

Consolidated Financial Results for the Six Months Ended September 30, 2016

(JPGAAP)



November 4, 2016

Name of listed company: NISSAN CHEMICAL INDUSTRIES, LTD.

Stock Exchange: Tokyo

Code Number: 4021

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

Representative: Kojiro Kinoshita, President

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Scheduled submission date of quarterly report: November 11, 2016

Scheduled dividend payment date: December 5, 2016

Supplemental information: Yes

Financial results meeting : Yes

(Amounts rounded down to the nearest million yen)

1. Consolidated Financial Results for the Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)

(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	%
Six Months Ended September 30, 2016	84,513	1.0	14,736	3.3	14,213	(6.1)	10,596	(4.9)
Six Months Ended September 30, 2015	83,670	4.7	14,265	14.1	15,131	18.9	11,147	26.0

(Note) Comprehensive Income: Six Months Ended September 30, 2016 : 7,448 million yen , (22.0)%

Six Months Ended September 30, 2015 : 9,554 million yen , (6.2)%

	Net Income per Share	Diluted Profit Attributable to Owners of Parent per Share
	Yen	Yen
Six Months Ended September 30, 2016	69.00	—
Six Months Ended September 30, 2015	71.21	—

(2) Consolidated Financial Position

	Total Assets	Net Assets	Equity Ratio
	Millions of Yen	Millions of Yen	%
As of September 30, 2016	204,725	155,053	75.0
As of March 31, 2016	228,169	156,924	68.1

(Reference) Shareholders' equity: As of September 30, 2016 : 153,561 million yen

As of March 31, 2016 : 155,392 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, 2016	—	18.00	—	26.00	44.00
Year Ending March 31, 2017	—	24.00	—	—	—
Year Ending March 31, 2017 (Forecast)	—	—	—	26.00	50.00

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

3. Forecast of Consolidated Financial Results for the Fiscal Year Ending March 31, 2017 (From April 1, 2016 to March 31, 2017)

(% 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		Net Income per share
	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Millions of Yen	%	Yen
Year Ending March 31, 2017	180,500	2.0	29,900	4.5	29,700	0.6	22,500	0.7	146.88

(Note) Revision of the latest released forecast of financial results: Yes

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 : Yes

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

3. Changes in accounting estimates : None

4. Restatements : None

(Note) Please refer to "Items concerning Summary Information" on page 5 for details.

(4) Number of shares outstanding (common shares)

1. Number of shares outstanding (including treasury shares)

as of September 30, 2016 : 154,000,000 shares

as of March 31, 2016 : 156,000,000 shares

2. Number of shares of treasury shares

as of September 30, 2016 : 1,204,626 shares

as of March 31, 2016 : 1,620,587 shares

3. Average number of shares outstanding

as of September 30, 2016 : 153,577,606 shares

as of September 30, 2015 : 156,554,994 shares

* Presentation regarding implementation status of quarterly review procedures

This financial release is not subject to quarterly review procedures based on Financial Instruments and Exchange Law in Japan. Quarterly review procedures of financial statements based on Financial Instruments and Exchange have not been completed at the time of disclosure.

* 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 September 30, 2016 (from April 1, 2016 to September 30, 2016), the domestic economy remained at the same level due to positive and negative factors. Positive factors were improvement of employment situation and lower crude oil price, while negative factors were progress of stronger yen and a sense of uncertainty over world economy.

In our group business, the sales of Chemicals Segment decreased due to the currency exchange rates. In the Performance Materials Segment, the sales of display materials increased but semiconductor materials and inorganic materials had weak sales. In the Agricultural Chemicals Segment, Fluralaner (an active ingredient of veterinary pharmaceutical) had healthy sales. In the Pharmaceutical Segment, "LIVALO" (anti-cholesterol drug) faced with a tough situation in Japan.

As a result of previously mentioned factors, the sales for this period were 84,513 million yen (an increase of 843 million yen from the same period of the previous year). Operating income was 14,736 million yen (an increase of 470 million yen). Ordinary income was 14,213 million yen (a decrease of 917 million yen). Income attributable to owners of parent was 10,596 million yen (a decrease of 550 million yen).

Explanations by segments are as below.

Chemicals

The profitability of ammonia product increased due to the price decline of feedstock such as naphtha. In the Basic Chemicals, the export sales of MELAMINE (adhesive agent for particle board) and the sales of "AdBlue" (high-grade urea solution) increased. Conversely, in the Fine Chemicals, the sales of "TEPIC" (special epoxy compound for sealant) decreased due to stronger yen.

As a result of these factors, the sales of this segment were 16,538 million yen (a decrease of 203 million yen from the same period of the previous year). Operating income was 1,324 million yen (a decrease of 81 million yen).

