

For the Third Quarter of the Fiscal Year Ending March 31, 2020

* This financial report is solely a translation of "Kessan Tanshin" (in Japanese, including attachments), which has been prepared in accordance with the International Financial Reporting Standards (IFRS), for the convenience of readers who prefer an English translation.

Summary of Consolidated Financial Results
For the Third Quarter of the Fiscal Year Ending March 31, 2020 [IFRS]
(Nine Months Ended December 31, 2019)

February 4, 2020

Company name: NIPPON SHOKUBAI CO., LTD. Listing: TSE (First Section)
 Code number: 4114 URL: <https://www.shokubai.co.jp/>
 Representative: Yujiro Goto, President and Representative Member of the Board
 Contact for inquiries: Atsushi Tabata, General Manager of General Affairs Dept. Phone: +81-6-6223-9111
 Scheduled quarterly report filing date: February 12, 2020
 Scheduled date of dividend payment: -
 Supplementary quarterly materials prepared: None
 Quarterly results information meeting held: Yes (for securities analysts and institutional investors)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Results for the Third Quarter of the Fiscal Year Ending March 31, 2020 (here after FY2019) (from April 1, 2019 to December 31, 2019)

(1) Consolidated operating results (cumulative)

(Percentages represent year-over-year changes)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended Dec. 31, 2019	227,105	-12.3	10,630	-48.9	13,766	-46.2	9,720	-49.5	9,350	-50.6	8,153	-46.1
Nine months ended Dec. 31, 2018	258,903	-	20,822	-	25,592	-	19,260	-	18,942	-	15,133	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended Dec. 31, 2019	234.47	-
Nine months ended Dec. 31, 2018	475.00	-

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Rate of equity attributable to owners of parent	Equity attributable to owners of parent per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of Dec. 31, 2019	483,815	329,935	323,738	66.9	8,118.45
As of Mar. 31, 2019	481,668	329,227	323,008	67.1	8,099.97

2. Dividends

	Dividends per share				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Annual
	Yen	Yen	Yen	Yen	Yen
FY 2018	–	80.00	–	90.00	170.00
FY 2019	–	90.00	–		
FY 2019 (forecast)				90.00	180.00

Note: Revisions to dividends forecast during the period: No

**3. Consolidated Financial Forecasts for the Fiscal Year Ending March 31, 2020
(from April 1, 2019 to March 31, 2020)**

(Percentages indicate rate of changes year-over-year)

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	305,000	-10.0	11,000	-58.0	14,500	-54.9	9,500	-60.2	238.23

Note: Revisions to consolidated earnings forecast during the period: Yes

Please refer to “Notice of Revisions to Earnings Forecast” announced today (February 4, 2020) for revisions to consolidated financial forecast.

※Notes

(1) Changes in significant subsidiaries during the period (changes in specific subsidiaries that affect the scope of consolidation): None

(2) Changes in accounting policies; changes in accounting estimates

1) Changes in accounting policies required by IFRS: Yes

2) Other changes in accounting policies: None

3) Changes in accounting estimates: None

Note: Please refer to “Condensed Quarterly Consolidated Financial Statements and Related Notes (5) Notes to the Condensed Quarterly Consolidated Financial Statements (Changes in Accounting Policies)” in the attached materials for details.

(3) Number of shares issued and outstanding (common stock)

1) Number of shares issued and outstanding at the end of the period (including treasury stock)

Dec. 31, 2019: 40,800,000 shares Mar. 31, 2019: 40,800,000 shares

2) Number of treasury stock at the end of the period

Dec. 31, 2019: 923,194 shares Mar. 31, 2019: 922,347 shares

3) Average number of shares outstanding during the period

Nine months ended Nine months ended
Dec. 31, 2019: 39,877,291 shares Dec. 31, 2018: 39,878,563 shares

※ Indication regarding execution of audit procedures

This quarterly financial results report is exempt from the audit procedures in accordance with the Financial Instruments and Exchange Act. At the time of disclosure of this quarterly financial results report, the audit procedures for quarterly financial statements in accordance with the Financial Instruments and Exchange Act are incomplete.

