

This Convocation Notice is a translation of the Japanese language original “*Teiji Kabunushisoukai Shoushugotsuchi*,” and is provided in English for reference purposes only. In the event of any discrepancy, the Japanese language original shall prevail. The Company assumes no responsibility for this translation or for direct, indirect or any other forms of damages arising from the translation.

Securities Code: 4114

May 30, 2018

To Our Shareholders

Yujiro Goto
Representative Member of the Board
and President
NIPPON SHOKUBAI CO., LTD.
4-1-1 Koraibashi, Chuo-ku, Osaka

Convocation Notice of The 106th Ordinary General Meeting of Shareholders

NIPPON SHOKUBAI CO., LTD. (the “Company”) will be holding the 106th Ordinary General Meeting of Shareholders and requests your attendance. The meeting will be held as described below.

If you are unable to attend the meeting, you can exercise your voting rights in writing or via the Internet. Please review the “Reference Materials for the Ordinary General Meeting of Shareholders” set forth below and exercise your voting rights by indicating your intention to vote “for” or “against” each agenda item by returning the enclosed Voting Rights Exercise Form or accessing the Company website to exercise your voting rights at <https://evote.tr.mufg.jp/>. The Voting Rights Exercise Form must be received by 5:00 p.m. on June 19, 2018 (Tuesday).

- 1. Date/Time:** June 20, 2018 (Wednesday) 10:00 a.m. (reception starts: 9:00 a.m.)
- 2. Venue:** Kogin Building 5F, 4-1-1 Koraibashi, Chuo-ku, Osaka
(Osaka Head Office of the Company)
- 3. Meeting Agenda:**

[Matters to be Reported]

1. Business report, consolidated financial statements, and financial statements for the 106th Term (from April 1, 2017 to March 31, 2018)
2. Report on results of the audits conducted by the accounting auditor and the board of corporate auditors with respect to the consolidated financial statements for the 106th Term

[Matters to be Resolved]

- 1st Agenda: Appropriation of Retained Earnings
- 2nd Agenda: Election of Nine (9) Members of the Board
- 3rd Agenda: Election of One (1) Corporate Auditor
- 4th Agenda: Bonuses for Officers for the 106th Term

Reference Materials for the Ordinary General Meeting of Shareholders

Agenda and Reference Matters:

Agenda Item No. 1: Appropriation of Retained Earnings

The Company distributes dividends under a basic policy of aiming to improve medium- to long-term dividend levels in line with projected trends in consolidated earnings, while at the same time taking an overall view to expand the business and strengthen the corporate structure and, in consideration of the dividend payout ratio. Meanwhile, to maintain competitiveness and continue growth into the future, aggressive capital investment, strategic investment and R&D investment are essential. By taking into consideration a balance between dividends and internal reserves, appropriation of retained earnings of the Company for the fiscal year 2017 (ended March 31, 2018) is as follows.

1. Matters Concerning the Year-end Dividend

The Company proposes a year-end dividend of 85 yen per share for the fiscal year 2017, an increase of 10 yen from the interim dividend. Together with the interim dividend, this would give an annual dividend of record-high 160 yen per share, an increase of 10 yen from the 105th term.

- (1) Type of Dividend: Cash
- (2) Dividend Payment and Total Amount:
85.00 yen per share of common stock of the Company
Total amount of dividends: 3,389,728,260 yen
- (3) Effective Date of Distribution of Retained Earnings: June 21, 2018

2. Matters Concerning Other Retained Earnings

- (1) Item and the amount of surplus to be increased:
General reserve: 10,000,000,000 yen
- (2) Item and amount of surplus to be decreased:
Retained earnings brought forward: 10,000,000,000 yen

Agenda Item No. 2: Election of Nine (9) Members of the Board

As the term of office of all nine (9) Members of the Board will expire at the conclusion of this Ordinary General Meeting of Shareholders, we are submitting the following five (5) candidates for reelection and four (4) candidates for new election as Members of the Board.

The candidates for Member of the Board are as follows:

No.	Name (Date of birth)	Profile (Positions, responsibility in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
1	Yujiro Goto (May 4, 1957) Reelection Attendance at the Board meetings during the current fiscal year: 14/14 meetings	Apr. 1980 Joined the Company June 2012 Executive Officer, Plant Manager of Kawasaki Plant June 2015 Member of the Board and Managing Executive Officer Apr. 2017 Representative Member of the Board, President (current)	3,300 shares
	<Reasons for nominating as a candidate for Member of the Board> Mr. Yujiro Goto has been playing a key role in the Company's management as Representative Member of the Board and has achievements in executing mid- to long-term business plans. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to continue as Member of the Board.		
2	Masao Yamamoto (Aug. 29, 1952) Reelection Attendance at the Board meetings during the current fiscal year: 14/14 meetings	Apr. 1977 Joined Sumitomo Chemical Industry Co., Ltd. (at present, Sumitomo Chemical Co., Ltd.) Mar. 2009 Joined the Company Apr. 2009 Director of General Administration & Personnel Division June 2009 Member of the Board June 2010 Executive Officer June 2011 Member of the Board and Managing Executive Officer June 2016 Member of the Board, Senior Managing Executive Officer (current) (Current responsibility in the Company) Administration, Personnel, Finance, Accounting, Information Technology General Affairs & HR Division, Finance & Accounting Division, IT Management Office	6,600 shares
	<Reasons for nominating as a candidate for Member of the Board> Mr. Masao Yamamoto has been mostly engaging in planning, administration and finance divisions for a long time and has achievements in reforming the personnel system and strengthening the corporate governance system and financial standing, etc. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to continue as Member of the Board.		

No.	Name (Date of birth)	Profile (Positions, responsibility in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
3	Yojiro Takahashi (July 7, 1954) Reelection Attendance at the Board meetings during the current fiscal year: 14/14 meetings	<p>Apr. 1977 Joined the Company</p> <p>Apr. 2009 Director of Corporate Planning Division</p> <p>June 2009 Member of the Board</p> <p>June 2010 Executive Officer</p> <p>June 2013 Member of the Board and Managing Executive Officer (current)</p> <p>(Current responsibility in the Company) Innovation & Business Development Health & Medical Business Development Office, Malonates Business Development Office and Cosmetics Business Planning Office</p>	3,800 shares
		<p><Reasons for nominating as a candidate for Member of the Board> Mr. Yojiro Takahashi has been engaging in corporate planning and sales & marketing divisions for a long time and has achievements in creating new businesses and promoting open innovation, etc. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to continue as Member of the Board.</p>	
4	Yukihiro Matsumoto (Jan. 24, 1964) Reelection Attendance at the Board meetings during the current fiscal year: 14/14 meetings	<p>Apr. 1988 Joined the Company</p> <p>July 2004 Vice President of SINGAPORE ACRYLIC PTE LTD Vice President of SINGAPORE GLACIAL ACLYRIC PTE. LTD. (at present, NIPPON SHOKUBAI (ASIA) PTE. LTD.)</p> <p>Apr. 2009 General Manager of Technology Department of Himeji Plant</p> <p>Apr. 2014 Director of Production Division</p> <p>Apr. 2016 Director of Corporate Planning Division (current)</p> <p>June 2016 Member of the Board, Executive Officer (current)</p> <p>(Current responsibility in the Company) Director of Corporate Planning Division, Production Division, Engineering Division and Belgium Project</p>	1,800 shares
		<p><Reasons for nominating as a candidate for Member of the Board> Mr. Yukihiro Matsumoto has been engaging in production and technology divisions and overseas services for a long time and has achievements in launching manufacturing sites in Japan and overseas and promoting responsible care, etc. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to continue as Member of the Board.</p>	

No.	Name (Date of birth)	Profile (Positions, responsibility in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
5	Koichiro Yamada (Nov. 29, 1955) New election	Apr. 1978 Joined the Company	1,700 shares
		Apr. 2007 Director of Ethylene Oxide Business Division	
		Apr. 2009 Director of Acrylic Business Division (current)	
		June 2009 Member of the Board	
		June 2010 Executive Officer	
		Apr. 2013 Responsible for Superabsorbents Business Division	
		June 2013 Managing Executive Officer (current)	
		Apr. 2017 In charge of Superabsorbents Business Division (current)	
	<p><Reasons for nominating as a candidate for Member of the Board> Mr. Koichiro Yamada has been engaging in sales & marketing divisions and overseas services for a long time and has achievements in strengthening the sales foundation and execution of the growth strategy of each business, etc. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to serve as Member of the Board.</p>		
6	Jiro Iriguchi (Oct. 28, 1958) New election	Apr. 1984 Joined the Company	700 shares
		Apr. 2004 General Manager of Fine & Specialty Chemicals Production Department of Himeji Plant	
		Apr. 2009 General Manager of Chemicals Production Department of Himeji Plant	
		Apr. 2011 Deputy Plant Manager of Himeji Plant	
		June 2013 Director of NIPPOH CHEMICALS CO., LTD.	
		Apr. 2018 Assistant to President (in charge of production and technology) (current)	
	<p><Reasons for nominating as a candidate for Member of the Board> Mr. Jiro Iriguchi has been engaging in production and technology divisions for a long time and has achievements in stably operating manufacturing sites and smoothly managing subsidiaries, etc. The Company believes that he will appropriately make decisions on the Company's management and provide supervision based on his achievements. Thus, the Company proposes him to serve as Member of the Board.</p>		

No.	Name (Date of birth)	Profile (Positions, responsibility in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
7	Kozo Arao (Jan. 20, 1946) Outside Member of the Board Independent Officer Reelection Attendance at the Board meetings during the current fiscal year: 14/14 meetings	July 1971 Registered as attorney-at-law Joined Nakasuji Law Office (at present, Nakanoshima Chuo Law Office) (current)	-
		Apr. 1996 Deputy Chairman of the Osaka Bar Association	
		Apr. 1997 Member of the Committee for Conciliation of Civil Affairs of the Osaka District Court and the Osaka Summary Court	
		June 2010 Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. (current)	
		Feb. 2011 Outside Corporate Auditor of The Japan Wool Textile Co., Ltd.	
		June 2011 Outside Corporate Auditor at the Company	
		Feb. 2015 Outside Member of the Board of The Japan Wool Textile Co., Ltd. (current)	
Dec. 2015 Outside Corporate Auditor of HOSOKAWA MICRON CORPORATION (current)			
		June 2016 Outside Member of the Board at the Company (current)	
<p><Reasons for nominating as a candidate for Outside Member of the Board> The Company requests the reelection of Mr. Kozo Arao for him to serve as Outside Member of the Board based on the belief that he will offer valuable opinions and proposals that would benefit the Company's management and provide supervision from an independent position based on his highly professional expertise and a wealth of experience as attorney-at-law and achievements as Outside Officers of other companies, in addition to his past achievements as an Outside Corporate Auditor and Outside Member of the Board of the Company. At the close of this Ordinary General Meeting of Shareholders, Mr. Arao will have been an Outside Member of the Board for two years.</p>			
8	Shinji Hasebe (Aug. 27, 1953) Outside Member of the Board Independent Officer New election	Apr. 1993 Associate Professor of Faculty of Engineering, Kyoto University	-
		Aug. 2003 Professor of Graduate School of Engineering, Kyoto University (current)	
<p><Reasons for nominating as a candidate for Outside Member of the Board> The Company requests the election of Mr. Shinji Hasebe for him to serve as Outside Member of the Board based on the belief that he will offer valuable opinions and proposals that would benefit the Company's management and provide supervision from an independent position in light of his expertise in chemical engineering and familiarity with the chemical industry.</p>			

No.	Name (Date of birth)	Profile (Positions, responsibility in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
9	Tetsuo Setoguchi (Feb. 17, 1957) Outside Member of the Board Independent Officer New election	Apr. 1981 Joined Osaka Gas Co., Ltd. Apr. 2015 Representative Member of the Board, Vice President of Osaka Gas Co., Ltd. Apr. 2018 Member of the Board of Osaka Gas Co., Ltd. Member of the Board, Chairman of Gas and Power Co., Ltd. (current)	-
	<Reasons for nominating as a candidate for Outside Member of the Board> The Company requests the election of Mr. Tetsuo Setoguchi for him to serve as Outside Member of the Board based on the belief that he will offer valuable opinions and proposals that would benefit the Company's management and provide supervision from an independent position based on his experience in corporate management in the manufacturing industry and at a company with high public utility properties.		

(Note 1) There are no special interests between each candidate and the Company.

(Note 2) Mr. Kozo Arao, Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi are candidates for Outside Members of the Board.

(Note 3) The Company has concluded a liability limitation contract with Mr. Kozo Arao with regard to Article 423, Paragraph 1 of the Companies Act of Japan. This contract will limit the liability to the total amount of each Item in Article 425, Paragraph 1 of the same Act. In the event Mr. Arao is reelected as Outside Member of the Board, the Company plans to extend the contract with him. In the event Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi are elected, the Company plans to conclude the same liability limitation contracts with them.

(Note 4) Mr. Kozo Arao, Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi meet the criteria of independence set out by Tokyo Stock Exchange, Inc. and the Criteria of Independence set out by the Company (stated on page 9). The Company has reported to the Tokyo Stock Exchange that Mr. Arao has been appointed as an independent officer, and in the event Mr. Arao is reelected, the Company plans to report to the exchange that he will continue to be an independent officer. In the event Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi are elected, the Company plans to appoint them as independent officers and report to the Exchange to that effect.