Performance Materials

In the display materials, "SUNEVER" (polyimide for LCD / flat panel displays) for smartphone had healthy sales. In the semiconductor materials, bottom anti-reflective coating for semiconductors ("ARC®") and multi-layer process materials ("OptiStack®") were adversely affected by the lower capacity utilization ratio of some customers. In the inorganic materials, "SNOWTEX" (semiconductor polishing, hard coating, etc.) for polishing agents for electronic substrate materials decreased the sales.

As a result of these factors, the sales of this segment were 25,508 million yen (a decrease of 531 million yen). Operating income was 6,166 million yen (a decrease of 172 million yen).

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

Agricultural Chemicals

"ROUNDUP MAXLOAD AL", herbicide for general household, expanded in Japan but our product had weak sales as a whole. Conversely, Fluralaner had healthy sales.

As a result of these factors, the sales of this segment were 23,983 million yen (an increase of 2,843 million yen). Operating income was 6,852 million yen (an increase of 630 million yen).

Pharmaceuticals

The sales of "LIVALO" decreased in Japan due to expansion of generic products but increased in overseas especially for Asia. Also, "Finetech" (custom manufacturing and process researching services for pharmaceutical companies) had healthy sales.

As a result of these factors, the sales of this segment were 3,690 million yen (a decrease of 51 million yen). Operating income was 617 million yen (an increase of 0 million yen).

Trading

The sales of this segment were 27,614 million yen (an increase of 93 million yen). Operating income was 842 million yen (a decrease of 13 million yen).

Others

The sales of this segment were 8,591 million yen (a decrease of 296 million yen). Operating income was 12 million yen (an increase of 41 million yen).

(2) Financial Position

(Position of Assets, Liabilities and Net Assets)

Total assets as of September 30, 2016 were 204,725 million yen (a decrease of 23,443 million yen from March 31, 2016). It is mainly due to the decrease of notes and accounts receivable - trade.

Also, total liabilities as of September 30, 2016 were 49,672 million yen (a decrease of 21,572 million yen). It is mainly due to the decrease of short - term loans payable.

Net assets as of September 30, 2016 were 155,053 million yen (a decrease of 1,871 million yen).

As a result of these factors, equity ratio was 75.0% (an increase of 6.9% from March 31, 2016).

(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 six months ended September 30, 2016 were 29,426 million yen (27,642 million yen for the same period of the previous year).

Due to the proceeds from sales of investment securities and the investment on research and development department, net cash used in investing activities for the six months ended September 30, 2016 were 4,509 million yen (4,654 million yen).

Due to the decrease in short-term loans payable, payment for dividends, and share repurchase, net cash used in financing activities for the six months ended September 30, 2016 were 26,565 million yen (27,287 million yen).

As a result of these factors, cash and cash equivalents at the end of this period were 33,266 million yen (26,931 million yen), reflecting 395 million yen effect of exchange rate changes and 25 million yen decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation. It decreased by 2,069 million yen from March 31, 2016.

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

Nissan Chemical Industries Ltd. ("the Company") announces the revision of its forecast for the fiscal year ending March 31, 2017 (from April 1, 2016 to March 31, 2017) based on the financial results for the second quarter of this fiscal year and demand forecast. The following forecast is calculated on the assumption that naphtha price will be 34,400 yen per kiloliter and the exchange rate will be 105 yen per dollar.

(Millions of Yen)

	Net Sales	Operating Income	Ordinary Income	Profit Attributable to Owners of Parent	Net Income per Share (Yen)
Previous Forecast (A)	187,500	29,700	30,400	23,000	150.18
Revised Forecast (B)	180,500	29,900	29,700	22,500	146.88
Change (B-A)	(7,000)	200	(700)	(500)	—
Rate of Change (%)	(3.7)%	0.7%	(2.3)%	(2.2)%	—
(Ref.) Results for the Year Ended March 31, 2016	176,894	28,606	29,531	22,350	143.37

(Billions of yen)

		Previous Forecast	Revised Forecast	Change
Net Sales	Chemicals	35.4	34.1	(1.3)
	Performance Materials	55.3	52.5	(2.8)
	Agricultural Chemicals	52.1	52.2	0.1
	Pharmaceuticals	7.4	7.6	0.2
	Trading	60.0	58.2	(1.8)
	Others	23.2	23.4	0.2
	Adjustment	(45.9)	(47.5)	(1.6)
	Total	187.5	180.5	(7.0)
Operating Income	Chemicals	4.9	3.7	(1.2)
	Performance Materials	11.7	11.7	—
	Agricultural Chemicals	11.3	12.8	1.5
	Pharmaceuticals	1.4	1.4	—
	Trading	1.9	1.9	—
	Others	0.8	0.7	(0.1)
	Adjustment	(2.3)	(2.3)	—
	Total	29.7	29.9	0.2