※ Appropriate use of business forecasts and other special items

(Application of IFRS)

The Company has applied the International Financial Reporting Standards (IFRS) for the consolidated financial statements as of the end of the fiscal year ended March 31, 2019 (FY 2018) onward. In addition, figures for the nine months ended December 31, 2018 have been prepared in accordance with IFRS.

(Note regarding forward-looking statements and other information)

In this document, statements other than historical facts are forward-looking statements that reflect the Company’s plans and expectations. These forward-looking statements involve risks, uncertainties and other factors that may cause our actual results and achievements to differ from those anticipated in these statements.

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1. Qualitative Information on the Period under Review

(1) Operating Results

The world economy in the nine months ended December 31, 2019 saw the United States economy continuing to recover, but it was accompanied by a weak note in Europe, the gradually decelerating economy in China, and signs of weakness in certain emerging countries in Asia. Furthermore, the outlook remained unclear due mainly to the impact of trade friction between the United States and China, and trends in the crude oil market.

As for the Japanese economy, the country saw a slowdown in economic sentiment mainly in the manufacturing industry with weakness in exports and a drop in production.

The chemicals industry has faced an increasingly harsh business environment with sluggish demand caused by a slowdown in the world economy.

1) Overview

(Unit: Millions of yen)

	Nine months ended Dec. 31, 2018	Nine months ended Dec. 31, 2019	Change		FY2018
			(Amount)	(% growth)	
Revenue	258,903	227,105	-31,798	-12.3%	338,869
Operating profit	20,822	10,630	-10,191	-48.9%	26,170
Profit before tax	25,592	13,766	-11,826	-46.2%	32,119
Profit attributable to owners of parent	18,942	9,350	-9,592	-50.6%	23,849
Basic earnings per share	475.00 yen	234.47 yen	-240.53 yen	-50.6%	598.05 yen
ROA (Ratio of profit before tax to total assets)	7.1%	3.8%	-	-3.3 points	6.7%
ROE (Ratio of profit to equity attributable to owners of parent)	8.1%	3.9%	-	-4.2 points	7.5%
Foreign exchange rates (\$ and EUR)	\$=¥111.15 EUR=¥129.47	\$=¥108.67 EUR=¥121.08		-2.48 yen -8.39 yen	\$=¥110.92 EUR=¥128.39
Naphtha price	52,200 yen/kl	42,300 yen/kl		-9,900 yen/kl	49,400 yen/kl

Note: The ROA and ROE figures shown for each nine-month period are annualized.

Under these conditions, the Group's revenue in the nine months ended December 31, 2019 decreased by 12.3% year-on-year to 227,105 million yen, down 31,798 million yen. Factors included a decline in sales prices caused by a fall in raw material costs and weak market conditions for products outside of Japan, and a decline in sales volume due mainly to sluggish demand resulting from a slowdown in the economy.

With regard to profits, operating profit decreased by 10,191 million yen, or 48.9% year-on-year, to 10,630 million yen due to an increase in processing costs and a decline in sales volume as well as a contraction in the spread caused by a fall in product prices larger than that in raw materials costs.

Profit before tax decreased by 46.2% year-on-year to 13,766 million yen, down 11,826 million yen due to decreases in operating profit and share of profit of investments accounted for using equity method.

As a result, profit attributable to owners of parent fell 50.6% year-on-year to 9,350 million yen, down 9,592 million yen.

2) Outline of Sales by Business Segment

Basic Chemicals

Sales of acrylic acids and acrylates decreased due to lower sales prices accompanying a fall in raw materials costs and weak market conditions for products outside of Japan as well as a decline in sales volume.

Sales of ethylene oxide decreased due to a decline in sales volume and lower sales prices accompanying a fall in raw materials costs.

Sales of ethylene glycol decreased due to lower sales prices accompanying weak market conditions for products outside

of Japan, despite increased sales volume.

Sales of secondary alcohol ethoxylates decreased due to a decline in sales volume.

As a result of the above, revenue in the basic chemicals segment decreased by 13.6% year-on-year to 91,988 million yen.

Operating profit decreased by 52.5% year-on-year, to 4,401 million yen. This was due to factors such as an increase in processing costs and a decline in production and sales volume for some products as well as a contraction in the spread caused by a fall in product prices larger than that in raw materials costs.

Functional Chemicals

Sales of superabsorbent polymers decreased due to lower sales prices accompanying a fall in raw materials costs and a decline in sales volume.