(Note 5) The Company has contributed funds for research activities to Kyoto University, at which Mr. Shinji Hasebe serves as a Professor. Compared to the University's ordinary profit, however, the average contribution amount in the recent three fiscal years is nominal (less than 2%), and the Company has determined that it will have no impact on the independence of Mr. Hasebe.

(Note 6) The Company purchases gas from Osaka Gas Co., Ltd., at which Mr. Tetsuo Setoguchi serves as a Member of the Board. These and other sales transactions are for the procurement of goods essential to plant operations and the average trading amount in the recent three fiscal years is nominal (less than 2%) of the consolidated net sales of Osaka Gas, and, as there are no transactions between the Company and Gas and Power Co., Ltd., at which he serves as Member of the Board, Chairman. The Company has therefore determined that there will be no impact on the independence of Mr. Setoguchi.

(Note 7) Mr. Tetsuo Setoguchi will retire as Member of the Board of Osaka Gas Co., Ltd. on June 28, 2018.

Agenda Item No. 3: Election of One (1) Corporate Auditor

As the Corporate Auditor Mr. Katsuyuki Ota will resign at this Ordinary General Meeting of Shareholders, we are submitting the following one (1) candidate for election as a substitute Corporate Auditor.

The prior consent of the Board of Corporate Auditors has been obtained for the submission of this proposal.

The candidate for Corporate Auditor is as follows:

Name (Date of birth)	Profile (Positions in the Company and/or important positions concurrently held at other companies)	Number of Shares of the Company Owned
Satoshi Taguchi (Aug. 11, 1957) Outside Corporate Auditor New election	Apr. 1981 Joined Nippon Oil Co., Ltd.	-
	July 2013 Executive Officer (General Manager, General Administration Department) of JX Nippon Oil & Energy Corporation	
	May 2015 Executive Officer (General Manager, Legal Department) of JX Holdings, Inc. (at present, JXTG Holdings, Inc.)	
	Apr. 2016 Member of the Board and Managing Executive Officer of JX Nippon Oil & Energy Corporation (at present, JXTG Nippon Oil & Energy Corporation)	
	June 2017 Member of the Board and Managing Executive Officer of JXTG Holdings, Inc. (current)	
<p data-bbox="406 1003 1117 1064"><Reasons for nominating as a candidate for Outside Corporate Auditor></p> <p data-bbox="406 1064 1197 1256">The Company requests the election of Mr. Satoshi Taguchi for him to serve as Outside Corporate Auditor based on the belief that he will contribute valuable opinions to the Board meeting and audit the legality of management execution, etc., from a neutral position, based on his wealth of experience and achievements as an executive of other companies, mainly for administrative and legal divisions.</p>		

(Note 1) There are no special interests between Mr. Satoshi Taguchi and the Company.

(Note 2) Mr. Satoshi Taguchi is a candidate for Outside Corporate Auditor.

(Note 3) Mr. Satoshi Taguchi was a business executive of JX Nippon Oil & Energy Corporation (at present, JXTG Nippon Oil & Energy Corporation), an entity that has a specified associated provider for the Company, in the past five years.

(Note 4) Mr. Satoshi Taguchi received compensation as a business executive from JX Nippon Oil & Energy Corporation (at present, JXTG Nippon Oil & Energy Corporation), an entity that has a specified associated provider for the Company, in the past two years.

(Note 5) In the event Mr. Satoshi Taguchi is elected as an Outside Corporate Auditor, the Company plans to conclude a liability limitation contract with regard to Article 423, Paragraph 1 of the Companies Act of Japan. This contract will limit the liability to the total amount of each Item in Article 425, Paragraph 1 of the same Act.

(Note 6) If Mr. Satoshi Taguchi is elected, his term of office shall be until the conclusion of the Ordinary General Meeting of Shareholders to be held in June 2019, which is the remaining term of office of the predecessor, based on Article 21, Paragraph 2 of the Articles of Incorporation.

(Reference)
Criteria of Independence

The Company has established criteria of independence for Outside Members of the Board and Outside Corporate Auditors (hereinafter referred to as "Outside Officers" along with candidates for these positions), and Outside Officers are judged to be sufficiently independent so long as they do not fall under any of the following categories.

1. An individual from the Company or a consolidated subsidiary (hereinafter "the Company Group") (Note 1)
2. A major shareholder of the Company (Note 2) or a business executive thereof
3. A business executive of any of the following corporations or other entities
 - (1) A major business partner of the Company Group (Note 3)
 - (2) A major lender of the Company Group (Note 4)
 - (3) A corporation or other entity whose stock the Company Group possesses 10% or more of based on voting rights
4. A certified public accountant belonging to the Company Group's Accounting Auditor or Auditing Firm
5. A consultant, accountant, tax counselor, attorney, judicial scrivener, patent attorney, or other professional who has received a large amount (Note 5) of monetary or other assets from the Company Group
6. An individual who has received a large amount of donations from the Company Group (Note 6)
7. A business executive of another company whose position would constitute them as having an interlocking relationship (Note 7)
8. An individual whose spouse or relative within two degrees of kinship is an individual who falls under any of criteria 1 through 7 (however, this is limited to significant persons (Note 8))
9. An individual who has fallen under any of criteria 2 through 8 in the past five years
10. Any other individual who can be reasonably judged to have concerns of constant and substantial conflict of interest with the Company

(Note 1) Defined as a current executive Member of the Board, executive, executive officer, or other corresponding individual or employee (hereinafter "business executives" in these criteria) or a business executive who has belonged to the Company Group at least once in the past.

(Note 2) "Major shareholder" is defined as a shareholder with 10% or more of voting shares in their own name or a third party's name in average of the three most recent fiscal years.

(Note 3) "Major business partner" is defined as an entity which purchases the Company Group's products and which transactions with the Company Group exceeds 2% of the Company Group's consolidated net sales in average of the three most recent fiscal years, or a supplier of products to the Company Group whose transactions with the Company Group exceeds 2% of their consolidated net sales in average of the three most recent fiscal years.

(Note 4) "Principal lender" is defined as a financial or other institution that the Company Group receives loans from and whose average loan balance over the three most recent fiscal years exceeds 2% of the Company's consolidated total assets or 2% of that financial or other institution's consolidated total assets.

(Note 5) (i) In the event that the professional is providing services to the Company Group as an individual, an individual whose compensation received from the Company Group (excluding executive compensation) exceeds 10 million yen a year in average of the three most recent fiscal years.
(ii) In the event that the professional is providing services to the Company Group as a member of a legal entity, association, or other organization, an organization whose average compensation received from the Company Group in average of the three most recent fiscal years exceeds 2% of its yearly total income.

(Note 6) Defined as an entity who has received more than 10 million yen in yearly donations from the Company Group in average of the three most recent fiscal years. In the case that the recipient of these donations is a legal entity, association, or other organization, an organization whose average amount received from the Company Group in average of the three most recent fiscal years exceeds 2% of its yearly total income.

(Note 7) Defined as a relationship where a business executive of the Company Group is an Outside Officer of another company and where a business executive of said other company is an Outside Officer of the Company.

(Note 8) "Significant persons" is defined as a Member of the Board, executive, executive officer, and business executive of the rank of General Manager or above.

Agenda Item No. 4: Bonuses for Members of the Board for the 106th Term

In recognition of the efforts made by Members of the Board, the Company proposes that a total of 150 million yen be paid as bonuses to six (6) of nine (9) Members of the Board (excluding Outside Members of the Board) as of the end of the current fiscal year in light of earnings and various other factors. The Company requests that determination of the amount to be paid to each of the Members of the Board be left to the discretion of the Board.

(Attachment)

Business Report

(April 1, 2017 through March 31, 2018)

I. Current Status of the Group

1. Progress and Results of Operations

(1) Outline of Business

The world economy in the current fiscal year saw the United States economy continuing to recover, the situation in Europe also recovering moderately, and a pickup continuing in China and other emerging countries in Asia.

As for the Japanese economy, the country saw a moderate recovery trend due primarily to an increase in capital investment and steady employment conditions.

In the chemicals industry, although costs of raw materials are tracking upwards, the business environment was generally firm, supported by an increase in demand.

Under these conditions, the Group's consolidated net sales in the current fiscal year increased 9.8% year-on-year to 322,801 million yen, up 28,831 million yen. Contributing factors included a revision in sales prices on account of rising raw material costs and market conditions for products outside of Japan, as well as increased sales volume.

With regard to profits, in spite of a contraction in the spread owing to a hike in raw material costs in excess of the increase in sales prices, increased production and sales volume resulting in volume effects led to higher operating profit, which was up 26.4% year-on-year to 26,727 million yen, up 5,576 million yen.

Non-operating income increased 2,053 million yen due to an increase in share of profit of entities accounted for using equity method. As a result, ordinary profit was up 30.9% to 32,293 million yen, 7,629 million yen higher than the previous fiscal year.

Extraordinary income rose 112 million yen year-on-year due to the absence of loss on closing of laboratory, while gain on sales of investment securities decreased and impairment loss and loss on removal of non-current assets were posted. As a result, profit attributable to owners of parent rose 25.4% to 24,280 million yen, up 4,919 million yen.

Consolidated net sales	322.8 billion yen (up 9.8% year-on-year)
Consolidated operating profit	26.7 billion yen (up 26.4% year-on-year)
Consolidated ordinary profit	32.3 billion yen (up 30.9% year-on-year)
Profit attributable to owners of parent	24.3 billion yen (up 25.4% year-on-year)

Sales by business segment are as follows.

[Basic Chemicals]

Sales of acrylic acids and acrylates increased due to a revision in sales prices accompanying rising raw materials costs and market conditions for products outside of Japan, as well as increased sales volume.

Sales of ethylene oxide and ethanolamine increased due to a revision in sales prices accompanying higher raw materials costs and increased sales volume.

Sales of ethylene glycol increased due to a revision in sales prices accompanying rising market conditions for products outside of Japan, despite declined sales volume.

Sales of secondary alcohol ethoxylates increased due to increased sales volume and a revision in sales prices accompanying higher raw materials costs.

As a result of the above, net sales in the basic chemicals segment increased 11.6% year-on-year to 120,025 million yen.

Operating profit rose 57.3% year-on-year, to 12,912 million yen. This was due to factors such as an increase in production and sales volume, widening of the spread, and lower processing costs.

[Functional Chemicals]

Sales of superabsorbent polymers increased due to a revision in sales prices accompanying higher raw materials costs and increased sales volume.

Sales of ethyleneimine derivatives, resins for paints, adhesive products and electronic information material increased due to higher sales volume.

Sales of special acrylates increased due to a revision in sales prices accompanying rising raw materials costs and market conditions for products outside of Japan, as well as increased sales volume.

Sales of maleic anhydride increased due to a revision in sales prices accompanying higher raw materials costs and increased sales volume.

Sales of polymers for concrete admixture fell due to a drop in sales prices, despite higher sales volume.

Sales of water-soluble polymers for raw materials of detergents, resin modifiers and iodine compounds fell due to a decline in sales volume.

As a result, net sales in the functional chemicals segment rose 8.8% year-on-year to 173,965 million yen.

Operating profit increased 15.0% year-on-year to 13,935 million yen. This was due to factors such as increased production and sales volume, despite a contraction in the spread and an increase in processing costs.

[Environment & Catalysts]

Sales of automotive catalysts increased due to the appreciation of sales prices of precious metals and increased sales volume.

Sales of process catalysts increased due to higher sales volume.

Sales of fuel cell materials, materials for lithium-ion batteries, dioxins decomposition catalysts and wet oxidation catalysts fell due to lower sales volume.

Sales of De-NOx catalysts and waste gas treatment catalysts rose due to higher sales volume.

As a result of the above, net sales in the environment & catalysts segment rose 9.0% year-on-year to 28,811 million yen.

Operating profit in the segment fell 64.2% year-on-year to 268 million yen, on account of an increase in processing costs and selling, general, and administrative expenses.

(Sales by Business Segment)

(Unit: Millions of yen)

	Fiscal Year ended March 31, 2017 (Apr. 1, 2016 – Mar. 31, 2017)	Fiscal Year ended March 31, 2018 (Apr. 1, 2017 – Mar. 31, 2018)	Change
Basic Chemicals	107,580	120,025	12,445
Functional Chemicals	159,961	173,965	14,004
Environment & Catalysts	26,429	28,811	2,382

(Operating Profit by Business Segment)

(Unit: Millions of yen)

	Fiscal Year ended March 31, 2017 (Apr. 1, 2016 – Mar. 31, 2017)	Fiscal Year ended March 31, 2018 (Apr. 1, 2017 – Mar. 31, 2018)	Change
Basic Chemicals	8,207	12,912	4,705
Functional Chemicals	12,119	13,935	1,815
Environment & Catalysts	748	268	-480

(2) Capital Expenditures

The total amount of the Company's capital expenditures for FY 2017 was 25,827 million yen (on a construction basis), which was mainly the construction of production plant (Nippon Shokubai Europe N.V.) of superabsorbent polymers and acrylic acids.

(3) Fund Procurement

During FY 2017, the Company's requirements for funds included capital investment and repayment of borrowings, which were met by using internal resources and taking out loans from financial institutions.

Interest-bearing debt as of March 31, 2018 was 58,064 million yen, 24 million yen more than the previous fiscal year primarily due to payment for capital investment and other increased demand for funds, despite the progress in repayment of borrowings from financial institutions.

(4) Issues to Be Addressed

Under its mission, management commitment and its corporate credo, the Group is working on its long-term business Plan "Reborn Nippon Shokubai 2020" that started in April 2014 and the 2nd medium-term business plan "Reborn Nippon Shokubai 2020 NEXT," which is a specific action plan from FY 2017 onwards.

