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Securities Code: 4114

May 27, 2019

To Our Shareholders

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

Convocation Notice of The 107th Ordinary General Meeting of Shareholders

NIPPON SHOKUBAI CO., LTD. (the “Company”) will be holding the 107th 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, 2019 (Wednesday).

- 1. Date/Time:** June 20, 2019 (Thursday) 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 107th Term (from April 1, 2018 to March 31, 2019)
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 107th 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 Three (3) Statutory Corporate Auditors
- 4th Agenda: Bonuses for Officers for the 107th 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 2018 (ended March 31, 2019) is as follows.

1. Matters Concerning the Year-end Dividend

The Company proposes a year-end dividend of 90 yen per share for the fiscal year 2018, an increase of 10 yen from the interim dividend. Together with the interim dividend, this would give an annual dividend of record-high 170 yen per share, an increase of 10 yen from the 106th term.

- (1) Type of Dividend: Cash
- (2) Dividend Payment and Total Amount:
90.00 yen per share of common stock of the Company
Total amount of dividends: 3,588,988,770 yen
- (3) Effective Date of Distribution of Retained Earnings: June 21, 2019

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 terms 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 nine (9) candidates for reelection as Members of the Board.

The candidates for Member of the Board are as follows:

No.	Name	Positions	Responsibilities	Attendance at the Board meetings	Attribute		
1	Yujiro Goto	President and Representative Member of the Board	—	13/13	Reelection		
2	Masao Yamamoto	Representative Member of the Board Senior Managing Executive Officer	Administration, HR, Finance, Accounting, Information Technology General Affairs & HR Division, IT Management Office, ERP Innovation Project	13/13	Reelection		
3	Yojiro Takahashi	Member of the Board Senior Managing Executive Officer	Innovation & Business Development, Health & Medical Business Development Office, Malonates Business Development Office, Cosmetics Business Office	13/13	Reelection		
4	Koichiro Yamada	Member of the Board Managing Executive Officer	Sales, Marketing, Purchasing, Logistics, Ethylene Oxide Business Division, Business Development & Marketing	10/10	Reelection		
5	Jiro Iriguchi	Member of the Board Managing Executive Officer	Production & Technology, Production Division, Engineering Division, Indonesia Project, AI Promotion Team	10/10	Reelection		
6	Yukihiro Matsumoto	Member of the Board, Executive Officer	Director of Corporate Planning Division	13/13	Reelection		
7	Kozo Arao	Member of the Board (Outside)	—	13/13	Reelection	Outside	Independent
8	Shinji Hasebe	Member of the Board (Outside)	—	10/10	Reelection	Outside	Independent
9	Tetsuo Setoguchi	Member of the Board (Outside)	—	10/10	Reelection	Outside	Independent