Sales of special acrylates decreased due to lower sales prices accompanying weak market conditions for products outside of Japan and a fall in raw materials costs, and a decline in sales volume.

Sales of polymers for concrete admixture, electronic information material, and iodine compounds decreased due to a decline in sales volume.

Sales of water-soluble polymers for raw materials of detergents, resin modifiers, and resins for paints increased due to a rise in sales volume.

Sales of maleic anhydride and ethyleneimine derivatives decreased due to lower sales prices and a decline in sales volume.

As a result, revenue in the functional chemicals segment fell 12.5% year-on-year to 126,938 million yen.

Operating profit decreased by 53.9% year-on-year, to 4,750 million yen. This was due to factors such as an increase in processing costs and a decline in production and sales volume as well as a contraction in the spread caused by a fall in product prices larger than that in raw materials costs.

Environment & Catalysts

Sales of process catalysts decreased due to lower sales volume.

Sales of De-NOx catalysts, waste gas treatment catalysts, fuel cell materials, and materials for lithium-ion batteries increased due to factors such as increased sales volume.

As a result, revenue in the environment & catalysts segment rose 12.2% year-on-year to 8,178 million yen.

Operating profit amounted to 699 million yen, up 34.6% year-on-year. This was due to factors such as a rise in sales volume.

(2) Financial Position

1) Analysis of Financial Position

Total assets at the end of the third quarter of the current fiscal year increased by 2,147 million yen from the end of the previous fiscal year to 483,815 million yen. Current assets decreased by 5,900 million yen compared to the end of the previous fiscal year. This was mainly due to a decrease in trade receivables as a result of lower sales prices in line with a fall in raw materials costs and weak market conditions for products outside of Japan, and a decline in sales volume, despite an increase in inventories. Non-current assets were 8,047 million yen higher than at the end of the previous fiscal year. This was due to an increase in property, plant and equipment as a result of applying IFRS 16 *Leases*.

Total liabilities increased by 1,439 million yen compared to the end of the previous fiscal year to 153,880 million yen. This was due to an increase in other financial liabilities as a result of applying IFRS 16 *Leases*, despite decreases in borrowings, income taxes payable, and provisions.

Total equity increased by 708 million yen compared to the end of the previous fiscal year to 329,935 million yen. This was due to an increase in retained earnings despite a decrease in other components of equity as a result of a decrease in exchange differences on translation of foreign operations caused by fluctuations in exchange rates.

Ratio of profit to equity attributable to owners of parent declined 0.2 percentage points, from 67.1% at the end of the previous fiscal year to 66.9%. Equity attributable to owners of parent per share increased by 18.48 yen compared to the end of the previous fiscal year to 8,118.45 yen.

2) Cash Flows

Cash and cash equivalents at the nine months ended December 31, 2019 amounted to 46,224 million yen, a decrease of 1,210 million yen from the end of the previous fiscal year, as cash flows used in investing activities including capital investment and cash flows used in financing activities exceeded cash flows provided by operating activities.

Cash flow from operating activities

Net cash provided by operating activities in the nine months ended December 31, 2019 amounted to 33,781 million yen (24,481 million yen was provided in the same period of the previous fiscal year). Despite a decrease in profit before tax, settlement of trade receivables made progress and income taxes paid decreased, which led to increased inflows of 9,300 million yen compared to the same period of the previous fiscal year.

Cash flow from investing activities

Net cash used in investing activities in the nine months ended December 31, 2019 totaled 23,503 million yen (20,702 million yen was used in the same period of the previous fiscal year). Despite a decrease in outflow for purchase of property, plant and equipment, outflows increased for purchase of intangible assets including software, which led to increased outflows of 2,802 million yen compared to the same period of the previous fiscal year.

Cash flow from financing activities

Net cash used in financing activities in the nine months ended December 31, 2019 amounted to 11,238 million yen (10,441 million yen was used in the same period of the previous fiscal year). Despite an increase in proceeds from long-term borrowings for capital investment, repayments of borrowings and an increase in dividends paid led to increased outflows of 797 million yen compared to the same period of the previous fiscal year.

(3) Consolidated Financial Forecasts and Other Forward-looking Statements

Operating results in the nine months ended December 31, 2019, have been subject to an increasingly harsh business environment, partially owing to sluggish demand caused by a slowdown in the world economy.