<p>Nippon Shokubai Group Mission TechnoAmenity Providing affluence and comfort to people and society, with our unique technology</p>	<p>Corporate Credo</p> <p>Safety takes priority over production.</p>
<p style="text-align: center;">Management Commitment</p> <ul style="list-style-type: none"> • We conduct all of our corporate activities based upon a deep respect for humanity. • We aim at coexisting with society, and working in harmony with the environment. • We pursue technologies that will create the future. • We act on the global stage. 	

[Outline of “Reborn Nippon Shokubai 2020,” the long-term business plan]

We defined the long-term Vision for 2025 and we have set Target for 2020 as a milestone for the Vision for 2025.

[The 2nd medium-term business plan “Reborn Nippon Shokubai 2020 NEXT”]

The 2nd medium-term business plan “Reborn Nippon Shokubai 2020 NEXT” is a specific action plan to achieve Vision for 2025 and Targets for 2020 that were set out in “Reborn Nippon Shokubai 2020,” the long-term business plan.

Toward realizing Targets for 2020, “Reborn Nippon Shokubai 2020 NEXT” holds “Focusing on profitability over sales” and “Safe, reliable production activities” as business policies to achieve the priority challenges of “Survival of superabsorbent polymer business” and “Launch of new businesses in high-growth potential markets for our future key driver.” To this end, all vectors will be concentrated on the basic posture of “Create products and services which market needs, and provide the products and the services when market needs” to accomplish the Group mission of “TechnoAmenity: providing affluence and comfort to people and society, with our unique technology.”

Additionally, during execution of the plan, through all employees acting with a sense of impending crisis and consciousness (“think and act on your own”) and achieving the goals set forth, the Company will work to realize “a company* that everybody can be proud of.” Furthermore, during FY 2020, the final year of the 2nd medium-term business plan, the Company aims to be in a position to prospect further strong Group growth for next ten years.

- * A company that promotes work safety and peace of mind
- A company that rewards people who make their best efforts and achieve results
- A company that people can be proud to work for

◆ Vision for 2025

An innovative chemical company that provides new value for people’s lives

We;

- Take on the challenge of creating new value by developing new products and business through our advanced technologies and our creativity
- Deliver the new values globally through our unique products and technologies
- Manufacture products that embody new value and feature the highest safety and productivity
- Create new value that contributes to the global environment
- Create new value by promoting dynamism and diversity in the workplace throughout all Group companies

Business Activities

- a) Reconfirmed: Existing businesses, such as EO (ethylene oxide and its derivatives), AA/SAP (acrylic acid and its derivatives including superabsorbent polymer) etc., will be strengthened more. Performance chemicals, new energy materials, health and medical materials and/or any other new businesses* will contribute more to corporate profit. As a result, these expected businesses will be expanded much more and be higher position in comparison to the existing businesses.

*New businesses: businesses in the market which we could not enter into yet, or businesses in the market which is not formed yet.

- b) Accelerate business development continuously throughout the global market
c) Employ our competencies in R&D, production technologies and marketing and maximize the synergy from such activities

◆ Targets for 2020

Targets for 2020 have been set as a milestone for the Vision for 2025.

Management Indexes and Numerical Targets

(Unit: Billion yen)

	Sales	Ordinary profit	ROA ¹	Sales for new products ² in existing businesses	Sales for new businesses
FY2020 target figures	400	40	7.5%	39	38

1 Return on assets (ROA), ratio of ordinary profit to total assets. As the Company mainly uses large-scale production equipment, it has heretofore placed importance on profitability and asset efficiency, and the Company thus uses ROA, which consists of the ratio of ordinary profit to sales as well as total asset turnover ratio, as a KPI (Key Performance Indicator) that it works to improve.

2 Total sales of products launched within the last five years, excluding superabsorbent polymer.

◆ Strategies by Business area

In order to meet targets for 2020, we have adopted the following basic strategies for each business area.

Basic Chemicals	Ethylene Oxide (EO) business	We strengthen our competitiveness by structural reform of our EO plant such as partnership with other company.
	Acrylic business	We aim to be a leading global player through active sales and marketing.
Functional Chemicals	Superabsorbents business	We supply products with a high quality and competitive price to strategic-partner customers.
	Performance Chemicals business	We expand sales of unique and functional products.
Environment & Catalysts	Catalyst & Green Energy Materials business	We expand sales of various battery materials manufactured at competitive large-scale facility.
New businesses	Health and Medical business	We consistently support drug development in certain categories.
	New businesses	We establish a new business (model) in high-growth potential markets and genres by the use of our strengths.

◆ Investing in management resources

To strengthen existing businesses and launch new businesses in high-growth potential markets to realize our future key driver, investments will be made in the following management resources.

	Capital investment	Strategic investment	R&D expenses	Employees as of the end of FY2020
FY 2017 to FY 2020 Plan (4 years cumulative total)	90 billion yen	60 billion yen	57 billion yen	4,600

◆ Policies to priority challenge

To meet Targets for 2020, while steadily executing basic strategies in each business, investment in management resources are prioritized with focus on “Strengthen competitiveness of superabsorbent polymer business” and “Accelerate creation of new businesses and products” as measures toward the priority challenge.

(1) Strengthen competitiveness of superabsorbent polymer business

For the superabsorbent polymer business to survive, fundamental improvement in profitability and strengthening of competitiveness will be required, and as specific measures, all employees companywide advance the “SAP* Survival project,” which seeks large-scale cost reductions and gains in

competitiveness through cost reductions across the entire supply chain and reduction of the amount of capital investment via new processes, and “strengthening development capability,” which focuses personnel assignment in research, technology, and manufacturing.

*SAP: Superabsorbent polymer

(2) Accelerate creation of new businesses and products

To accelerate creation of new businesses and products, further attention will be paid to market needs, and strategy is implemented to make shifts to new businesses in high-growth potential markets for our future key driver.

As specific measures, with the corporate philosophy and the Company’s reason for being at the core, the Company considered potential markets, familiarity, and social issues, chose three business sectors as our new business fields, namely, (1) ICT, (2) Life Sciences and (3) Energy and Environment and is working to acquire new technologies. Additionally, in addition to reorganizing the existing research system, efforts are being made to implement reforms to transition to an organizational structure that emphasizes business development, such as collaborative research with universities and alliances with other companies.

◆ Target to continuous growth

To strengthen the management foundation toward achieving continuous growth of the Group, the entire company is working toward the following issues.

(1) Develop an active corporate team and organization

As personnel strategy and in order to secure and develop personnel over the long term toward realizing Vision for 2025, the Company’s “personnel and organizational target” was defined. In addition, to secure human resources to support the Company’s growth, various measures are implemented with the objectives such as reducing workloads. Furthermore, efforts continue in making reforms to create an organizational atmosphere that promotes active discussion and challenges.

(2) Enhance the confidence of stakeholders

Toward “regeneration into a chemical company that is trusted by society,” while further strengthening internal structures such as safe and stable operation on the manufacturing plant floor and compliance, the Company exchanges views with various stakeholders to implement continuous CSR (corporate social responsibility) activities to increase corporate value.

(3) Strengthen Group management

By implementing selection and concentration in businesses and products and spreading knowledge of the Group mission, deeper ties are being made among the various group companies to make better use of the various management resources that each company has accumulated over time.

◆ Progress in FY2017

At NIPPON SHOKUBAI EUROPE N.V., our subsidiary in Belgium, construction of an additional production plant for superabsorbent polymers with an annual production capacity of 100,000 tons, and a new production plant for acrylic acid with an annual production capacity of 100,000 tons was completed. Both will commence commercial operation around summer 2018. The completion of these plants raises the worldwide annual production capacity of the Group to 710,000 tons for superabsorbent polymers and 880,000 tons for acrylic acids. In the performance chemicals business, we decided to construct an additional production plant for our proprietary functional monomer “VEEA,” and functional polymers “EPOCROS” and “EPOMIN.” Slated for completion from August 2018 to December 2019, the new facilities will increase their production capacity two to three times that of the current facilities.

In the health and medical materials business, we are constructing a facility for API synthesis at our Suita Research Center, with plans for completion in December 2018 and commencement of operation in April 2019. In conjunction with the laboratory for API synthesis established in September 2016, this will establish our contract synthesis system for APIs and INDs, targeting peptide drugs and nucleic acid drugs where market growth is expected.

Furthermore, as an effort to develop an active corporate team and organization, the “Workstyle innovation Committee” was established in July 2017. At this committee, initiatives such as workload reduction and active IT utilization are developed in order to concentrate human resources on high-value-added operations for future growth.

We would like to ask all our shareholders for your continued support for the future.

2. Financial Condition, Profit and Loss

Financial Condition, Profit and Loss of the Group

	103rd Term (April 2014 - March 2015)	104th Term (April 2015 - March 2016)	105th Term (April 2016 - March 2017)	106th Term (April 2017 - March 2018)
Net sales (¥ millions)	374,873	323,124	293,970	322,801
Operating profit (¥ millions)	26,133	31,234	21,151	26,727
Ordinary profit (¥ millions)	29,941	34,342	24,664	32,293
Profit attributable to owners of parent (¥ millions)	19,089	26,003	19,361	24,280
Basic earnings per share (¥)	470.28	640.69	478.36	608.84
Total assets (¥ millions)	419,634	407,997	433,610	470,102
Net assets (¥ millions)	270,128	282,485	292,275	310,762
Net assets per share (¥)	6,535.66	6,870.84	7,238.33	7,705.05
ROA (Return on Assets) (%)	7.3	8.3	5.9	7.1
ROE (Return on Equity) (%)	7.6	9.6	6.8	8.1

Note: The Company conducted a reverse stock split at a ratio of one common share for every five common shares on October 1, 2015. The figures for basic earnings per share and net assets per share are amounts on the assumption that the Company conducted the reverse stock split at the beginning of the 103rd Term.

- (1) For the fiscal year ended March 31, 2015 (103rd Term), operations at all Himeji plants were resumed, greatly increasing sales volume and increasing net sales. With regard to profits, an increase in sales volume by the resumption of production as well as widened spreads by a drop in raw materials costs led to increased operating and ordinary profit. Profit also rose as the result of a decrease in loss on liquidation of business and a gain on sales of investment securities was recorded.
- (2) For the fiscal year ended March 31, 2016 (104th Term), net sales dropped due to drop in sales prices on account of declines in raw material prices and overseas market conditions, decreasing sales volume in certain products and the exclusion of a subsidiary from the scope of consolidation. With regard to profits, both operating profit and ordinary profit increased as a result of decreased processing costs including fixed costs, and selling, general, and administrative expenses, as well as increased production and sales volume. Profit attributable to owners of parent rose thanks to a recording of gain on sales of shares of subsidiaries and associates, and the absence of impairment loss that was recorded in the previous fiscal year.
- (3) For the fiscal year ended March 31, 2017 (105th Term), net sales dropped due to drop in sales prices on account of declines in raw material prices and overseas market conditions and the effect of a stronger yen. With regard to profits, both operating profit and ordinary profit decreased as a result of narrowed spreads owing to a decline in market conditions for products in excess of the decrease in raw material costs, in spite of decreased processing costs and increased production and sales volume resulting in volume effects. Profit attributable to owners of parent decreased due to the recording of the loss on closing of laboratory and the absence of gain on sales of shares of subsidiaries and associates.
- (4) For information concerning the fiscal year ended March 31, 2018 (106th Term), please refer to “1. Progress and Results of Operation” above.

(Reference) Financial Condition, Profit and Loss of the Company

	103rd Term (April 2014 - March 2015)	104th Term (April 2015 - March 2016)	105th Term (April 2016 - March 2017)	106th Term (April 2017 - March 2018)
Net sales (¥ millions)	236,227	211,368	196,195	226,887
Operating profit (¥ millions)	15,124	19,628	15,661	21,540
Ordinary profit (¥ millions)	22,164	28,094	24,341	28,612
Profit (¥ millions)	14,248	21,343	19,467	21,330
Basic earnings per share (¥)	351.02	525.88	480.97	534.86
Total assets (¥ millions)	301,487	301,914	329,121	355,998
Net assets (¥ millions)	210,874	223,920	236,166	253,933
Net assets per share (¥)	5,195.38	5,517.67	5,921.77	6,367.56
ROA (Return on Assets) (%)	7.5	9.3	7.7	8.4
ROE (Return on Equity) (%)	7.0	9.8	8.5	8.7

Note: The Company conducted a reverse stock split at a ratio of one common share for every five common shares on October 1, 2015. The figures for basic earnings per share and net assets per share are amounts on the assumption that the Company conducted the reverse stock split at the beginning of the 103rd Term.