Candidate for reelection



Candidate for Outside Member of the Board



Candidate for Independent Officer

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: 13/13 meetings	<p>Apr. 1980 Joined the Company</p> <p>June 2012 Executive Officer, Plant Manager of Kawasaki Plant</p> <p>June 2015 Member of the Board and Managing Executive Officer</p> <p>Apr. 2017 President and Representative Member of the Board (current)</p>	4,200 shares
<p><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.</p>			
2	Masao Yamamoto (Aug. 29, 1952) Reelection Attendance at the Board meetings during the current fiscal year: 13/13 meetings	<p>Apr. 1977 Joined Sumitomo Chemical Co., Ltd.</p> <p>Mar. 2009 Joined the Company as an entrusted worker</p> <p>Apr. 2009 Director of General Affairs & HR Division</p> <p>June 2009 Member of the Board</p> <p>June 2010 Executive Officer</p> <p>June 2011 Member of the Board and Managing Executive Officer</p> <p>June 2016 Member of the Board, Senior Managing Executive Officer</p> <p>June 2018 Representative Member of the Board, Senior Managing Executive Officer (current)</p> <p>(Current responsibility in the Company) Administration, HR, Finance, Accounting, Information Technology General Affairs & HR Division, IT Management Office, ERP Innovation Project</p>	7,300 shares
<p><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.</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
3	Yojiro Takahashi (July 7, 1954) Reelection Attendance at the Board meetings during the current fiscal year: 13/13 meetings	Apr. 1977 Joined the Company Apr. 2009 Director of Corporate Planning Division June 2009 Member of the Board June 2010 Executive Officer June 2013 Member of the Board and Managing Executive Officer June 2018 Member of the Board, Senior Managing Executive Officer (current) (Current responsibility in the Company) Innovation & Business Development Health & Medical Business Development Office, Malonates Business Development Office and Cosmetics Business Office	4,000 shares
		<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.	
4	Koichiro Yamada (Nov. 29, 1955) Reelection Attendance at the Board meetings during the current fiscal year: 10/10 meetings (following his election on June 20, 2018)	Apr. 1978 Joined the Company Apr. 2007 Director of Ethylene Oxide Business Division Apr. 2009 Director of Acrylic Business Division June 2009 Member of the Board June 2010 Executive Officer June 2013 Managing Executive Officer June 2018 Member of the Board and Managing Executive Officer (current) (Current responsibility in the Company) Sales, Marketing, Purchasing, Logistics Ethylene Oxide Business Division, and Business Development & Marketing	2,000 shares
		<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 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
5	Jiro Iriguchi (Oct. 28, 1958) Reelection Attendance at the Board meetings during the current fiscal year: 10/10 meetings (following his election on June 20, 2018)	<p>Apr. 1984 Joined the Company</p> <p>Apr. 2004 General Manager of Fine & Specialty Chemicals Production Department of Himeji Plant</p> <p>Apr. 2009 General Manager of Chemicals Production Department of Himeji Plant</p> <p>Apr. 2011 Deputy Plant Manager of Himeji Plant</p> <p>June 2013 Director of NIPPOH CHEMICALS CO., LTD.</p> <p>June 2018 Member of the Board and Managing Executive Officer (current)</p> <p>(Current responsibility in the Company) Production & Technology, Production Division, Engineering Division, Indonesia Project and AI Promotion Team</p>	1,000 shares
	<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 continue as Member of the Board.</p>		
6	Yukihiro Matsumoto (Jan. 24, 1964) Reelection Attendance at the Board meetings during the current fiscal year: 13/13 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</p>	2,400 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
7	<p>Kozo Arao (Jan. 20, 1946)</p> <p>Outside Member of the Board</p> <p>Independent Officer</p> <p>Reelection</p> <p>Attendance at the Board meetings during the current fiscal year: 13/13 meetings</p>	<p>July 1971 Registered as attorney-at-law Joined Nakasuji Law Office (at present, Nakanoshima Chuo Law Office) (current)</p> <p>Apr. 1996 Deputy Chairman of the Osaka Bar Association</p> <p>Apr. 1997 Member of the Committee for Conciliation of Civil Affairs of the Osaka District Court and the Osaka Summary Court</p> <p>June 2010 Corporate Auditor of Nankai Electric Railway Co., Ltd. (current)</p> <p>Feb. 2011 External Audit and Supervisory Board member of The Japan Wool Textile Co., Ltd.</p> <p>June 2011 External Statutory Corporate Auditor at the Company</p> <p>Feb. 2015 External Director of The Japan Wool Textile Co., Ltd. (current)</p> <p>Dec. 2015 Outside Audit & Supervisory Board Member of HOSOKAWA MICRON CORPORATION (current)</p> <p>June 2016 Outside Member of the Board at the Company (current)</p>	-
<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 External Statutory 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 three years.</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
8	<p>Shinji Hasebe (Aug. 27, 1953)</p> <p>Outside Member of the Board</p> <p>Independent Officer</p> <p>Reelection</p> <p>Attendance at the Board meetings during the current fiscal year: 10/10 meetings (following his election on June 20, 2018)</p>	<p>Apr. 1993 Associate Professor of Faculty of Engineering, Kyoto University</p> <p>Aug. 2003 Professor of Graduate School of Engineering, Kyoto University</p> <p>June 2018 Outside Member of the Board at the Company (current)</p> <p>Apr. 2019 Program-Specific Professor of the Institute for Liberal Arts and Sciences, Kyoto University (current)</p>	-
<p><Reasons for nominating as a candidate for Outside Member of the Board> The Company requests the reelection 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 based on his expertise in chemical engineering and familiarity with the chemical industry, in addition to his past achievements as an Outside Member of the Board of the Company. At the close of this Ordinary General Meeting of Shareholders, Mr. Hasebe will have been an Outside Member of the Board for one year.</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 Reelection Attendance at the Board meetings during the current fiscal year: 10/10 meetings (following his election on June 20, 2018)	Apr. 1981 Joined Osaka Gas Co., Ltd. Apr. 2015 Representative Director Executive Vice President of Osaka Gas Co., Ltd. Apr. 2018 Director of Osaka Gas Co., Ltd. Chairman and Director of Gas and Power Co., Ltd. (current) June 2018 Outside Member of the Board at the Company (current) Advisor to Osaka Gas Co., Ltd. (current)	-
	<p><Reasons for nominating as a candidate for Outside Member of the Board> The Company requests the reelection 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, in addition to his past achievements as an Outside Member of the Board of the Company. At the close of this Ordinary General Meeting of Shareholders, Mr. Setoguchi will have been an Outside Member of the Board for one year.</p>		