The Group made a downward revision of its initial financial forecasts on July 31, 2019, given a greater-than-expected contraction in the spread caused by market conditions for products outside of Japan and levels of raw material costs as well as a decline in sales volume due to a decrease in demand caused by trade friction between the United States and China. At the time, the Group projected a recovery of sales volume and improvement of the spread due to stabilization of raw material costs for the second half of the fiscal year onward.

However, even in the fourth quarter of the current fiscal year, demand has continued to decline against a backdrop of trade friction between the United States and China and other factors. In the basic chemicals segment, while market conditions for products outside of Japan continue to be weak, raw material costs including domestic naphtha are rising, which will lead to a further contraction of the spread and the recovery in sales volume falling short of expectations. The functional chemicals segment has a similar backdrop, and a contraction in the spread is expected alongside intensifying competition mainly for superabsorbent polymers, while sales volume is expected to decline for products for the automobile industry and electronic information materials, which will inevitably result in a decline in profits. Therefore, the previous full-year financial forecasts were revised downward.

Figures for these forecasts are based on exchange rates of 110 yen to the U.S. dollar and 120 yen to the euro, and domestic naphtha prices of 46,000 yen/kl for the fourth quarter of the current fiscal year.

Although the business environment surrounding the Group, including economic trends, is foreseen to remain severe, sincere efforts will be made to increase revenue including expanding sales volume and spread as well as cutting costs.

Revised consolidated financial forecasts

Revised full-year consolidated financial forecasts for the fiscal year ending Mar. 31, 2020 (from Apr. 1, 2019 to Mar. 31, 2020)

	Revenue	Operating profit	Profit before tax	Profit attributable to owners of parent	Basic earnings per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous Estimates (A)	325,000	17,500	21,000	16,000	401.23
Revised Estimates (B)	305,000	11,000	14,500	9,500	238.23
Variance in Amount (B-A)	-20,000	-6,500	-6,500	-6,500	
Variance in Percentage (%)	-6.2	-37.1	-31.0	-40.6	
Full Year of Fiscal Year Ended March 31, 2019	338,869	26,170	32,119	23,849	598.05

Revised non-consolidated financial forecasts

Revised full-year non-consolidated financial forecasts for the fiscal year ending Mar. 31, 2020 (from Apr. 1, 2019 to Mar. 31, 2020)

	Revenue	Operating profit	Profit before tax	Profit	Basic earnings per share
	Millions of yen	Millions of yen	Millions of yen	Millions of yen	Yen
Previous Estimates (A)	217,500	12,600	20,400	16,500	413.77
Revised Estimates (B)	207,500	9,000	17,500	13,500	338.54
Variance in Amount (B-A)	-10,000	-3,600	-2,900	-3,000	
Variance in Percentage (%)	-4.6	-28.6	-14.2	-18.2	
Full Year of Fiscal Year Ended March 31, 2019	232,222	17,356	26,216	20,371	510.83

Our full-year forecasts by reportable segment (consolidated) are as follows:

(Unit: Billions of yen)

	Basic Chemicals		Functional Chemicals		Environment & Catalysts		Adjustment	Total	
	Revenue	Operating profit	Revenue	Operating profit	Revenue	Operating profit	Operating profit	Revenue	Operating profit
Previous forecasts	131.0	8.5	185.5	7.8	8.5	0.4	0.8	325.0	17.5
Revised forecasts	122.0	6.0	173.0	3.7	10.0	0.6	0.7	305.0	11.0
Difference	-9.0	-2.5	-12.5	-4.1	1.5	0.2	-0.1	-20.0	-6.5

Note: Segment profit adjustment includes inter-segment transaction eliminations and corporate profit (loss) not allocated to reportable segments.