(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. Items concerning Summary Information (Notes)

(1) Changes of Accounting Policies and Accounting Estimates, Restatement

(Changes in Accounting Policies)

Effective from the beginning of the first quarter of current consolidated fiscal year, the Company adopted the “Practical Solution on a change in depreciation method due to Tax Reform 2016” (Practical Issue Task Force (PITF) No.32, issued on June 17, 2016) in accordance with the revision of the Corporation Tax Law of Japan. Accordingly, the Company changed the depreciation method for facilities attached to buildings and structures acquired on and after April 1, 2016 from the declining-balance method to the straight-line method.

The impact of this change on operating income, ordinary income, and income before income taxes and non-controlling interests for the second quarter of current consolidated fiscal year was immaterial.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

Millions of Yen

	As of March 31, 2016	As of September 30, 2016
Assets		
Current assets		
Cash and deposits	35,335	33,266
Notes and accounts receivable - trade	57,606	43,550
Merchandise and finished goods	30,198	28,407
Work in process	43	676
Raw materials and supplies	8,266	7,740
Other	10,765	6,826
Allowance for doubtful accounts	(34)	(31)
Total current assets	142,181	120,436
Non-current assets		
Property, plant and equipment		
Buildings and structures, net	22,635	22,343
Other, net	24,826	26,242
Total Property, plant and equipment	47,461	48,586
Intangible assets		
Goodwill	2	1
Other	901	1,489
Total Intangible assets	903	1,490
Investments and other assets		
Investment securities	33,251	28,742
Other	4,539	5,638
Allowance for doubtful accounts	(167)	(168)
Total Investments and other assets	37,623	34,213
Total non-current assets	85,988	84,289
Total assets	228,169	204,725

Millions of Yen

	As of March 31, 2016	As of September 30, 2016
Liabilities		
Current liabilities		
Notes and accounts payable - trade	15,350	13,081
Short-term loans payable	25,998	9,872
Income taxes payable	4,576	3,131
Provision for bonuses	1,874	1,882
Provision for directors' bonuses	21	15
Provision for environmental measures	350	94
Other	9,765	10,850
Total current liabilities	57,937	38,927
Non-current liabilities		
Long-term loans payable	7,100	5,620
Provision for business structure improvement	680	669
Provision for loss on business of subsidiaries and associates	309	309
Net defined benefit liability	102	94
Other	5,115	4,051
Total non-current liabilities	13,307	10,744
Total liabilities	71,244	49,672
Net assets		
Shareholders' equity		
Capital stock	18,942	18,942
Capital surplus	13,611	13,611
Retained earnings	115,878	116,608
Treasury shares	(4,281)	(3,585)
Total Shareholders' equity	144,151	145,576
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	10,515	8,198
Foreign currency translation adjustment	171	(731)
Remeasurements of defined benefit plans	554	517
Total Accumulated other comprehensive income	11,241	7,984
Non-controlling interests	1,531	1,491
Total net assets	156,924	155,053
Total liabilities and net assets	228,169	204,725

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

- Consolidated Statements of Income

Millions of Yen

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016
Net sales	83,670	84,513
Cost of sales	49,004	48,644
Gross profit	34,665	35,869
Selling, general and administrative expenses	20,400	21,133
Operating income	14,265	14,736
Non-operating income		
Interest income	6	8
Dividend income	245	289
Gain on sales of investment securities	62	220
Other	1,259	372
Total non-operating income	1,574	890
Non-operating expenses		
Interest expenses	110	87
Foreign exchange losses	-	634
Product compensation expenses	150	-
Other	447	690
Total non- operating expenses	708	1,413
Ordinary income	15,131	14,213
Extraordinary income	-	-
Extraordinary losses	-	-
Income before income taxes and non-controlling interests	15,131	14,213
Income taxes - current	3,981	3,484
Income taxes - deferred	(94)	55
Total income taxes	3,886	3,540
Net income	11,244	10,673
Net income attributable to non-controlling interests	97	76
Net income attributable to owners of parent	11,147	10,596

- Consolidated Statements of Comprehensive Income

Millions of Yen

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016
Net income	11,244	10,673
Other comprehensive income		
Valuation difference on available-for-sale securities	(1,234)	(2,317)
Foreign currency translation adjustment	(413)	(870)
Remeasurements of defined benefit plans, net of tax	(42)	(37)
Share of other comprehensive income of entities accounted for using equity method	(0)	0
Total other comprehensive income	(1,690)	(3,224)
Comprehensive income	9,554	7,448
(Comprehensive income attributable to)		
Owners of parent	9,518	7,436
Non-controlling interests	35	12