3. Significant Subsidiaries

Name	Capital (¥ millions, unless otherwise quoted)	Nippon Shokubai's Shareholding Percentage (%)	Major Businesses
NIPPON NYUKAZAI CO., LTD.	1,000	100.00	Manufacture and sale of surfactants and chemical products
Nippon Chemicals Co., Ltd.,	517	84.44	Manufacture and sale of iodine, iodine compounds, raw materials for pharmaceuticals and agricultural chemicals, and natural gas
Nisshoku Butsuryu Co., Ltd.	100	100.00	Logistics
Nippon Shokubai America Industries, Inc.	* (US\$ thousands) 100,000	100.00	Manufacture and sale of superabsorbent polymers, polymers for concrete admixtures, and acrylic acid detergent builders
PT. NIPPON SHOKUBAI INDONESIA	(US\$ thousands) 120,000	99.99	Manufacture and sale of acrylic acids, acrylates and superabsorbent polymers
NIPPON SHOKUBAI EUROPE N.V.	(€ thousands) 193,000	100.00	Manufacture and sale of superabsorbent polymers
Singapore Acrylic PTE LTD	(US\$ thousands) 27,007	51.00	Manufacture and sale of crude acrylic acids
NIPPON SHOKUBAI (ASIA) PTE. LTD.	* (US\$ thousands) 4,175	100.00	Manufacture and sale of glacial acrylic acids, and sale of other chemicals
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd.	(US\$ thousands) 52,820	100.00	Manufacture and sale of superabsorbent polymers and polymers for concrete admixtures

(Note 1) Asterisk mark (*) in the above list means "paid-in capital".

(Note 2) Figures listed with respect to the Company's shareholding percentage in the above list are truncated.

4. Description of Principal Businesses

The Group mainly manufactures and sells the following products:

Business	Principal Products
Basic Chemicals	Acrylic acid, acrylates, ethylene oxide, ethylene glycol, ethanolamine, secondary alcohol ethoxylates, glycol ether
Functional Chemicals	Superabsorbent polymers, intermediates for pharmaceuticals, polymers for concrete admixtures, electronic and information materials, iodine, maleic anhydride, resins for adhesives/paints, processed adhesive products
Environment & Catalysts	Automotive catalysts, De-NOx catalysts, dioxin decomposition catalysts, process catalysts, equipment for waste gas treatment, and fuel cell materials

5. Principal Offices and Plants

(1) The Company

Office		Location
Head Offices	Osaka Office	Osaka, Osaka Prefecture
	Tokyo Office	Chiyoda-ku, Tokyo
Plants	Kawasaki Plant	Kawasaki, Kanagawa Prefecture
	Himeji Plant	Himeji, Hyogo Prefecture
Laboratories	Suita Research Center	Suita, Osaka Prefecture
	Himeji Research Center	Himeji, Hyogo Prefecture

(2) Subsidiaries

Company name	Location
NIPPON NYUKAZAI CO., LTD.	Head Office: Chuo-ku, Tokyo Plant: Kawasaki, Kanagawa Prefecture and Kamisu, Ibaraki Prefecture
Nippoh Chemicals Co., Ltd.	Head Office: Chuo-ku, Tokyo Plant: Isumi, Chiba Prefecture
Nisshoku Butsuryu Co., Ltd.	Head Office: Osaka, Osaka Prefecture
Nippon Shokubai America Industries, Inc.	Head Office & Plant: U.S.A.
PT. NIPPON SHOKUBAI INDONESIA	Head Office & Plant: Indonesia
NIPPON SHOKUBAI EUROPE N.V.	Head Office & Plant: Belgium
Singapore Acrylic PTE LTD	Head Office & Plant: Singapore
NIPPON SHOKUBAI (ASIA) PTE. LTD.	Head Office & Plant: Singapore
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd.	Head Office & Plant: China

6. Employees of the Company and Group Companies

Number of Employees	Increase / Decrease Compared to the End of the Previous Fiscal Year
4,219	Increase of 58 persons

(Note) “Number of Employees” includes those who were reemployed.

(Reference) Employees of the Company

Number of Employees	Increase / Decrease Compared to the End of the Previous Fiscal Year	Average Age	Average Length of Service
2,253	Increase of 46 persons	37.8 years old	16.0 years

(Note 1) “Number of Employees” includes employees seconded from affiliates of the Company, but excludes employees seconded to affiliates of the Company and temporary employees.

(Note 2) “Number of Employees” includes those who were reemployed.

(Note 3) Average age and average length of service do not include reemployed employees.

7. Principal Lenders

(Millions of yen)

Name of Lender	Amount Outstanding
Resona Bank, Limited	11,006
Mizuho Bank, Ltd.	9,819
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,044
Japan Bank for International Cooperation	6,640
The Norinchukin Bank	4,562

(Note 1) Figures in “Amount Outstanding” above include figures from overseas local subsidiaries of each lender.

(Note 2) The Bank of Tokyo-Mitsubishi UFJ, Ltd. has changed its trading name to MUFG Bank, Ltd. as of April 1, 2018.

II. Matters Concerning the Company

1. Matters Concerning the Company's Shares as of March 31, 2018

- (1) Total Number of Authorized Shares: 127,200,000 (common stock)
(2) Total Number of Issued and Outstanding Shares: 40,800,000 (common stock)
(3) Number of Shareholders: 10,254
(4) Major Shareholders (Top 10 shareholders)

Name	Number of Shares Owned (thousand shares)	Ratio of Capital Contribution (%)
Sumitomo Chemical Company, Limited	2,727	6.84
JXTG Holdings, Inc.	2,129	5.33
Japan Trustee Services Bank, Ltd. (Trust Account)	2,028	5.08
JP MORGAN CHASE BANK 385632	1,534	3.84
National Mutual Insurance Federation of Agricultural Cooperatives	1,383	3.46
Resona Bank, Limited.	1,373	3.44
Sanyo Chemical Industries, Ltd.	1,267	3.17
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,243	3.11
Mizuho Bank, Ltd.	948	2.37
Toyo Ink SC Holdings Co., Ltd.	904	2.26

- (Note 1) Treasury shares of 920 thousand shares held by the Company as of the end of the fiscal year is excluded from the above table.
- (Note 2) Treasury share is excluded from the calculation for "Shareholding Ratio of the Total Shares Outstanding" above.
- (Note 3) Figures in "Number of Shares Owned" and "Shareholding Ratio of the Total Shares Outstanding" are truncated.

2. Executives of the Company

(1) Members of the Board and Corporate Auditors of the Company

Position	Name	Responsibility in the Company and/or Important Positions Concurrently held at Other Companies
Representative Member of the Board, Chairman	Masanori Ikeda	
Representative Member of the Board, President	Yujiro Goto	
Representative Member of the Board, Senior Managing Executive Officer	Haruhisa Yamamoto	Sales, Marketing, Purchasing, Logistics Ethylene Oxide Business Division and Purchasing & Logistics Division
Member of the Board, Senior Managing Executive Officer	Masao Yamamoto	Administration, Personnel, Finance, Accounting, Information Technology General Affairs & HR Division, Finance & Accounting Division, IT Management Office
Member of the Board, Managing Executive Officer	Yojiro Takahashi	Innovation & Business Development Health & Medical Business Development Office Malonates Business Development Office and Cosmetics Business Planning Office
Member of the Board, Executive Officer	Yukihiro Matsumoto	Director of Corporate Planning Division, Production Division, Engineering Division and Belgium Project
Member of the Board	Koichi Miura	Emeritus Professor of Kyoto University Specially Appointed Professor of Institute of Advanced Energy, Kyoto University
Member of the Board	Takashi Sakai	Advisor to Osaka Gas Co., Ltd. Member of the Board, Chairman of Gas and Power Co., Ltd.
Member of the Board	Kozo Arao	Attorney-at-law Outside Corporate Auditor of Nankai Electric Railway Co., Ltd. Outside Member of the Board of The Japan Wool Textile Co., Ltd. Outside Corporate Auditor of HOSOKAWA MICRON CORPORATION
Corporate Auditor	Taizo Maruo	(Full-time)
Corporate Auditor	Yoshihiro Arita	(Full-time)
Corporate Auditor	Yoichiro Komatsu	Attorney-at-law Patent attorney Director of Kansai University
Corporate Auditor	Katsuyuki Ota	Member of the Board and Managing Executive Officer of JXTG Holdings, Inc.

(Note 1) Mr. Kunimitsu Oba resigned from Corporate Auditor at the conclusion of the 105th Ordinary General Meeting of Shareholders held on June 21, 2017.

(Note 2) Mr. Koichi Miura, Mr. Takashi Sakai and Mr. Kozo Arao are Outside Members of the Board.

(Note 3) Mr. Yoichiro Komatsu and Mr. Katsuyuki Ota are Outside Corporate Auditors.

(Note 4) Mr. Katsuyuki Ota has a long working experience in the finance and accounting division of JX Holdings, Inc. and JXTG Holdings, Inc., and has sufficient knowledge of finance and accounting.

(Note 5) Mr. Koichi Miura, Mr. Takashi Sakai and Mr. Kozo Arao, Outside Members of the Board, and Mr. Yoichiro Komatsu, an Outside Corporate Auditor, are registered at Tokyo Stock Exchange Markets as independent officers.

(Reference)

Executive officers, except individuals who are also Members of the Board, are as follows.

(As of April 1, 2018)

Position	Name	Responsibility in the Company
Managing Executive Officer	Koichiro Yamada	Director of Acrylic Business Division In charge of Superabsorbents Business Division
Managing Executive Officer	Kin-ya Nagasuna	Director of Innovation & Business Development Division
Managing Executive Officer	Masaya Yoshida	Director of Catalysts & Green Energy Materials Business Division
Executive Officer	Nobuyuki Harada	Associate Director of Nippon Shokubai Research Alliance Laboratories
Executive Officer	Kazukiyo Arakawa	Plant Manager of Himeji Plant
Executive Officer	Teruo Kamei	Plant Manager of Kawasaki Plant
Executive Officer	Ren Hasebe	Director of Performance Chemicals Business Division
Executive Officer	Gun Saito	Director of Responsible Care Division

(2) Remuneration to Members of the Board and Corporate Auditors

1) Aggregate Amount of Remuneration to Members of the Board and Corporate Auditors

Title	Number of Persons (persons)	Aggregate Amount of Remuneration (¥ millions)
Members of the Board	9	427
(Outside Members of the Board)	(3)	(36)
Corporate Auditors	5	58
(Outside Corporate Auditors)	(3)	(10)

(Note 1) “Number of Persons” above includes one Corporate Auditor who stepped down during the fiscal year 2017.

(Note 2) The “Aggregate Amount of Remuneration” includes 150 million yen in bonuses for officers, which is scheduled for resolution at the 106th Ordinary General Meeting of Shareholders.

2) Policy for Determination of Remuneration for Members of the Board and Corporate Auditors

The remuneration, etc. for Members of the Board of the Company consists of “Basic remuneration” and “Bonuses.” “Basic remuneration” consists of fixed remuneration portion and performance-linked remuneration portion. “Bonuses” are resolved and determined at the General Meeting of Shareholders each time the payment is made by taking into account the business results for the fiscal year and other circumstances. Outside Members of the Board and Corporate Auditors receive only “basic remuneration” (in principal, fixed remuneration) because remuneration linked to earnings is not appropriate for these individuals who oversee business operations from an independent standpoint.

Furthermore, the Company has established a voluntary Nomination and Remuneration Committee mainly composed of Independent Outside Members of the Board, from which the Company is to obtain advice on remuneration and bonuses for Members of the Board, thereby securing transparency and fairness.

The Company abolished the program of retirement benefits for Members of the Board at the 93rd Ordinary General Meeting of Shareholders on June 22, 2005. To the Members of the Board who were

incumbent at the closing of the 93rd Ordinary General Meeting of Shareholders and have remained on the board thereafter, retirement benefits are therefore paid upon their retirement.

(3) Matters Concerning the Company's Outside Members of the Board and Corporate Auditors

1) Important positions held concurrently such as executive Members of the Board (*gyoumu shikko torishimariyaku*) of other companies

Name	Important Positions Concurrently Held at Other Companies
Koichi Miura (Outside Member of the Board)	Emeritus Professor of Kyoto University, Specially Appointed Professor of Institute of Advanced Energy, Kyoto University
Takashi Sakai (Outside Member of the Board)	Advisor to Osaka Gas Co., Ltd., Member of the Board, Chairman of Gas and Power Co., Ltd.
Kozo Arao (Outside Member of the Board)	Attorney-at-law, Outside Corporate Auditor of Nankai Electric Railway Co., Ltd., Outside Member of the Board of The Japan Wool Textile Co., Ltd., Outside Corporate Auditor of HOSOKAWA MICRON CORPORATION
Yoichiro Komatsu (Outside Corporate Auditor)	Attorney-at-law, patent attorney, Director of Kansai University
Katsuyuki Ota (Outside Corporate Auditor)	Member of the Board and Managing Executive Officer of JXTG Holdings, Inc.

(Note) There are no special interests between the Company and either of the entities referred to above.

2) Principal activities during the fiscal year 2017

Name	Principal Activities
Koichi Miura (Outside Member of the Board)	Mr. Koichi Miura attended all of the 14 Board meetings that were held during the fiscal year 2017. From his viewpoint as a specialist in chemical engineering who is familiar with the chemical industry, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.
Takashi Sakai (Outside Member of the Board)	Mr. Takashi Sakai attended all of the 14 Board meetings that were held during the fiscal year 2017. Due to his experience as an executive of a company that is a manufacturer and has a strong commitment to public interest, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.
Kozo Arao (Outside Member of the Board)	Mr. Kozo Arao attended all of the 14 Board meetings that were held during the fiscal year 2017. Based on his highly professional expertise and a wealth of experience as attorney-at-law and achievements as outside officers of other companies, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.
Yoichiro Komatsu (Outside Corporate Auditor)	Mr. Yoichiro Komatsu attended 12 of the 14 Board meetings that were held during the fiscal year 2017. At these meetings, he provides his views from the perspective of an attorney as required. Mr. Komatsu also attended all of the 13 Corporate Auditors meetings that were held during the fiscal year 2017, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.
Katsuyuki Ota (Outside Corporate Auditor)	Mr. Katsuyuki Ota attended 10 of the 11 Board meetings that were held during the fiscal year 2017 following his election as a Corporate Auditor. At these meetings, he provides his views from the perspective of a corporate executive as required. Mr. Ota also attended all of the 10 Corporate Auditors meetings that were held during the fiscal year 2017 following his election as a Corporate Auditor, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

3) Summary of Contract for Limitation of Liability

The Company has signed liability limitation contracts with Outside Members of the Board and Outside Corporate Auditors concerning liability as prescribed in Article 423, Paragraph 1 of the Companies Act of Japan. The contracts limit liability to the total of the monetary amounts in all items of Article 425, Paragraph 1 of this act as long as Outside Members of the Board and Outside Corporate Auditors perform their duties in good conscience and without any gross negligence.