2. Condensed Quarterly Consolidated Financial Statements and Related Notes**(1) Condensed Quarterly Consolidated Statements of Financial Position**

(Unit: Millions of yen)

	FY2018 As of Mar. 31, 2019	3Q-FY2019 As of Dec. 31, 2019
Assets		
Current assets		
Cash and cash equivalents	47,434	46,224
Trade receivables	81,158	73,420
Inventories	59,266	62,184
Other financial assets	8,945	9,422
Other current assets	4,768	4,421
Total current assets	201,571	195,670
Non-current assets		
Property, plant and equipment	193,632	200,996
Goodwill	4,360	4,239
Intangible assets	9,200	9,955
Investments accounted for using equity method	21,773	18,887
Other financial assets	38,296	41,324
Retirement benefit asset	8,149	8,095
Deferred tax assets	2,736	2,763
Other non-current assets	1,951	1,887
Total non-current assets	280,097	288,145
Total assets	481,668	483,815

	FY2018 As of Mar. 31, 2019	3Q-FY2019 As of Dec. 31, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade payables	51,866	51,083
Bonds and borrowings	20,851	14,783
Other financial liabilities	7,818	11,311
Income taxes payable	3,850	1,117
Provisions	5,178	2,937
Other current liabilities	4,464	4,129
Total current liabilities	94,028	85,361
Non-current liabilities		
Bonds and borrowings	34,902	37,904
Other financial liabilities	1,501	6,988
Retirement benefit liability	14,119	14,354
Provisions	1,896	1,910
Deferred tax liabilities	5,995	7,363
Total non-current liabilities	58,413	68,519
Total liabilities	152,441	153,880
Equity		
Share capital	25,038	25,038
Capital surplus	22,472	22,472
Treasury shares	-6,274	-6,280
Retained earnings	276,934	279,090
Other components of equity	4,838	3,418
Total equity attributable to owners of parent	323,008	323,738
Non-controlling interests	6,219	6,197
Total equity	329,227	329,935
Total liabilities and equity	481,668	483,815

(2) Condensed Quarterly Consolidated Statements of Profit or Loss and Condensed Quarterly Consolidated Statements of Comprehensive Income
Condensed Quarterly Consolidated Statements of Profit or Loss

(Unit: Millions of yen)

	3Q-FY 2018 Apr. 1, 2018 to Dec. 31, 2018	3Q-FY 2019 Apr. 1, 2019 to Dec. 31, 2019
Revenue	258,903	227,105
Cost of sales	207,974	186,168
Gross profit	50,930	40,937
Selling, general and administrative expenses	30,809	31,551
Other operating income	1,509	2,072
Other operating expenses	808	828
Operating profit	20,822	10,630
Finance income	1,408	1,456
Finance costs	671	660
Share of profit of investments accounted for using equity method	4,034	2,340
Profit before tax	25,592	13,766
Income tax expense	6,332	4,046
Profit	19,260	9,720
Profit attributable to		
Owners of parent	18,942	9,350
Non-controlling interests	318	370
Profit	19,260	9,720
Earnings per share		
Basic earnings per share (Yen)	475.00	234.47
Diluted earnings per share (Yen)	-	-

Condensed Quarterly Consolidated Statements of Comprehensive Income

(Unit: Millions of yen)

	3Q-FY 2018 Apr. 1, 2018 to Dec. 31, 2018	3Q-FY 2019 Apr. 1, 2019 to Dec. 31, 2019
Profit	19,260	9,720
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	-4,356	1,590
Share of other comprehensive income of investments accounted for using equity method	-9	10
Total of items that will not be reclassified to profit or loss	-4,365	1,601
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	787	-1,926
Effective portion of cash flow hedges	-3	-
Share of other comprehensive income of investments accounted for using equity method	-546	-1,242
Total of items that may be reclassified to profit or loss	238	-3,168
Other comprehensive income	-4,127	-1,567
Comprehensive income	15,133	8,153
Comprehensive income attributable to		
Owners of parent	14,814	7,914
Non-controlling interests	319	239
Comprehensive income	15,133	8,153

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Nine months ended Dec. 31, 2018 (Apr. 1, 2018 to Dec. 31, 2018)

(Unit: Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of period	25,038	22,400	-6,263	258,117	8,072	-
Profit	-	-	-	18,942	-	-
Other comprehensive income	-	-	-	-	-4,353	-9
Comprehensive income	-	-	-	18,942	-4,353	-9
Purchase of treasury shares	-	-	-10	-	-	-
Dividends	-	-	-	-6,580	-	-
Increase (decrease) in non-controlling interests	-	55	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	7	-16	9
Total transactions with owners	-	55	-10	-6,573	-16	9
Balance at end of period	25,038	22,455	-6,273	270,486	3,704	-