(3) Consolidated Statements of Cash Flows

Millions of Yen

	Six Months Ended September 30, 2015	Six Months Ended September 30, 2016
Cash flows from operating activities		
Income before income taxes and non-controlling interests	15,131	14,213
Depreciation	4,446	4,085
Interest and dividend income	(251)	(297)
Interest expenses	110	87
Loss (gain) on disposal of non-current assets	130	261
Decrease (increase) in notes and accounts receivable - trade	14,490	13,567
Decrease (increase) in inventories	(2,231)	1,397
Increase (decrease) in notes and accounts payable - trade	(1,542)	(2,055)
Other, net	1,168	1,854
Subtotal	31,453	33,114
Interest and dividend income received	311	1,321
Interest expenses paid	(111)	(88)
Income taxes paid	(4,011)	(4,921)
Net cash provided by (used in) operating activities	27,642	29,426
Cash flows from investing activities		
Purchase of investment securities	(6)	(5)
Proceeds from sales of investment securities	109	2,887
Purchase of property, plant and equipment	(4,308)	(5,322)
Payments for retirement of property, plant and equipment	(96)	(183)
Purchase of intangible assets	(84)	(833)
Net decrease (increase) in short-term loans receivable	(271)	115
Purchase of long-term prepaid expenses	(481)	(612)
Other, net	483	(554)
Net cash provided by (used in) investing activities	(4,654)	(4,509)
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	(16,355)	(16,009)
Repayments of long-term loans payable	(1,370)	(1,480)
Cash dividends paid	(3,469)	(4,013)
Dividends paid to non-controlling interests	(70)	(52)
Share repurchase	(6,000)	(5,000)
Other, net	(21)	(9)
Net cash provided by (used in) financing activities	(27,287)	(26,565)
Effect of exchange rate change on cash and cash equivalents	(172)	(395)
Net increase (decrease) in cash and cash equivalents	(4,473)	(2,044)
Cash and cash equivalents at the beginning of period	31,343	35,335
Increase in cash and cash equivalents from newly consolidated subsidiary	61	-
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	-	(25)
Cash and cash equivalents at the end of period	26,931	33,266

(4) Notes to Consolidated Financial Statements

(Notes on Assumption of Going Concern)

Not applicable.

(Notes on Significant Changes in Shareholders' Equity)

The Company canceled 1,000,000 treasury shares on May 10, 2016 based on the resolution of Board of Directors' meeting held on April 25, 2016. In addition, the Company canceled 1,000,000 treasury shares on August 31, 2016 based on the resolution of Board of Directors' meeting held on August 23, 2016. As a result, retained earnings and treasury shares decreased by 5,695 million yen during the second 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, 2016. As a result, treasury shares increased by 4,999 million yen during the second quarter of current consolidated fiscal year.

Segment Information

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

1) For the Six Months Ended September 30, 2015 (From April 1, 2015 to September 30, 2015)

(Millions of Yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated total
Sales									
Sales to outside customers	12,297	23,032	19,236	3,742	21,484	3,876	83,670	-	83,670
Intersegment Sales	4,444	3,008	1,903	-	6,036	5,011	20,404	(20,404)	-
Total Sales	16,742	26,040	21,140	3,742	27,521	8,888	104,075	(20,404)	83,670
Segment income or loss (Operating Income or Loss)	1,405	6,338	6,221	617	856	(28)	15,410	(1,144)	14,265

Notes: (1) The (1,144) million yen adjustment in segment income includes (146) million yen in intersegment eliminations and (998) 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 Six Months Ended September 30, 2016 (From April 1, 2016 to September 30, 2016)

(Millions of Yen)

	Chemicals	Performance Materials	Agricultural Chemicals	Pharmaceuticals	Trading	Others	Total	Adjustment (1)	Consolidated total
Sales									
Sales to outside customers	12,170	22,475	21,876	3,664	20,766	3,546	84,499	14	84,513
Intersegment Sales	4,368	3,033	2,107	26	6,847	5,045	21,428	(21,428)	-
Total Sales	16,538	25,508	23,983	3,690	27,614	8,591	105,927	(21,414)	84,513
Segment income or loss (Operating Income or Loss)	1,324	6,166	6,852	617	842	12	15,815	(1,079)	14,736

Notes: (1) The (1,079) million yen adjustment in segment income includes (31) million yen in intersegment eliminations, 14 million yen sales not attributable to any reporting segment, and (1,061) 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.