3. Matters Concerning Accounting Auditor

(1) Name of Accounting Auditor

Ernst & Young ShinNihon LLC

(2) Remuneration Paid to Accounting Auditor

Classification	Amount Paid
(1) Total amount payable by the Company to the Accounting Auditor	¥49 million
(2) Total amount of cash and other financial benefits payable by the Company and its subsidiaries to the Accounting Auditor	¥72 million

(Note 1) Because no distinction is made between remuneration for audit services rendered pursuant to the Companies Act and remuneration for audit services rendered pursuant to the Financial Instruments and Exchange Act of Japan under the agreement between the Company and the Accounting Auditor, the amount of remuneration paid to the Accounting Auditor listed above in “(1) Total amount payable by the Company to the Accounting Auditor” is the sum of these two.

(Note 2) Among the significant subsidiaries of the Company, Nippon Shokubai America Industries, Inc., PT. NIPPON SHOKUBAI INDONESIA, NIPPON SHOKUBAI EUROPE N.V., Singapore Acrylic PTE LTD, NIPPON SHOKUBAI (ASIA) PTE. LTD. and NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd. have been audited by auditing firms other than the Accounting Auditor of the Company.

(Note 3) After receiving an explanation of this fiscal year's audit plan from the Accounting Auditor, the Board of Corporate Auditors considered risks that would require special consideration based on the Company's risk approach as well as methods to deal with other auditing items of importance and the auditing time and personnel scheduling they would require, audit plans and results from years past, audit quality, audit time, and changes in auditor remuneration. Upon this consideration, the remuneration for this fiscal year's Accounting Auditor was determined to be of an amount not in conflict with retaining audit quality and conducting more in-depth audits, and was thus approved.

(3) Content of Non-auditing Services

The Company pays a fee to the Accounting Auditor in consideration of the advisory services regarding consideration of the introduction of the International Financial Reporting Standards (IFRS).

(4) Policies on Dismissal or Non-reappointment of the Accounting Auditor

In the event that the Board of Corporate Auditors determines that the Accounting Auditor falls under any of the items of Article 340, Paragraph 1 of the Companies Act, the Board of Corporate Auditors will dismiss the Accounting Auditor upon unanimous consent of the Corporate Auditors.

Additionally, if it is deemed that it is difficult for the Accounting Auditor to adequately execute its duties, or if it is determined that a change in Accounting Auditor would be appropriate in order to further increase auditing suitability, the Board of Corporate Auditors will determine an agenda item regarding the dismissal or non-reappointment of the Accounting Auditor to be submitted to the General Meeting of Shareholders.

III. Systems and Policies of the Company

1. Systems to Ensure Proper Business Activities

The Company's basic policy with respect to the development of internal control system is as follows:

The Company is guided by the Nippon Shokubai Group Mission “**TechnoAmenity**: providing affluence and comfort to people and society, with our unique technology.” Based on this mission, we have established the following fundamental policy for the creation of internal control systems. This policy reflects the understanding that the establishment and operation of a system for conducting business operations properly is vital to the continuous preservation and growth of corporate value.

- (1) Systems to ensure that Members of the Board and employees perform their duties in compliance with laws, regulations and the Articles of Incorporation
 1. Establish the Corporate Ethics Committee and implement a system to comply with laws and regulations.
 2. Formulate the Code of Conduct and make it a norm for Members of the Board, executive officers and employees.
 3. Formulate the Corporate Code of Ethics and prevent the violation of laws and regulations.
 4. As an internal auditing division, establish the Internal Audit Office, which is to be independent from other executive sections.
 5. Establish the Internal Reporting System under which facts with respect to the violation of laws and regulations and other compliance-related matters will be reported internally.
- (2) Systems for storing and managing information concerning the execution of duties by the Members of the Board

Information concerning the execution of duties by Members of the Board shall be stored and managed, as the minutes of meetings of the Board (*torishimariyakukai gijiroku*), internal memo to obtain approval (*ringisho*) and other documents, pursuant to the Regulations of the Board (*torishimariyakukai kitei*) and the Document Handling Regulations (*bunsho kitei*), and other rules.
- (3) Rules and systems with respect to the management of the risks of loss
 1. Establish the Risk Management Committee and implement a system to manage risks of loss.
 2. Formulate the Risk Management Regulations (*risuku kanri kitei*) to clarify risk recognition and procedures, and prevent such risks from occurring.
 3. Upon the occurrence of an unexpected event, establish a special headquarters with the Company president as its head and take prompt and appropriate measures pursuant to the rules concerning measures for unexpected events.
- (4) Systems to ensure that Members of the Board execute their duties efficiently
 1. In order to deliberate and determine matters with respect to the execution of duties by Members of the Board, a meeting of the Board shall, in principle, be held monthly so that prompt decision-making may be carried out.
 2. The Board shall select executive officers. The Board is responsible for reaching decisions involving management and supervising business operations, and the executive officers are responsible for conducting business operations. Separating these functions increases the efficiency of management and clearly defines accountability.
 3. The Company shall have Outside Members of the Board for the purpose of ensuring the suitability of decisions and the oversight of business operations by the Board.
 4. The Company shall conduct a corporate management meeting consisting of the Company president and executive officers named by the president. In principle, this committee shall meet twice each month (including one meeting attended by all executive officers) for the purpose of discussing subjects involving fundamental management policies and actions involving important matters.

- (5) Systems to ensure proper business activities by the Group, which consists of the Company and its subsidiaries
1. The group companies shall report the overview of business and status of profit and loss to the Corporate Planning Office. The Corporate Planning Office shall provide advice as needed.
 2. In order to properly understand the operational status of the group companies, the Corporate Planning Office shall promptly report managerial and other issues to the corporate management meeting and the Board.
 3. In order to ensure proper business activities by the Group companies, the Internal Audit Office and the Responsible Care Office shall audit each group company as appropriate.
 4. The Corporate Ethics Committee shall make effort to improve corporate ethics across the Group.
 5. The Risk Management Committee shall implement a system to manage risks of loss across the Group.
- (6) Matters concerning employees who are allocated to assist the Corporate Auditors, matters concerning the independence of these employees from the Members of the Board and matters concerning ensuring the effectiveness of instructions of the Corporate Auditors to the employees who assist the Corporate Auditors
1. The Auditor Office, which shall be established under the direct control of the Corporate Auditors of the Company, and the employees thereof shall assist the Corporate Auditors in their duties.
 2. The Auditor Office shall be independent from the Board, and the employees assigned thereto shall, pursuant to the Business Segregation Rules (*gyoumu bunshou*) and instructions of the Corporate Auditors, perform their duties independent from the Board, the respective Members of the Board and executive officers. The personnel affairs of the employees who belong to the Auditor Office shall be determined after obtaining the consent of the Corporate Auditors.
- (7) Systems for submitting reports from Members of the Board and employees to the Corporate Auditors, for posting other reports to Corporate Auditors and for ensuring effective of audits by the Corporate Auditors
1. In order to understand important decision-making processes and the status of executing operations executed/to be executed, the Corporate Auditors shall attend important meetings such as the corporate management meetings and budget meetings, in addition to meetings of the Board.
 2. Members of the Board, executive officers, and employees shall report to Corporate Auditors important information associated with the status of the Company's and its group companies' internal audits, compliance, risk management and internal reporting.
 3. The director of each division shall report the status of executing operations in accordance with the audit plan (annual plan) prepared by Corporate Auditors.
 4. Members of the Board, Corporate Auditors and employees of the group companies shall immediately report to the Corporate Auditors when the Corporate Auditors request them to report matters concerning the execution of business, internal audit status, compliance, risk control and internal reporting.
 5. Those who reported to the Corporate Auditors shall not receive any disadvantageous treatment due to their reporting.
 6. In the case that Corporate Auditors make claims to the Company regarding costs incurred during the execution of their duties, the Company shall bear those costs excluding cases where those costs are assessed as not necessary for the execution of the Corporate Auditor's duties.
- (8) Basic policy on the elimination of anti-social forces
- No relations, including those for business transactions, shall be had with anti-social forces that serve to disturb the order and safety of civil society and threaten wholesome corporate activities, and these anti-social forces shall be firmly dealt with in cooperation with outside specialists such as the police, etc.

Outline of the State of Operations of Internal Control Systems

(1) Legal Compliance

The Corporate Ethics Committee has implemented activities such as holding educational activities, corporate ethics training, as well as legal training on company newsletter and creating a legal compliance manual and a Corporate Ethics Guidebook, thereby strengthening the Company and group companies' legal compliance structures.

Additionally, steps in order to disseminate this information are being taken, such as printing the Code of Conduct and distributing it in the Corporate Ethics Guidebook and CSR report, and through database records and internal notices.

(2) Execution of Duties by Members of the Board

The Board meeting convened a total of 14 times throughout this fiscal year, and by reporting, deliberating, and deciding on items regarding to the execution of their duties, the Board meeting supervises the execution of its members' duties.

By separating the Board meeting, which is responsible for reaching decisions involving management and supervising business options, with executive officers, who are responsible for conducting business operations, attempts are being made to establish efficient management and clear definition of accountability.

Additionally, three Outside Members of the Board were elected, and through their opinions and proposals benefitting the Company's management based on their wealth of experience and specialized knowledge as managers, as well as their supervision from a position independent of management, the Board meeting decision-making process and the executive officers' appropriateness is being ensured.

During the fiscal year, the Corporate Management Meeting convened 23 times to deliberate on matters regarding basic management policies and the execution of items of importance. Attempts are being made to realize more efficient business operations, and measures are being taken regarding the execution of important business duties.

(3) Management of Risks of Loss

In light of the issues extracted from the activity results to date and upon reviewing risk management methods, etc., the Risk Management Committee discovers Company and group companies' risks, evaluates them, and analyzes them, centrally managing risk information. Additionally, the Committee creates policies to minimize risks upon the results of this risk analysis such as by revising a business continuation plan.

In addition, regular comprehensive earthquake response drills and more are held so that a swift and appropriate response can be made in the case of an unexpected emergency by establishing a countermeasures headquarters.

(4) Ensuring Suitability of the Company Group's Business Activities

Group companies issue regular reports to the Corporate Planning Office on the overview of business and status of profit and loss, and the Corporate Planning Office provides advice as needed. Additionally, the Corporate Planning Office reports to the corporate management meeting and the Board meeting regarding managerial and other issues as necessary.

Also, the Internal Audit Office and the Responsible Care Office each audit group companies based on their auditing plans.

(5) Ensuring the Efficacy of Auditor Audits

The Corporate Auditors meeting convened a total of 13 times over the course of this fiscal year to report, deliberate, and decide on matters of importance.

Corporate Auditors also attend important meetings such as Corporate Management Meetings and meetings of the Board in order to understand important decision-making processes and the status of executing operations, and also receive reports from the Accounting Auditor, Members of the Board, and other individuals in order to deliberate and present auditing opinions.

Also, Corporate Auditor interview locations are determined according to audit plans where Corporate Auditors receive reports on the execution of business duties from General Managers of each department as well as from management executives of subsidiary companies.

(6) The Elimination of Anti-Social Forces

Information is regularly gathered from the police and other external specialist agencies so that no relations are had with anti-social forces, and internal calls for caution are also made by preparing manual for responding to unreasonable demands. Additionally, contracts formed with major clients include items stating that no relations shall be had with anti-social forces.

2. Basic Policies Concerning Control of the Company

(1) Summary of basic policy for parties that control the Company's financial and business policies

The Group is guided by the Nippon Shokubai Group Mission “**TechnoAmenity**: providing affluence and comfort to people and society, with our unique technology.” Based on this mission, we devise and execute management strategies and work on becoming more competitive and profitable in order to achieve the goal of being “An innovative chemical company that provides new value for people's lives.” The objective of these activities is to increase corporate value and the common interests of shareholders.

The Company will take any actions (Takeover Defense Measures) that are needed to protect corporate value and the common interests of shareholders from harm caused by disruptions to the above corporate mission and management strategies resulting from a large-scale purchase of the Company's stock. (Articles of Incorporation Articles 33 to 35)

When there is a proposal by a third party for a large-scale purchase of the Company's stock (proposed acquisition), the Company believes that its shareholders at that time should be entrusted with reaching the final decision about whether or not to accept the proposed acquisition. Consequently, to allow shareholders to reach a proper decision, the Takeover Defense Measures prescribe the rules and procedures that are needed to give shareholders the necessary information about the proposed acquisition and provide a sufficient amount of time.

(2) Special initiatives for the effective use of assets, establishment of a proper corporate group and activities involving other fundamental policies

1) Activities involving the Medium- to Long-term Business Plan

Under its mission, management commitment and its corporate credo, the Group is working on its long-term business Plan “Reborn Nippon Shokubai 2020” started in April 2014 and the 2nd medium-term business plan “Reborn Nippon Shokubai 2020 NEXT,” which is a specific action plan from FY 2017 onwards.