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Effective portion of cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	3	1,705	9,780	309,073	7,115	316,188
Profit	-	-	-	18,942	318	19,260
Other comprehensive income	-3	236	-4,128	-4,128	1	-4,127
Comprehensive income	-3	236	-4,128	14,814	319	15,133
Purchase of treasury shares	-	-	-	-10	-	-10
Dividends	-	-	-	-6,580	-355	-6,935
Increase (decrease) in non-controlling interests	-	-	-	55	-656	-601
Transfer from other components of equity to retained earnings	-	-	-7	-	-	-
Total transactions with owners	-	-	-7	-6,535	-1,012	-7,547
Balance at end of period	-	1,941	5,645	317,352	6,422	323,774

Nine months ended Dec. 31, 2019 (Apr. 1, 2019 to Dec. 31, 2019)

(Unit: Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of period	25,038	22,472	-6,274	276,934	3,942	-
Profit	-	-	-	9,350	-	-
Other comprehensive income	-	-	-	-	1,591	10
Comprehensive income	-	-	-	9,350	1,591	10
Purchase of treasury shares	-	-	-6	-	-	-
Dividends	-	-	-	-7,178	-	-
Increase (decrease) in non-controlling interests	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	-16	27	-10
Total transactions with owners	-	-	-6	-7,194	27	-10
Balance at end of period	25,038	22,472	-6,280	279,090	5,559	-

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Effective portion of cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	-	896	4,838	323,008	6,219	329,227
Profit	-	-	-	9,350	370	9,720
Other comprehensive income	-	-3,038	-1,437	-1,437	-131	-1,567
Comprehensive income	-	-3,038	-1,437	7,914	239	8,153
Purchase of treasury shares	-	-	-	-6	-	-6
Dividends	-	-	-	-7,178	-261	-7,439
Increase (decrease) in non-controlling interests	-	-	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	16	-	-	-
Total transactions with owners	-	-	16	-7,184	-261	-7,445
Balance at end of period	-	-2,142	3,418	323,738	6,197	329,935

(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	3Q-FY 2018 Apr. 1, 2018 to Dec. 31, 2018	3Q-FY 2019 Apr. 1, 2019 to Dec. 31, 2019
Cash flows from operating activities		
Profit before tax	25,592	13,766
Depreciation and amortization	18,966	21,175
Decrease (increase) in retirement benefit asset	28	54
Increase (decrease) in retirement benefit liability	123	261
Interest and dividend income	-1,406	-1,453
Interest expenses	422	401
Share of loss (profit) of investments accounted for using equity method	-4,034	-2,340
Decrease (increase) in trade receivables	-4,730	7,355
Decrease (increase) in inventories	-2,542	-3,258
Increase (decrease) in trade payables	-3,065	-573
Other	471	-437
Subtotal	29,825	34,951
Interest and dividends received	4,050	5,293
Interest paid	-496	-357
Income taxes paid	-8,897	-6,105
Net cash provided by (used in) operating activities	24,481	33,781
Cash flows from investing activities		
Purchase of property, plant and equipment	-21,385	-20,721
Purchase of intangible assets	-108	-1,279
Purchase of investments	-3,149	-3,515
Proceeds from sale and redemption of investments	3,460	3,262
Acquisition of shares of subsidiaries and affiliates	-	-443
Other	480	-808
Net cash provided by (used in) investing activities	-20,702	-23,503
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	756	534
Proceeds from long-term borrowings	800	8,771
Repayments of long-term borrowings	-4,370	-11,834
Repayments of lease liabilities	-80	-1,263
Purchase of treasury shares	-10	-6
Dividends paid	-6,580	-7,178
Dividends paid to non-controlling interests	-355	-261
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	-601	-
Net cash provided by (used in) financing activities	-10,441	-11,238
Effect of exchange rate changes on cash and cash equivalents	255	-249
Net increase (decrease) in cash and cash equivalents	-6,406	-1,210
Cash and cash equivalents at beginning of period	52,635	47,434
Cash and cash equivalents at end of period	46,229	46,224

(5) Notes Concerning Condensed Quarterly Consolidated Financial Statements**【Going Concern Assumption】**

Not applicable.