(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 liability limitation contracts with Mr. Kozo Arao, Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi 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, Mr. Hasebe and Mr. Setoguchi are reelected as Outside Members of the Board, the Company plans to extend the contract 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 12). The Company has reported to the Tokyo Stock Exchange that Mr. Arao, Mr. Hasebe and Mr. Setoguchi have been appointed as independent officers, and in the event Mr. Arao, Mr. Hasebe and Mr. Setoguchi are reelected, the Company plans to report to the exchange that they will continue to be independent officers.

(Note 5) The Company has contributed funds for research activities to Kyoto University, at which Mr. Shinji Hasebe serves as a Program-Specific Professor. Compared to the University's ordinary profit, however, the average contribution amount in the recent three fiscal years is nominal (less than 0.1%), 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 an Advisor. 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 0.3%) 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.

Agenda Item No. 3: Election of Three (3) Statutory Corporate Auditors

As the terms of office of Statutory Corporate Auditors Mr. Taizo Maruo, Mr. Yoshihiro Arita and Mr. Satoshi Taguchi will expire at the conclusion of this Ordinary General Meeting of Shareholders, we are submitting the following three (3) candidates for election as Statutory Corporate Auditors.

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

The candidates for Statutory Corporate Auditor are as follows:

No.	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
1	Yoshihiro Arita (Mar. 19, 1959) Reelection Attendance at the Board meetings during the current fiscal year: 13/13 meetings Attendance at the Auditors meetings: 13/13	Apr. 1983 Joined the Company Apr. 2004 General Manager of Corporate Planning Division Apr. 2010 Deputy General Manager of Responsible Care Office Apr. 2015 Deputy General Manager of Finance & Accounting Division June 2015 Full-time Statutory Corporate Auditor (current)	1,200
	<Reasons for nominating as a candidate for Statutory Corporate Auditor> The Company requests the reelection of Mr. Yoshihiro Arita for him to serve as Statutory Corporate Auditor based on the belief that he will contribute valuable opinions to the Board meeting and properly audit the legality of management execution, etc., based on his wealth of experience at corporate planning, responsible care and finance & accounting divisions, in addition to his past achievements as a Statutory Corporate Auditor of the Company.		
2	Teruhisa Wada (Jan. 7, 1963) New election	Apr. 1985 Joined the Company Mar. 2006 General Manager of Personnel Department Apr. 2010 General Manager of General Affairs Department Oct. 2018 Senior Principal Staff attached to Statutory Corporate Auditors (current)	1,200
	<Reasons for nominating as a candidate for Statutory Corporate Auditor> The Company requests the election of Mr. Teruhisa Wada for him to serve as Statutory Corporate Auditor based on the belief that he will contribute valuable opinions to the Board meeting and properly audit the legality of management execution, etc., based on his wealth of experience at general administration & personnel division.		