Summary of the long-term business plan and the 2nd medium-term business plan is described under 1. (4) Issues to Be Addressed, on pages 14 to 17.

2) Measures to strengthen corporate governance

The Group is guided by the Nippon Shokubai Group Mission “**TechnoAmenity**: providing affluence and comfort to people and society, with our unique technology” in becoming “An innovative chemical company that provides new value for people's lives,” “A chemical company that is strongly trusted by society,” and “A company that everybody can be proud of, including stakeholders” and works to raise corporate value and attain constant growth.

In order to achieve this, the Company understands that it is important to realize highly-effective corporate governance and is thus involved in initiatives including ensuring rights and equality of shareholders and engaging in dialogue with shareholders, appropriate methods of cooperation with various stakeholders, ensuring appropriate information disclosure and transparency, appropriate execution of Board meeting and management roles and responsibilities, appropriate oversight of business operations, improvement and enhancement of internal control systems, and the improvement and enhancement of corporate governance.

By having three Outside Members of the Board joining the Board meeting, who can provide useful opinions and proposals that benefit management and supervise management from an independent perspective, the Company aims to strengthen corporate governance. In addition, the Company uses the executive officer system for the purpose of separating the roles of management decision-making and oversight and the execution of business operations. The Company is using this system to strengthen corporate governance and increase the speed of management decision-making and the execution of business operations.

- (3) Summary of measures to prevent a party that is unsuitable from the point of view of the Company's basic corporate policies from gaining control over decisions concerning the Company's financial and business policies

Shareholders approved the establishment of Countermeasures (Takeover Defense Measures) against Large-Scale Purchases of Company Stock at the 95th Ordinary General Meeting of Shareholders that was held on June 20, 2007. These measures apply to large-scale purchases of Company stock, etc. by a specific shareholder group that is equivalent to at least 20% of all Company voting rights. The purpose is to contribute to the common interests of shareholders by enabling the Company to increase corporate value in a stable and consistent manner. At the 98th Ordinary General Meeting of Shareholders that was held on June 22, 2010 and 101st Ordinary General Meeting of Shareholders that was held on June 20, 2013, shareholders approved an extension of the Takeover Defense Measures with some revisions. Also, the 104th Ordinary General Meeting of Shareholders that was held on June 21, 2016 deliberated the extension of the Takeover Defense Measures under the same terms until the Ordinary General Meeting of Shareholders for the last fiscal year that ends within three years of the 104th Ordinary General Meeting of Shareholders, and the proposal was passed in its original form. (The extended Takeover Defense Measures are called "the Rules" hereafter.)

The Rules allow the Board meeting of the Company to state a procedure that should be observed by a party that is proposing to purchase the Company's stock (the Large-Scale Purchaser). The procedure provides an amount of time that is both necessary and sufficient for the Company to examine, assess and consider the proposed acquisition, and to provide its shareholders with this information as well as the Company's alternative proposal. Shareholders can then decide directly at a general meeting of shareholders which proposal would contribute to the improvement of corporate value of the Company and the common interests of shareholders. Exceptionally, in the event that (1) the Large-Scale Purchaser does not comply with these Rules, or (2) it is determined that the Large-Scale Purchase will significantly damage the interests of the shareholders of the Company, countermeasures will be exercised by a resolution of the Board meeting of the Company without a resolution from the General Meeting of Shareholders. With regard to the exercise of countermeasures due to (2), the Board meeting shall consult with External Committee composed of at least three from amongst the Independent Outside Members of the Board and the Independent Outside Corporate Auditors (including substitute Outside Corporate Auditors) of the Company who are independent from the management team which is responsible for executing the Company's business, in order to preclude an arbitrary decision by the Board meeting of the Company. With consult from the Board meeting of the Company, the External Committee will consider and determine whether or not it is clear that the specific Large-Scale Purchase will significantly damage the interests of the shareholders of the Company and make recommendations to the Board meeting of the Company as to whether or not to exercise the countermeasures. The Board meeting of the Company will afford such recommendations the highest consideration and will decide whether or not to exercise the countermeasures.

For more information about the Rule, please see the press release of May 10, 2016 entitled "Continuation of Countermeasures (Takeover Defense Measures) against Large-Scale Purchases of Nippon Shokubai Co., Ltd. Shares", which is posted on the Company's website (<http://www.shokubai.co.jp/en/>).

(4) Decision of the Board meeting concerning the above measures and reason for decision

In the event of a proposed acquisition, the Rules prescribe rules and procedures for the purpose of giving the Company's shareholders the necessary information and sufficient time for consideration to decide whether or not to activate the defensive measure (issue stock acquisition rights). The Rules allow the Company's shareholders to make the final decision as to whether or not to accept the proposed acquisition. As a result, the Board meeting believes that these measures contribute to protecting and increasing the Company's corporate value and the common interests of its shareholders and that the measures are not harmful to the common interests of its shareholders. Furthermore, protecting the positions of the Company's executives is not the purpose of the Rules. For these reasons, the Board meeting believes that the Rules are consistent with the above basic policy for parties that control the Company's financial and business policies.

The Rules may be abrogated by a resolution of the Board through the appointment or dismissal of Members of the Board pursuant to ordinary resolutions at one general meeting of shareholders. Moreover, the term of office of Members of the Board expires within one (1) year after appointment, and the terms of office of Members of the Board are not staggered.

Note: Unless otherwise noted in this business report, amounts and ratios are rounded off to the nearest unit.

Consolidated Financial Statements

(As of March 31, 2018)

(Unit: Millions of yen)

[Assets]	
Current assets	201,532
Cash and deposits	55,920
Notes and accounts receivable - trade	78,038
Merchandise and finished goods	31,414
Work in process	5,437
Raw materials and supplies	20,163
Deferred tax assets	3,129
Other	7,440
Allowance for doubtful accounts	-9
Non-current assets	268,570
Property, plant and equipment	175,241
Buildings and structures, net	39,451
Machinery, equipment and vehicles, net	59,751
Tools, furniture and fixtures, net	3,375
Land	32,609
Leased assets, net	138
Construction in progress	44,470
Accumulated impairment loss	-4,553
Intangible assets	3,531
Investments and other assets	89,798
Investment securities	74,707
Investments in capital	2,354
Long-term loans receivable	931
Deferred tax assets	2,239
Net defined benefit asset	6,160
Other	3,474
Allowance for doubtful accounts	-66
Total assets	470,102

[Liabilities]	
Current liabilities	92,636
Notes and accounts payable - trade	58,066
Short-term loans payable	8,244
Current portion of long-term loans payable	4,438
Lease obligations	28
Income taxes payable	5,489
Provision for bonuses	3,405
Provision for directors' bonuses	172
Provision for repairs	2,442
Other	10,351
Non-current liabilities	66,705
Bonds payable	10,000
Long-term loans payable	35,301
Lease obligations	52
Deferred tax liabilities	5,087
Net defined benefit liability	13,607
Other	2,658
Total liabilities	159,341
[Net assets]	
Shareholders' equity	289,334
Capital stock	25,038
Capital surplus	22,400
Retained earnings	248,158
Treasury shares	-6,263
Accumulated other comprehensive income	17,937
Valuation difference on available-for-sale securities	14,786
Deferred gains or losses on hedges	3
Foreign currency translation adjustment	4,868
Remeasurements of defined benefit plans	-1,719
Non-controlling interests	3,491
Total net assets	310,762
Total liabilities and net assets	470,102

Consolidated Statements of Income
(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

Net sales	322,801
Cost of sales	256,664
Gross profit	66,137
Selling, general and administrative expenses	39,409
Operating profit	26,727
Non-operating income	7,906
Interest and dividend income	1,384
Share of profit of entities accounted for using equity method	4,405
Miscellaneous income	2,117
Non-operating expenses	2,341
Interest expenses	387
Miscellaneous loss	1,953
Ordinary profit	32,293
Extraordinary income	626
Gain on sales of investment securities	589
State subsidy	36
Extraordinary losses	706
Impairment loss	465
Loss on removal of non-current assets	198
Loss on reduction of non-current assets	36
Loss on sales of non-current assets	7
Profit before income taxes	32,212
Income taxes	7,888
Income taxes - current	8,322
Income taxes - deferred	-435
Profit	24,325
Profit attributable to non-controlling interests	44
Profit attributable to owners of parent	24,280

Consolidated Statements of Changes in Equity

(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	25,038	22,396	229,092	-6,249	270,277
Changes of items during period					
Dividends of surplus			-5,982		-5,982
Profit attributable to owners of parent			24,280		24,280
Purchase of treasury shares				-14	-14
Disposal of treasury shares		0		0	0
Change in ownership interest of parent due to transactions with non-controlling interests		4			4
Effect resulting from changes in the fiscal year-end of subsidiaries			768		768
Net changes of items other than shareholders' equity					
Total changes of items during period	—	4	19,067	-14	19,057
Balance at end of current period	25,038	22,400	248,158	-6,263	289,334

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	12,247	11	6,153	-16	18,395	3,604	292,275
Changes of items during period							
Dividends of surplus							-5,982
Profit attributable to owners of parent							24,280
Purchase of treasury shares							-14
Disposal of treasury shares							0
Change in ownership interest of parent due to transactions with non-controlling interests							4
Effect resulting from changes in the fiscal year-end of subsidiaries							768
Net changes of items other than shareholders' equity	2,539	-8	-1,285	-1,703	-457	-113	-570
Total changes of items during period	2,539	-8	-1,285	-1,703	-457	-113	18,487
Balance at end of current period	14,786	3	4,868	-1,719	17,937	3,491	310,762

(Reference)

Consolidated Statements of Cash Flows
(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

I	Cash flows from operating activities	
	Profit before income taxes	32,212
	Depreciation	16,997
	Loss (gain) on sales of investment securities	-589
	Subsidy income	-36
	Impairment loss	465
	Loss on removal of non-current assets	198
	Loss on reduction of non-current assets	36
	Loss (gain) on sales of non-current assets	7
	Decrease (increase) in net defined benefit asset	-1,060
	Increase (decrease) in net defined benefit liability	372
	Interest and dividend income	-1,384
	Interest expenses	387
	Share of (profit) loss of entities accounted for using equity method	-4,405
	Loss on abandonment of non-current assets	472
	Decrease (increase) in notes and accounts receivable - trade	-12,399
	Decrease (increase) in inventories	-3,339
	Increase (decrease) in notes and accounts payable - trade	12,412
	Increase (decrease) in accrued consumption taxes	590
	Other, net	1,516
	Subtotal	42,452
	Interest and dividend income received	3,159
	Interest expenses paid	-401
	Proceeds from subsidy income	36
	Income taxes paid	-6,423
	Net cash provided by (used in) operating activities	38,823
II	Cash flows from investing activities	
	Purchase of property, plant and equipment	-27,126
	Purchase of investment securities	-733
	Proceeds from sales of investment securities	867
	Purchase of shares of subsidiaries and associates	-1,277
	Other, net	771
	Net cash provided by (used in) investing activities	-27,498
III	Cash flows from financing activities	
	Net increase (decrease) in short-term loans payable	-1,928
	Proceeds from long-term loans payable	8,826
	Repayments of long-term loans payable	-10,631
	Cash dividends paid	-5,982
	Other, net	-47
	Net cash provided by (used in) financing activities	-9,762
IV	Effect of exchange rate change on cash and cash equivalents	-238
V	Net increase (decrease) in cash and cash equivalents	1,326
VI	Cash and cash equivalents at beginning of period	51,700
VII	Increase (decrease) in cash and cash equivalents resulting from changes in the fiscal year-end of subsidiaries	-1,414
VIII	Cash and cash equivalents at end of period	51,612

Notes to Consolidated Financial Statements

◆ Significant Accounting Policies

1. Scope of Consolidation

Consolidated subsidiaries are as follows:

- (1) Number of consolidated subsidiaries: 14 companies (8 in Japan and 6 overseas)

- (Japan) NIPPOH CHEMICALS CO., LTD.
Nisshoku Butsuryu Co., Ltd.
Tokyo Fine Chemical Co., Ltd.
CHUGOKU KAKO CO., LTD.
NIPPON SHOKUBAI TRADING CO., LTD.
NISSHOKU TECHNO FINE CHEMICAL CO., LTD
NIPPON NYUKAZAI CO., LTD.
NIPPON POLYMER INDUSTRIES CO., LTD.
- (Overseas) Nippon Shokubai America Industries, Inc.
NIPPON SHOKUBAI (ASIA) PTE. LTD.
PT. NIPPON SHOKUBAI INDONESIA
NIPPON SHOKUBAI EUROPE N.V.
SINGAPORE ACRYLIC PTE LTD
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.

- (2) Names of major non-consolidated subsidiaries

SIRRUS Inc.
Daiko Rikuun Co., Ltd.

Reason for exclusion from the scope of consolidation

The total assets, net sales, profit (loss) (amount proportional to ownership), and retained earnings (amount proportional to ownership), etc. of the non-consolidated subsidiaries each do not have a significant effect on the consolidated financial statements.

2. Application of Equity Method

- (1) Non-consolidated subsidiary accounted for by the equity method: 1 company:

Name of the principal company: SINO-JAPAN CHEMICAL CO., LTD.

- (2) Associates accounted for by the equity method: 11 companies

Name of the principal company: Umicore Shokubai S.A.