【Changes in Accounting Policies】

The accounting policies applied in these condensed quarterly consolidated financial statements are the same as those applied in the consolidated financial statements for the previous fiscal year with the exception of the following.

Income tax expense in the nine months ended December 31, 2019 is calculated based on the estimated average annual effective tax rate.

The Group has applied the following standard from the first quarter ended June 30, 2019.

IFRS	Standard	Overview of introduction or revision
IFRS 16	Leases	Revised accounting treatment for leases

(Accounting policies after the application of IFRS 16)

Lease liabilities in lease transactions are measured at the discounted present value of the residual amount of total lease payments at the lease commencement date. Right-of-use assets are initially measured based on the initially measured amount of the lease liability adjusted for initial direct costs and prepaid lease payments, etc., and added costs such as obligations of restoration to original conditions requested by lease contracts. Right-of-use assets are depreciated regularly over the lease term.

The discount rate that shall be used in calculating the discounted present value of the residual amount of total lease payments is the interest rate implicit in the lease, if this is practicably possible, and if not, the lessee's incremental borrowing rate.

Lease payments are distributed between interest costs and repayment of lease liabilities so that interest rates will be constant on the remaining balance of the lease liability. Finance costs are presented separately from the depreciation and amortization of right-of-use assets in the consolidated statements of profit or loss.

Whether or not a contract is, or contains, a lease is determined based on the substance of a contract, even when it does not take the legal form of a lease.

Lease payments for leases that have a lease term of twelve months or less and leases for which the underlying assets are of low value are recognized as expenses on either a straight-line basis over the lease term or another systematic basis.

(Accounting treatment along with the application of IFRS 16)

In applying IFRS 16, the Group has adopted a method of recognizing the cumulative effects of applying this standard on the date of initial application, which is accepted as a transitional measure.

For the application of IFRS 16, the Group has chosen the practical expedient in paragraph C3 of IFRS 16 with regard to determining whether or not a contract contains a lease, and opted to retain the assessments provided under IAS 17 *Leases* (hereinafter, "IAS 17") and IFRIC 4 *Determining whether an Arrangement Contains a Lease*. From the date of initial application, determinations will be made based on the provisions of IFRS 16.

As for leases that the Group as lessee previously classified as operating leases by applying IAS 17, with the exception of short-term leases and leases of low-value assets, these leases were recognized as right-of-use assets or lease liabilities on the date of initial application. Lease payments for short-term leases and leases of low-value assets are recognized as expenses on a straight-line basis over the lease term. Lease liabilities are measured at the present value of the residual lease payments discounted using the lessee's incremental borrowing rate at the date of initial application. The weighted average of this incremental borrowing rate is 2.2%. Right-of-use assets are initially measured based on the initially measured amount of the lease liability adjusted for prepaid lease payments, etc.

With the application of IFRS 16, the Group has recognized right-of-use assets and lease liabilities amounting to 5,800 million yen and 5,789 million yen, respectively, as of the date of initial application.

Although lease payments for existing operating leases were previously included under cash flows from operating activities in the condensed quarterly consolidated statements of cash flows, with the application of IFRS 16, adjustments primarily related to the depreciation and amortization of right-of-use assets are included under cash flows from operating activities, and lease liabilities paid are included under cash flows from financing activities.

In addition, the difference between the total minimum lease payments of non-cancellable operating lease agreements disclosed under IAS 17 as of March 31, 2019 (discounted at the incremental borrowing rate) and lease liabilities recognized at the time of initial application of IFRS 16 amounts to 6,554 million yen. This is mainly due to recording 5,789 million yen in lease liabilities as a result of the reassessment of lease terms in applying IFRS 16.

The Group has adopted the following practical expedients in applying IFRS 16:

- Apply a single discount rate to a portfolio of leases with reasonably similar characteristics
- Exclude initial direct costs from the measurement of the right-of-use asset at the date of initial application.

【Segment Information, etc.】

1. Outline of Reportable Segments

The Company's reportable segments are divisions of the Company for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors of the Company in order to allocate management resources and assess performance of operations.

The Company's main business lines are divided based on similarities of function and nature and the Company prepares the comprehensive strategy and conducts the business activities corresponding to the products handled by each business line.

Accordingly, the Company is comprised of reportable segments classified by type of products based on each business line and does not aggregate its operating results. The three reportable segments of the Company are Basic chemicals, Functional chemicals, and Environment & catalysts.

