,902	¥597	¥104	¥366	¥327	¥15,709

Notes: The adjustments are as follows:

(1) The (3,127) million yen adjustments in segment profit includes (230) million yen in intersegment eliminations, 13 million yen sales not allocated to any reporting segments, and (2,909) million yen corporate expenses not allocated to any reportable segments.

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

(2) The 49,952 million yen adjustments in segment assets includes (11,924) million yen in intersegment eliminations and 61,877 million yen in corporate assets not allocated to any reportable segments. The corporate assets are mainly group administrative assets which do not belong to segments.

(3) The 345 million yen adjustments in depreciation and amortization is corporate expenses.

(4) The 327 million yen adjustments 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.

FY2019	Thousands of U.S. dollars							Consolidated Total
	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Adjustments (Note)	
Net sales								
Sales to outside customers	\$228,733	\$531,388	\$539,309	\$63,448	\$443,214	\$94,321	\$119	\$1,900,551
Intersegment sales	86,768	70,100	49,113	515	180,759	111,440	(498,723)	—
Total	315,501	601,489	588,422	63,971	623,973	205,770	(498,594)	1,900,551
Segment profit (loss)	12,607	159,451	177,368	8,628	19,416	6,368	(28,733)	355,113
Segment assets	254,626	461,013	679,123	96,986	231,949	110,043	458,991	2,292,769
Other items								
Depreciation and amortization	17,137	46,577	20,187	5,430	781	3,308	3,170	96,628
Amortization of goodwill	9	—	248	—	—	—	—	257
Increase of property, plant and equipment, and intangible asset	\$28,797	\$30,102	\$72,609	\$5,486	\$956	\$3,363	\$3,005	\$144,344

Overseas operations, which represent sales to customers outside Japan for FY2019 and FY2018 were as follows:

Millions of Yen					
FY2018	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	¥107,131	¥22,341	¥43,354	¥32,068	¥204,896

Millions of Yen					
FY2019	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	¥109,217	¥22,840	¥44,224	¥30,554	¥206,837

Thousands of U.S. dollars					
FY2019	Japan	Korea	Other Asia	Europe and the United States	Consolidated Total
Net sales	\$1,003,556	\$209,869	\$406,359	\$280,750	\$1,900,551

16. 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 FY2019 and FY2018 were as follows:

	(Yen)		(U.S. dollars)
	FY2019	FY2018	FY2019
Net income	¥210.09	¥197.67	\$1.93
Cash dividends	¥90.00	¥82.00	\$0.83

Independent Auditors' Report

To the Board of Directors of
Nissan Chemical Corporation

Opinion

We have audited the accompanying consolidated financial statements of Nissan Chemical Corporation and its subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, Audit & Supervisory Board Members and the Audit & Supervisory Board for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance 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 misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion on the consolidated financial statements based on our audit from an independent point of view. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgement. In addition, we obtain audit evidence that is sufficient and

appropriate to provide a basis for our opinion.

- Obtain an understanding of internal control relevant to the audit in order to assess the risk and design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with Audit & Supervisory Board members and the Audit & Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide Audit & Supervisory Board members and the Audit & Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Conflicts of Interest

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 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 25, 2020