- (3) Of non-consolidated subsidiaries and associates not accounted for by the equity method, names of the major companies

SIRRUS Inc.
Daiko Rikuun Co., Ltd., etc.
NIHON METHACRYL MONOMER CO., LTD.

Reason for not accounting for by the equity method

The impact of each of the companies which are not accounted for by the equity method, on the profits (loss) (amount proportional to ownership) and retained earnings (amount proportional to ownership), among others, of the Company is minor, and does not have a significant impact on the consolidated financial statements, and is not of importance as a whole, and are thus excluded from the scope of application of the equity method.

- (4) Matters deemed necessary to be stated concerning the procedures for applying equity method

For the companies accounted for by the equity method, which have a different fiscal year-end from the consolidated fiscal year-end, the financial statements as of the end of each fiscal year of the companies are used.

3. Fiscal Year-end of the Consolidated Subsidiaries

With respect to the consolidated subsidiaries whose fiscal year-end is December 31, the Company had used their nonconsolidated financial statements as of December 31 each year, and necessary adjustments were made for the consolidation with respect to significant transactions conducted between December 31 and the consolidated fiscal year-end. To ensure more appropriate disclosure of consolidated financial statements, however, from the current fiscal year, the fiscal year-ends of NIPPON SHOKUBAI EUROPE N.V. and 4 other companies were changed to March 31, while, with regard to NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD., provisional settlement of accounts are made for consolidation as of the consolidated fiscal year-end of March 31.

Additionally, in line with these changes in the fiscal year-end, in the current fiscal year, gains and losses of these consolidated subsidiaries during the 3 months from January 1, 2017 to March 31, 2017 are adjusted in retained earnings, while the cash flows are adjusted under “increase (decrease) in cash and cash equivalents resulting from changes in the fiscal year-end of subsidiaries.”

4. Accounting Policies

(1) Basis and methods of valuation of major assets

1) Securities

- a. Shares of subsidiaries and associates: Primarily stated at cost, determined by the moving-average method.
- b. Held-to-maturity debt securities: Amortized cost method.
- c. Other securities:

Marketable securities:

Carried at fair value, based on market prices at fiscal year-end. (Unrealized holding gain or loss, net of the applicable income taxes, is reported as a separate component of net assets. Cost of securities sold is primarily determined by the moving-average method).

Nonmarketable securities:

Primarily stated at cost, determined by the moving-average method.

2) Inventories

Inventories held for sale in the ordinary course of business:

Primarily valued at cost, determined by the moving-average method (The book values are written down due to decreased profitability).

(2) Depreciation methods applicable to major depreciable assets

1) Property, plant and equipment (excluding lease assets): By the straight-line method.

2) Intangible assets (excluding lease assets): By the straight-line method.

Software (for internal use) is amortized by the straight-line method over the estimated useful life for internal use (five years).

3) Lease assets: Lease assets under finance lease transactions that do not transfer ownership are depreciated using the straight-line method, over the lease period as useful life to zero as residual value.
Those finance lease transactions that do not transfer ownership and also commenced on or before March 31, 2008 are accounted for as ordinary rental transactions.

(3) Method of providing major allowances and provisions

1) Allowance for doubtful accounts:

To provide for losses on doubtful accounts, the Company and its consolidated subsidiaries reserve an amount based on the historical write-off ratio for normal accounts, and amounts projected to be unrecoverable based on assessments for specific doubtful accounts such as claims with default possibility.

2) Provision for bonuses:

To provide for payment of bonuses to employees, amounts are recorded in the current fiscal year based on an estimate to be paid in the following fiscal year.

3) Provision for directors' bonuses:

To provide for payment of bonuses to directors, amounts are recorded in the current fiscal year based on an estimate to be paid in the following fiscal year.

4) Provision for repairs:

The Company and its consolidated subsidiaries provide an allowance for the cost of periodic repairs to large-scale production equipment based on estimates of the future cost of such repairs.

(4) Method of accounting for retirement benefits

1) Regarding determination of retirement benefit obligations, the benefit formula standard is adopted as the way of attributing expected benefit to the periods up to this fiscal year-end.

2) Prior service cost is amortized by the straight-line method over a period (mostly over five years) which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is amortized and charged to income in the year following the year in which such gain or loss is recognized by the straight-line method over a period (mostly over ten years) which is within the estimated average remaining years of service of the eligible employees.

(5) Method of providing applicable standards to major sales and expenses

Standards for booking net sales and cost of sales of completed construction contracts

“Percentage of completion standard” (estimates of percentage of completion are based on the cost-to-cost method) is applied to the portion of contracted work deemed to have been completed by the end of the fiscal year, and the “construction completion standard” is applied to other contracted work.

(6) Translation of significant assets and liabilities denominated in foreign currencies into Japanese Yen

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate in effect at the consolidated balance sheet date, and any gains and losses resulting from the translation are credited or charged to income. Assets and liabilities, and sales and expenses of overseas subsidiaries are translated into Japanese yen at the spot exchange rate in effect at the balance sheet date, and any gains and losses resulting from the translation are recognized under net assets in the consolidated balance sheets as foreign currency translation adjustment and non-controlling interests.

(7) Method of major hedge accounting

1) Hedging method: Deferred hedge treatment is adopted.

2) Hedging instruments and risks hedged:

Hedging methods to which hedge accounting is applied and hedge targets are as follows.

a. Hedging instruments: Forward exchange contracts

Hedged risk: Foreign currency-denominated monetary assets and liabilities

b. Hedging instruments: Interest rate swaps

Hedged risk: Borrowing

3) Hedging policy: Our policy is to establish hedges for risks associated with movements in foreign exchange rates and interest rates. Derivatives are not used for more than the actual amount of the associated transactions and are never used for speculation.

4) Evaluation method for the effectiveness of hedges

The Company evaluates the effectiveness of hedges by directly linking the hedging instruments with market changes in hedging methods or changes in cash flows.

(8) Other significant matters pertaining to the preparation of the consolidated financial statements

Consumption taxes and other local consumption taxes:

Consumption taxes and other local consumption taxes are excluded from the sales and expense accounts.

◆ **Notes to Changes in Accounting Policies**

Previously, with regard to forward exchange contracts, the Company used appropriation treatment when the conditions for appropriation were fulfilled, and with regard to interest rate swaps, used special treatment when the conditions were fulfilled. With the aim of reflecting the actual status of derivatives more accurately in consolidated financial statements, from the current fiscal year, the Company adopted the principle treatment method whereby forward exchange contracts and interest rate swaps are valued with their fair values at fiscal year-end.

This change in accounting policies has not been applied retrospectively due to its minor impact on the past period.

The impact of this change on profit and loss for the current fiscal year is immaterial.

◆ Notes to Consolidated Balance Sheets

(Unit: Millions of yen)

1.	Accumulated depreciation on property, plant and equipment:	383,054
2.	Advanced depreciation deducted from acquisition amount of property, plant and equipment:	4,215
3.	Collateral and secured liabilities:	
	Assets pledged as collateral:	856
	Cash and deposits	8
	Property, plant and equipment:	843
	Investment and other assets:	5
	Liabilities corresponding to the above:	471
	Notes and accounts payable-trade:	91
	Short-term loans payable:	380
4.	Balance of guaranteed debt, etc.	
	Balance of guaranteed debt:	1,289
	Balance of guaranteed debt includes 644 million yen of debt that has been re-guaranteed by other companies.	

◆ Notes to Consolidated Statements of Changes in Net Assets

1. Number of issued and outstanding shares of the Company's stock at end of the fiscal year 2017

Common stock: 40,800,000 shares

2. Matters related to distribution of retained earnings

(1) Dividend payment

Resolution	Class of Shares	Total Amount of Dividends (¥ millions)	Dividend Per Share (¥)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 21, 2017	Common Stock	2,991	75.00	March 31, 2017	June 22, 2017
Meeting of the Board held on November 7, 2017	Common Stock	2,991	75.00	September 30, 2017	December 5, 2017

(2) Dividends with a record date in the fiscal year 2017 but an effective date in the following fiscal year

Resolution	Class of Shares	Source of Dividends	Total Amount of Dividends (¥ millions)	Dividend Per Share (¥)	Record Date	Effective Date
Ordinary General Meeting of Shareholders held on June 20, 2018	Common Stock	Retained Earnings	3,390	85.00	March 31, 2018	June 21, 2018

◆ Notes to Financial Instruments

1. Conditions of financial instruments

The Group's policy is to restrict investment of funds to short-term deposits and similar financial instruments and to use bank loans as the primary means of procuring funds.

For operating receivables, business units periodically monitor the status of their major business partners and supervise maturity dates and balances for each counterparty. In addition, business units monitor the financial status of major business partners every six months.

Loans payable are used primarily to procure funds required for capital expenditures. There is some exposure to interest rate volatility risk because some loans carry floating interest rates.

2. Fair value of financial instruments

The carrying value on the consolidated balance sheets, fair value, and their differences as of March 31, 2018 are shown as follows.

(Unit: Millions of yen)

	Carrying value (*)	Fair value (*)	Difference
(1) Cash and deposits	55,920	55,920	-
(2) Notes and accounts receivable-trade	78,038	78,038	-
(3) Investment securities			
Available-for-sale securities	39,732	39,732	-
(4) Notes and accounts payable-trade	(58,066)	(58,066)	-
(5) Short-term loans payable	(8,244)	(8,244)	-
(6) Current portion of long-term loans payable	(4,438)	(4,440)	(1)
(7) Long-term loans payable	(35,301)	(35,103)	(-198)
(8) Derivatives transactions	84	84	-

(*) Figures in parenthesis represent liability accounts.

(Note 1) Matters concerning determination of fair value of financial instruments and marketable securities and derivatives transactions

(1) Cash and deposits and (2) Notes and accounts receivable-trade

Fair value of the above financial instruments is deemed to be equal to their carrying amount because they are settled within a short period of time.

(3) Investment securities

Fair value of the above financial instruments such as stocks, are determined by prices at stock exchanges.

(4) Notes and accounts payable-trade and (5) Short-term loans payable

Fair value of the above financial instruments is deemed to be equal to their carrying amount because they are settled within a short period of time.

(6) Current portion of long-term loans payable and (7) Long-term loans payable

Fair value of the above financial instruments is calculated by discounting the combined value of principal and interests by the interest rate assumed were the Company to borrow new money.

(8) Derivatives transactions

Fair value of the above financial instruments is based on prices provided by the counterparty financial institution.

(Note 2) Financial instruments whose fair value is deemed to be extremely difficult to measure

(Unit: Millions of yen)

Item	Carrying value
Unlisted stock, etc.	1,728

Not included in “(3) Investment securities” because there is no market price and the fair value is deemed to be extremely difficult to determine.

◆ **Per Share Information**

1. Net assets per share: ¥7,705.05
2. Basic earnings per share: ¥608.84

Nonconsolidated Financial Statements

(As of March 31, 2018)

(Unit: Millions of yen)

[Assets]	
Current assets	145,911
Cash and deposits	35,769
Notes receivable - trade	91
Accounts receivable - trade	63,859
Merchandise and finished goods	16,152
Work in process	3,962
Raw materials and supplies	12,764
Prepaid expenses	381
Deferred tax assets	2,167
Short-term loans receivable from subsidiaries and associates	7,132
Accounts receivable - other	1,186
Other	2,449
Non-current assets	210,087
Property, plant and equipment	84,244
Buildings	17,724
Structures	8,935
Machinery and equipment	29,547
Vehicles	29
Tools, furniture and fixtures	2,510
Land	26,974
Construction in progress	1,123
Accumulated depreciation	-2,598
Intangible assets	820
Patent right	48
Leasehold right	120
Software	616
Telephone subscription right	16
Right of using facilities	6
Other	14
Investments and other assets	125,022
Investment securities	40,398
Shares of subsidiaries and associates	69,958
Investments in capital of subsidiaries and associates	5,646
Long-term loans receivable	60
Long-term loans receivable from employees	1
Long-term prepaid expenses	1,479
Lease and guarantee deposits	443
Prepaid pension cost	6,843
Other	240
Allowance for doubtful accounts	-46
Total assets	355,998

[Liabilities]	
Current liabilities	70,340
Accounts payable - trade	47,496
Short-term loans payable	6,162
Accounts payable - other	5,494
Accrued expenses	1,111
Income taxes payable	4,764
Advances received	59
Deposits received	309
Provision for bonuses	2,269
Provision for directors' bonuses	150
Provision for repairs	2,333
Other	192
Non-current liabilities	31,725
Bonds payable	10,000
Long-term loans payable	9,200
Deferred tax liabilities	4,157
Provision for retirement benefits	7,639
Other	729
Total liabilities	102,065
[Net assets]	
Shareholders' equity	239,458
Capital stock	25,038
Capital surplus	22,072
Legal capital surplus	22,071
Other capital surplus	1
Retained earnings	198,611
Legal retained earnings	3,920
Other retained earnings	
Reserve for dividends	760
Reserve for special depreciation	13
Reserve for advanced depreciation of non-current assets	488
General reserve	130,665
Retained earnings brought forward	62,766
Treasury shares	-6,263
Valuation and translation adjustments	14,474
Valuation difference on available-for-sale securities	14,472
Deferred gains or losses on hedges	3
Total net assets	253,933
Total liabilities and net assets	355,998