The basic chemicals segment is engaged in the manufacturing and sales of acrylic acids, acrylates, ethylene oxide, ethylene glycol, ethanolamine, secondary alcohol ethoxylates and glycol ethers. The functional chemicals segment is engaged in the manufacturing and sales of superabsorbent polymers, special acrylates, intermediates for pharmaceuticals, polymers for concrete admixture, electronic information material, iodine, maleic anhydride, resins for adhesives and paints, and adhesive products. The environment & catalysts segment is engaged in the manufacturing and sales of automotive catalysts, De-NOx catalysts, dioxin decomposition catalysts, process catalysts, waste gas treatment catalysts and fuel cell materials.

2. Information Concerning Revenue and Income or Loss by Reportable Segment

Nine months ended Dec. 31, 2018 (Apr. 1, 2018 to Dec. 31, 2018)

(Unit: Millions of yen)

	Reportable segments				Adjustment (Note)	Total
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Total		
Revenue						
(1) Revenue to third parties	106,519	145,093	7,291	258,903	–	258,903
(2) Intergroup revenue and transfers	30,046	5,647	822	36,515	–36,515	–
Total	136,565	150,740	8,113	295,419	–36,515	258,903
Segment income	9,268	10,293	519	20,081	741	20,822
Finance income	–	–	–	–	–	1,408
Finance costs	–	–	–	–	–	671
Share of profit of investments accounted for using equity method	–	–	–	–	–	4,034
Profit before tax	–	–	–	–	–	25,592

Notes: The “Segment income” adjustment includes inter-segment transaction eliminations and corporate profit (loss) not allocated to reportable segments amounting to 741 million yen.

Nine months ended Dec. 31, 2019 (Apr. 1, 2019 to Dec. 31, 2019)

(Unit: Millions of yen)

	Reportable segments				Adjustment (Note)	Total
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Total		
Revenue						
(1) Revenue to third parties	91,988	126,938	8,178	227,105	–	227,105
(2) Intergroup revenue and transfers	25,280	4,365	1,539	31,184	–31,184	–
Total	117,268	131,303	9,717	258,289	–31,184	227,105
Segment income	4,401	4,750	699	9,851	779	10,630
Finance income	–	–	–	–	–	1,456
Finance costs	–	–	–	–	–	660
Share of profit of investments accounted for using equity method	–	–	–	–	–	2,340
Profit before tax	–	–	–	–	–	13,766

Notes: The “Segment income” adjustment includes inter-segment transaction eliminations and corporate profit (loss) not allocated to reportable segments amounting to 779 million yen.

3. Information Concerning Impairment Loss of Non-current Assets or Goodwill, etc. by Reportable Segment

Nine months ended Dec. 31, 2018 (Apr. 1, 2018 to Dec. 31, 2018)

Not applicable.

Nine months ended Dec. 31, 2019 (Apr. 1, 2019 to Dec. 31, 2019)

Not applicable.

【Supplementary Information】**Overseas Revenue****Nine months ended Dec. 31, 2018 (Apr. 1, 2018 to Dec. 31, 2018)**

(Unit: Millions of yen)

	Asia	Europe	North America	Others	Total
I. Overseas revenue	66,585	33,513	20,074	15,767	135,939
II. Consolidated revenue					258,903
III. Overseas revenue to consolidated revenue	25.7%	12.9%	7.8%	6.1%	52.5%

Nine months ended Dec. 31, 2019 (Apr. 1, 2019 to Dec. 31, 2019)

(Unit: Millions of yen)

	Asia	Europe	North America	Others	Total
I. Overseas revenue	63,488	29,215	16,232	12,900	121,835
II. Consolidated revenue					227,105
III. Overseas revenue to consolidated revenue	27.9%	12.9%	7.1%	5.7%	53.6%

Notes: 1. Geographical segments are classified according to geographical proximity.

2. Specific countries of each area:

(1) Asia: East and South East Asian countries

(2) Europe: European countries

(3) North America: North American countries

(4) Others: Areas/countries except Asia, Europe, North America, and Japan

3. "Overseas revenue" means revenue outside Japan by NIPPON SHOKUBAI CO., LTD. and its consolidated subsidiaries.