No.	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
3	Yoritomo Wada (Oct. 23, 1955)	Apr. 1978	Joined Tohmatsu Aoki & Co. (at present, Deloitte Touche Tohmatsu LLC)	-
	External Statutory Corporate Auditor Independent Officer New election	June 1996	Partner, Tohmatsu Audit Firm (at present, Deloitte Touche Tohmatsu LLC) (current)	
<Reasons for nominating as a candidate for External Statutory Corporate Auditor> The Company requests the election of Mr. Yoritomo Wada for him to serve as External Statutory Corporate Auditor based on the belief that he will contribute valuable opinions to the Board meeting and properly audit the legality of management execution, etc., from an objective position, based on his highly professional expertise and a wealth of experience as a certified public accountant.				

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

(Note 2) Mr. Yoritomo Wada is a candidate for External Statutory Corporate Auditor.

(Note 3) In the event Mr. Yoritomo Wada is elected as an External Statutory 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 4) Mr. Yoritomo Wada meets the criteria of independence set out by Tokyo Stock Exchange, Inc. and the Criteria of Independence set out by the Company (stated on page 12). In the event Mr. Yoritomo Wada is elected, the Company plans to appoint him as an independent officer and report to the Exchange to that effect.

(Note 5) The Company has paid consideration in exchange for the provision of service by Deloitte Touche Tohmatsu LLC, at which Mr. Yoritomo Wada serves as Partner. Compared to the firm's business income, however, the average payment amount in the recent three fiscal years is nominal (less than 0.1%), and the Company determined that it will have no impact on the independence of Mr. Wada.

(Note 6) Mr. Yoritomo Wada will retire as Partner of Deloitte Touche Tohmatsu LLC on June 15, 2019.

(Reference)
Criteria of Independence

The Company has established criteria of independence for Outside Members of the Board and External Statutory 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 or grants 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 or grants from the Company Group in average of the three most recent fiscal years. In the case that the recipient of these donations or grants 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 Officers for the 107th 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 meeting.

Business Report

(April 1, 2018 through March 31, 2019)

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, while the pickup trend coming to a standstill 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 the crude oil market trend.

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

In the chemicals industry, although demand remained steady, outlook such as for the trends in raw material costs was unclear.

Under these conditions, the Group's consolidated net sales in the current fiscal year increased 8.3% year-on-year to 349,678 million yen, up 26,877 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.

With regard to profits, in spite of the volume effects resulted from increased production and sales volume mainly in the functional chemicals segment, higher processing costs led to lower operating profit, which was down 618 million yen, or 2.3% year-on-year, to 26,110 million yen.

Non-operating income increased 1,426 million yen due to an increase in share of profit of entities accounted for using equity method. As a result, ordinary profit was up 2.5% to 33,101 million yen, 809 million yen higher than the previous fiscal year.

As a result, profit attributable to owners of parent rose 3.0% to 25,012 million yen, up 731 million yen.

Consolidated net sales	349.7 billion yen (up 8.3% year-on-year)
Consolidated operating profit	26.1 billion yen (down 2.3% year-on-year)
Consolidated ordinary profit	33.1 billion yen (up 2.5% year-on-year)
Profit attributable to owners of parent	25.0 billion yen (up 3.0% 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, despite declined sales volume.

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

Sales of ethylene glycol decreased due to declined sales volume.

Sales of ethanolamine decreased due to declined sales volume, despite a revision in sales prices accompanying rising raw materials costs.

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 7.5% year-on-year to 129,075 million yen.

Operating profit decreased 19.7% year-on-year, to 10,366 million yen. This was due to factors such as an increase in processing costs and selling, general, and administrative expenses, despite widening of the spread owing to an increase in sales prices in excess of a hike in raw material 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 polymers for concrete admixture, water-soluble polymers for raw materials of detergents, resins for paints, adhesive products and electronic information material increased due to higher sales volume.