Nonconsolidated Statements of Income

(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

Net sales	226,887
Cost of sales	175,060
Gross profit	51,828
Selling, general and administrative expenses	30,288
Operating profit	21,540
Non-operating income	8,565
Interest and dividend income	4,408
Miscellaneous income	4,158
Non-operating expenses	1,493
Interest expenses	190
Miscellaneous loss	1,303
Ordinary profit	28,612
Extraordinary income	576
Gain on sales of investment securities	539
State subsidy	36
Extraordinary losses	673
Impairment loss	465
Loss on removal of non-current assets	165
Loss on reduction of non-current assets	36
Loss on sales of non-current assets	7
Profit before income taxes	28,515
Income taxes	7,185
Income taxes - current	7,066
Income taxes - deferred	119
Profit	21,330

Nonconsolidated Statements of Changes in Equity
(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

	Shareholders' equity										
	Capital stock	Capital Surplus			Legal retained earnings	Retained earnings					Total Retained earnings
		Legal capital surplus	Other capital surplus	Total capital surplus		Other Retained earnings					
						Reserve for dividends	Reserve for special depreciation	Reserve for advanced depreciation of non-current assets	General reserve	Retained earnings brought forward	
Balance at beginning of current period	25,038	22,071	1	22,072	3,920	760	19	554	120,665	57,345	183,263
Changes of items during period											
Dividends of surplus										-5,982	-5,982
Profit										21,330	21,330
Reversal of reserve for special depreciation							-7			7	-
Reversal of reserve for advanced depreciation of non-current assets								-66		66	-
Provision of general reserve									10,000	-10,000	-
Purchase of treasury shares											
Disposal of treasury shares			0	0							
Net changes of items other than shareholders' equity											
Total changes of items during period	-	-	0	0	-	-	-7	-66	10,000	5,421	15,348
Balance at end of current period	25,038	22,071	1	22,072	3,920	760	13	488	130,665	62,766	198,611

(Unit: Millions of yen)

	Shareholders' equity		Valuation and translation adjustments			Total net assets
	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Total valuation and translation adjustments	
Balance at beginning of current period	-6,249	224,124	12,031	11	12,041	236,166
Changes of items during period						
Dividends of surplus		-5,982				-5,982
Profit		21,330				21,330
Reversal of reserve for special depreciation		-				-
Reversal of reserve for advanced depreciation of non-current assets		-				-
Provision of general reserve		-				-
Purchase of treasury shares	-14	-14				-14
Disposal of treasury shares	0	0				0
Net changes of items other than shareholders' equity			2,441	-8	2,433	2,433
Total changes of items during period	-14	15,334	2,441	-8	2,433	17,767
Balance at end of current period	-6,263	239,458	14,472	3	14,474	253,933

(Reference)

Nonconsolidated Statements of Cash Flows
(April 1, 2017 to March 31, 2018)

(Unit: Millions of yen)

I	Cash flows from operating activities	
	Profit before income taxes	28,515
	Depreciation	10,516
	Loss (gain) on sales of investment securities	-539
	Subsidy income	-36
	Impairment loss	465
	Loss on removal of non-current assets	165
	Loss on reduction of non-current assets	36
	Loss (gain) on sales of non-current assets	7
	Increase (decrease) in provision for retirement benefits	437
	Decrease (increase) in prepaid pension costs	-391
	Interest and dividend income	-4,408
	Interest expenses	190
	Decrease (increase) in notes and accounts receivable - trade	-11,123
	Decrease (increase) in inventories	-972
	Increase (decrease) in notes and accounts payable - trade	12,370
	Other, net	640
	Subtotal	35,871
	Interest and dividend income received	4,413
	Interest expenses paid	-200
	Proceeds from subsidy income	36
	Income taxes (paid) refund	-5,204
	Net cash provided by (used in) operating activities	34,917
II	Cash flows from investing activities	
	Purchase of property, plant and equipment	-9,364
	Purchase of investment securities	-727
	Proceeds from sales of investment securities	792
	Purchase of shares of subsidiaries and associates	-1,279
	Payments of loans receivable	-15,637
	Collection of loans receivable	18,073
	Other, net	-74
	Net cash provided by (used in) investing activities	-8,217
III	Cash flows from financing activities	
	Net increase (decrease) in short-term loans payable	-2,254
	Proceeds from long-term loans payable	2,000
	Repayments of long-term loans payable	-5,000
	Cash dividends paid	-5,982
	Other, net	-14
	Net cash provided by (used in) financing activities	-11,250
IV	Net increase (decrease) in cash and cash equivalents	15,450
V	Cash and cash equivalents at beginning of period	20,235
VI	Cash and cash equivalents at end of period	35,684

Notes to Nonconsolidated Financial Statements

◆ Significant Accounting Policies

1. Basis and methods of valuation of assets

(1) Basis and methods of valuation of securities

1) Shares of subsidiaries and associates:

Stated at cost, determined by the moving- average method.

2) Other securities:

Marketable securities:

Carried at fair value, based on market prices at fiscal year-end. (Unrealized holding gain or loss, net of the applicable income taxes, is reported as a separate component of net assets. Cost of securities sold is primarily determined by the moving average method).

Nonmarketable securities:

Primarily stated at cost, determined mainly by the moving average method.

(2) Basis and methods of valuation of inventories:

Inventories held for sale in the ordinary course:

Valued at cost, determined by the moving-average method (The book values are written down due to decreased profitability).

2. Depreciation methods applicable to depreciable assets

(1) Property, plant and equipment :

By the straight-line method. Useful lives and residual values are calculated based on the same criteria as those stipulated under the Corporate Income Tax Law of Japan.

(2) Intangible assets:

By the straight-line method. Software (for internal use) is amortized by the straight-line method over the estimated useful life for internal use (five years).

3. Method of providing allowances and provisions

(1) Allowance for doubtful accounts:

To provide for losses on doubtful accounts, the Company reserves an amount based on the historical write-off ratio for normal accounts and amounts projected to be unrecoverable based on assessments for specific doubtful accounts such as claims with default possibility.

(2) Provision for bonuses:

To provide for payment of bonuses to employees, amounts are recorded in the current fiscal year based on an estimate to be paid in the following fiscal year.

(3) Provision for directors' bonuses:

To provide for payment of bonuses to directors, amounts are recorded in the current fiscal year based on an estimate to be paid in the following fiscal year.

(4) Provision for repairs:

The Company provides an allowance for the cost of periodic repairs to large-scale production equipment based on estimates of the future cost of such repairs.

(5) Provision for retirement benefits

The Company provides an allowance for accrued retirement benefits to employees based on the retirement benefit obligation and the fair value of the pension plan assets as of the end of the fiscal year.

1) Regarding determination of retirement benefit obligations, the benefit formula basis is adopted as the way of attributing expected benefit to the periods up to this fiscal year-end.

2) Prior service cost is amortized by the straight-line method over a period (mostly over five years) which is within the estimated average remaining years of service of the eligible employees. Actuarial gain or loss is amortized and charged to income in the year following the year in which such gain or loss is recognized by the straight-line method over a period (mostly over ten years) which is within the estimated average remaining years of service of the eligible employees.

4. Standards for booking net sales and cost of sales of completed construction contracts

“Percentage of completion standard” (estimates of percentage of completion are based on the cost-to-cost method) is applied to the portion of contracted work deemed to have been completed by the end of the fiscal year, and the “construction completion standard” is applied to other contracted work.

5. Other significant matters pertaining to the preparation of the financial statements

(1) Provision for retirement benefits

Methods of accounting for unrecognized actuarial differences for retirement benefits and unrecognized prior service costs differ from those employed in the consolidated financial statements.

(2) Method of material hedge accounting

1) Hedging method:

Deferred hedge treatment is adopted.

2) Hedging instruments and risks hedged:

Hedging methods to which hedge accounting is applied and hedge targets are as follows.

a. Hedging instruments : Forward exchange contracts

Hedged risk: Foreign currency-denominated monetary assets and liabilities

b. Hedging instruments : Interest rate swaps

Hedged risk: Borrowing

3) Hedging policy:

Our policy is to establish hedges for risks associated with movements in foreign exchange rates and interest rates. Derivatives are not used for more than the actual amount of the associated transactions and are never used for speculation.

4) Evaluation method for the effectiveness of hedges:

The Company evaluates the effectiveness of hedges by directly linking the hedging instruments with market changes in hedging methods or changes in cash flows.

(3) Consumption taxes:

Consumption taxes are excluded from the sales and expense accounts.

(4) Translation of assets and liabilities denominated in foreign currencies into Japanese Yen:

All monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the spot exchange rate in effect at the consolidated balance sheet date, and any gains and losses resulting from the translation are credited or charged to income.

◆ Notes to Changes in Accounting Policies

Previously, with regard to forward exchange contracts, the Company used appropriation treatment when the conditions for appropriation were fulfilled, and with regard to interest rate swaps, used special treatment when the conditions were fulfilled. With the aim of reflecting the actual status of derivatives more accurately in nonconsolidated financial statements, from the current fiscal year, the Company adopted the principle treatment method whereby forward exchange contracts and interest rate swaps are valued with their fair values at fiscal year-end.

This change in accounting policies has not been applied retrospectively due to its minor impact on the past period.

The impact of this change on profit and loss for the current fiscal year is immaterial.

◆Notes to Nonconsolidated Balance Sheet

1. Monetary claims and liabilities relating to subsidiaries and associates

Short-term monetary claims: 32,617 million yen
Long-term monetary claims: 11 million yen
Short-term monetary liabilities: 9,525 million yen
Long-term monetary liabilities: 37 million yen

2. Accumulated depreciation on property, plant and equipment: 276,086 million yen

3. Entry amount deducted from acquisition cost of property, plant and equipment: 3,466 million yen

4. Guarantee obligations and guarantee reservations and obligations

Outstanding balance of guarantee obligations: 7,929 million yen
Outstanding balance of guarantee reservations and obligations: 3,916 million yen

With regard to 644 million yen within the guarantee obligations, reinsurance from another company has been secured.

◆Notes to Nonconsolidated Statements of Income

Balance of transactions with subsidiaries and associates

Balance of operating transactions

Net sales: 73,949 million yen

Total purchase of goods: 48,674 million yen

Balance of non-operating transactions: 6,186 million yen

◆Notes to Nonconsolidated Changes in Shareholder's Equity

Class and number of shares of treasury stock at end of current period

Common stock: 920,844 shares

◆Notes to Tax Effect Accounting

Major factors for deferred tax assets and liabilities

Deferred tax assets	
Investment securities	2,587 million yen
Depreciation (including impairment loss)	1,392 million yen
Land	959 million yen
Provision for repairs	714 million yen
Provision for bonuses	694 million yen
Provision for retirement benefits	244 million yen
Other:	762 million yen
Deferred tax assets subtotal:	7,352 million yen
Valuation allowance:	-3,546 million yen
Total deferred tax assets:	3,805 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	-5,573 million yen
Reserve for advanced depreciation of non-current assets	-215 million yen
Reserve for special depreciation	-6 million yen
Other:	-1 million yen
Total deferred tax liabilities	-5,795 million yen
Deferred tax assets, net	-1,990 million yen

◆Notes with Regard to Business Partners

Subsidiaries and associates

Type	Subsidiary			Associates		
Name	Nippon Shokubai America Industries, Inc.		NIPPON SHOKUBAI EUROPE N.V.	PT. NIPPON SHOKUBAI INDONESIA	Umicore Shokubai Japan Co., Ltd.	
Location	Texas, United States of America		Antwerp, Kingdom of Belgium	Banten, Indonesia	Tokoname City, Aichi Prefecture, Japan	
Paid-in capital or equity stake	US\$100,000,000 (Note 1)		€193,000,000	US\$120,000,000	750 million yen	
Business description	Manufacturing of chemicals		Manufacturing of chemicals	Manufacturing of chemicals	Wholesale of chemicals	
Holding/held ratio of voting rights	Ownership Direct 100.0%		Ownership Direct 100.0%	Ownership Direct 99.9%	Ownership Indirect 40.0%	
Relationship	Financial assistance Concurrent director (1 director)		Investment Guarantor of obligations Concurrent director (1 director)	Guarantor of obligations Concurrent director (2 directors)	Supply of Nippon Shokubai Products (automotive catalysts) and related transactions Concurrent director (1 director)	
Transactions	Loans (Note 2)	Contingent obligations (Note 3)	Contingent obligations (Note 4)	Contingent obligations (Note 5)	Sale of automotive catalysts (Note 6)	Procurement of raw materials (Note 6)
Amount (millions of yen)	31,629	1,289	3,916	6,640	23,493	20,553
Category	Short-term loans receivable from subsidiaries and associates	—	—	—	Accounts receivable-trade	Accounts payable-trade
Amount at end of term (millions of yen)	6,162	—	—	—	8,670	5,679

(Note 1) Paid-in capital.

(Note 2) Funding has been determined in light of market interest rates.

(Note 3) Debt guarantees have been made for loan obligations from financial institutions. With regard to 644 million yen within the loan guarantee amount, reinsurance from another company has been secured.

(Note 4) Debt guarantees have been made for loan obligations from financial institutions.

(Note 5) Debt guarantees have been made for loan obligations from financial institutions.

(Note 6) Sales of products and procurement of raw materials have been determined with negotiated prices in light of market prices and costs.

(Note 7) In the above amount, consumption tax and other taxes are not included in the transaction amount or loans at the end of the fiscal period. Consumption tax and other taxes are included in accounts receivable-trade and accounts payable-trade in the amount at the end of the fiscal period.

◆Notes with regard to information per share

Net assets per share: 6,367.56 yen

Basic earnings per share: 534.86 yen