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

Sales of maleic anhydride and resin modifiers decreased due to decreased sales volume.

Sales of ethyleneimine derivatives and iodine compounds increased due to a change in the product mix, despite lower sales volume.

As a result, net sales in the functional chemicals segment rose 9.7% year-on-year to 190,808 million yen.

Operating profit increased 4.1% year-on-year to 14,499 million yen. This was due to factors such as increased production and sales volume and decreased selling, general, and administrative expenses, despite an increase in processing costs.

[Environment & Catalysts]

Sales of automotive catalysts decreased due to decreased sales volume, in spite of the appreciation of sales prices of precious metals.

Sales of fuel cell materials decreased due to a decline in sales prices, despite higher sales volume.

Sales of process catalysts, wet oxidation catalysts and materials for lithium-ion batteries increased due to higher sales volume.

Sales of De-NOx catalysts and waste gas treatment catalysts decreased due to lower sales volume.

As a result of the above, net sales in the environment & catalysts segment rose 3.4% year-on-year to 29,796 million yen.

Operating profit in the segment increased 674 million yen year-on-year to 942 million yen, on account of an increase in sales volume and a decrease in selling, general, and administrative expenses.

(Sales by Business Segment)

(Unit: Millions of yen)

	Fiscal Year ended March 31, 2018 (Apr. 1, 2017 – Mar. 31, 2018)	Fiscal Year ended March 31, 2019 (Apr. 1, 2018 – Mar. 31, 2019)	Change
Basic Chemicals	120,025	129,075	9,050
Functional Chemicals	173,965	190,808	16,843
Environment & Catalysts	28,811	29,796	985

(Operating Profit by Business Segment)

(Unit: Millions of yen)

	Fiscal Year ended March 31, 2018 (Apr. 1, 2017 – Mar. 31, 2018)	Fiscal Year ended March 31, 2019 (Apr. 1, 2018 – Mar. 31, 2019)	Change
Basic Chemicals	12,912	10,366	-2,546
Functional Chemicals	13,935	14,499	565
Environment & Catalysts	268	942	674

(2) Capital Expenditures

The total amount of the Company's capital expenditures for FY 2018 was 26,479 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 2018, 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, 2019 was 56,264 million yen, 1,800 million yen lower than the previous fiscal year primarily due to 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>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 (IFRS)

(Unit: Billion yen)

	Revenue	Profit before tax	ROA ²	Sales for new products ³ in existing businesses	Sales for new businesses
FY2020 target figures ¹	400	40	7.4%	39	38

1 The Company voluntarily applies the International Financial Reporting Standards (IFRS) for the consolidated financial statements to be provided in the annual securities report for FY 2018 onward. Therefore, management indexes and numerical targets have been prepared based on IFRS.

2 Return on assets (ROA): 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. In line with the application of IFRS, this is replaced with the rate of profit before tax on total assets.

3 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 FY 2018

At NIPPON SHOKUBAI EUROPE N.V., our subsidiary in Belgium, a new production plant for acrylic acid with an annual production capacity of 100,000 tons, and a construction of an additional production plant for superabsorbent polymers with an annual production capacity of 100,000 tons were completed. Both commenced commercial operation in July 2018. The completion of these plants rose the worldwide annual production capacity of the Group to 880,000 tons for acrylic acids and 710,000 tons for superabsorbent polymers, retaining the world’s top production capacity for superabsorbent polymers. In addition, to respond to an increase in demand for acrylic acid in Asian region, we decided to construct an additional production plant for acrylic acid with an annual production capacity of 100,000 tons at PT. NIPPON SHOKUBAI INDONESIA, our subsidiary in Indonesia, with a plan for completion by the end of March 2021. Also, several cost cutting measures have been implemented under the “SAP Survival project” aimed at large-scale cost reductions and gains in competitiveness in the superabsorbent polymer business. As part of this effort, we are removing bottlenecks to raise the production efficiency of existing manufacturing facilities, while commencing the introduction of pilot facilities to overhaul the current production processes.

Among new businesses, in the health and medical business, a construction of a facility for API synthesis at our Suita Research Center was completed and preparation is now underway for commercial operation. In conjunction with the laboratory for API synthesis established in September 2016, this establishes our contract synthesis system for APIs and INDs with one of the largest manufacturing scale in Japan, targeting peptide drugs and nucleic acid drugs where market growth is expected. In the cosmetics ingredient business, the Company signed a Memorandum of Understanding (MOU) on the collaboration with GREENTECH France in October 2018, with a plan to further a comprehensive collaboration. Moreover, the Company has signed co-development agreements with other several companies with a view to swift market entry through delivering materials that meet the needs.

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 have been 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

	104th Term (April 2015 - March 2016)	105th Term (April 2016 - March 2017)	106th Term (April 2017 - March 2018)	107th Term (April 2018 - March 2019)
Net sales (¥ millions)	323,124	293,970	322,801	349,678
Operating profit (¥ millions)	31,234	21,151	26,727	26,110
Ordinary profit (¥ millions)	34,342	24,664	32,293	33,101
Profit attributable to owners of parent (¥ millions)	26,003	19,361	24,280	25,012
Basic earnings per share (¥)	640.69	478.36	608.84	627.20
Total assets (¥ millions)	407,997	433,610	467,386	471,050
Net assets (¥ millions)	282,485	292,275	310,762	325,371
Net assets per share (¥)	6,870.84	7,238.33	7,705.05	8,089.98
ROA (Return on Assets) (%)	8.3	5.9	7.2	7.1
ROE (Return on Equity) (%)	9.6	6.8	8.1	7.9

Note 1: 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 104th Term.

Note 2: The Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28; February 16, 2018) from the beginning of the 107th Term. Key management indexes for the 106th Term are presented in figures after retrospectively applying the said accounting standard.

- (1) 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.
- (2) 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.
- (3) For the fiscal year ended March 31, 2018 (106th Term), net sales increased due to a revision in sales prices on account of rising raw material prices and market conditions for products outside of Japan, as well as increased sales volume. With regard to profits, in spite of narrowed spreads owing to a hike in raw material prices in excess of the increase in sales prices, increased production and sales volume resulting in volume effects led to higher operating profit and ordinary profit. Profit attributable to owners of parent rose due to the absence of loss on closing of laboratory.
- (4) For information concerning the fiscal year ended March 31, 2019 (107th Term), please refer to “1. Progress and Results of Operation” above.

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

	104th Term (April 2015 - March 2016)	105th Term (April 2016 - March 2017)	106th Term (April 2017 - March 2018)	107th Term (April 2018 - March 2019)
Net sales (¥ millions)	211,368	196,195	226,887	232,222
Operating profit (¥ millions)	19,628	15,661	21,540	17,356
Ordinary profit (¥ millions)	28,094	24,341	28,612	26,216
Profit (¥ millions)	21,343	19,467	21,330	20,371
Basic earnings per share (¥)	525.88	480.97	534.86	510.83
Total assets (¥ millions)	301,914	329,121	353,831	352,742
Net assets (¥ millions)	223,920	236,166	253,933	263,718
Net assets per share (¥)	5,517.67	5,921.77	6,367.56	6,613.17
ROA (Return on Assets) (%)	9.3	7.7	8.4	7.4
ROE (Return on Equity) (%)	9.8	8.5	8.7	7.9

Note 1: 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 104th Term.

Note 2: The Company adopted the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28; February 16, 2018) from the beginning of the 107th Term. Key management indexes for the 106th Term are presented in figures after retrospectively applying the said accounting standard.

3. Significant Subsidiaries

Name	Capital (¥ millions, unless otherwise quoted)	Nippon Shokubai's Shareholding Percentage (%)	Major Businesses
Nippon Chemicals Co., Ltd.,	517	84.47	Manufacture and sale of iodine, iodine compounds, raw materials for pharmaceuticals and agricultural chemicals, and natural gas
NIPPON NYUKAZAI CO., LTD.	1,000	100.00	Manufacture and sale of surfactants and chemical products
Nisshoku Butsuryu Co., Ltd.	100	100.00	General distribution of chemicals
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 of acrylic acids, Manufacture and sale of superabsorbent polymers
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd.	(US\$ thousands) 52,820	100.00	Manufacture and sale of superabsorbent polymers and polymers for concrete admixtures
NIPPON SHOKUBAI (ASIA) PTE. LTD.	* (US\$ thousands) 4,175	100.00	Manufacture and sale of glacial acrylic acids, and sale of other chemicals
Singapore Acrylic PTE LTD	(US\$ thousands) 27,007	79.42	Manufacture and sale of crude acrylic acids

(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 Chemicals Co., Ltd.	Head Office: Chuo-ku, Tokyo Plant: Isumi, Chiba Prefecture
NIPPON NYUKAZAI CO., LTD.	Head Office: Chuo-ku, Tokyo Plant: Kawasaki, Kanagawa Prefecture and Kamisu, Ibaraki 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
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd.	Head Office & Plant: China
NIPPON SHOKUBAI (ASIA) PTE. LTD.	Head Office & Plant: Singapore
Singapore Acrylic PTE LTD	Head Office & Plant: Singapore

6. Employees of the Company and Group Companies

Number of Employees	Increase / Decrease Compared to the End of the Previous Fiscal Year
4,276	Increase of 57 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
2,306	Increase of 53 persons	38.0 years old	16.1 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	10,148
Mizuho Bank, Ltd.	8,917
MUFG Bank, Ltd.	8,234
The Norinchukin Bank	6,225
Japan Bank for International Cooperation	4,162

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

II. Matters Concerning the Company

1. Matters Concerning the Company's Shares as of March 31, 2019

- (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: 9,508
(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
Japan Trustee Services Bank, Ltd. (Trust Account)	2,358	5.91
JXTG Holdings, Inc.	2,129	5.33
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,911	4.79
National Mutual Insurance Federation of Agricultural Cooperatives	1,608	4.03
Resona Bank, Limited.	1,373	3.44
Sanyo Chemical Industries, Ltd.	1,267	3.17
JP MORGAN CHASE BANK 385635	1,087	2.72
Mizuho Bank, Ltd.	948	2.37
Toyo Ink SC Holdings Co., Ltd.	904	2.26

- (Note 1) Treasury shares of 922 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 Statutory Corporate Auditors of the Company

Position	Name	Responsibility in the Company and/or Important Positions Concurrently held at Other Companies
President and Representative Member of the Board	Yujiro Goto	
Representative Member of the Board, Senior Managing Executive Officer	Masao Yamamoto	Administration, HR, Finance, Accounting, Information Technology General Affairs & HR Division and IT Management Office
Member of the Board, Senior 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, Managing Executive Officer	Koichiro Yamada	Sales, Marketing, Purchasing, Logistics Director of Acrylic Business Division
Member of the Board, Managing Executive Officer	Jiro Iriguchi	Production & Technology Production Division, Engineering Division and Indonesia Project
Member of the Board, Executive Officer	Yukihiro Matsumoto	Director of Corporate Planning Division,
Member of the Board	Kozo Arao	Attorney-at-law Corporate Auditor of Nankai Electric Railway Co., Ltd. External Director of the Board of The Japan Wool Textile Co., Ltd. Outside Audit & Supervisory Board Member of HOSOKAWA MICRON CORPORATION
Member of the Board	Shinji Hasebe	Professor of Graduate School of Engineering, Kyoto University
Member of the Board	Tetsuo Setoguchi	Advisor to Osaka Gas Co., Ltd. Chairman and Director of Gas and Power Co., Ltd.
Statutory Corporate Auditor	Taizo Maruo	(Full-time)
Statutory Corporate Auditor	Yoshihiro Arita	(Full-time)
Statutory Corporate Auditor	Yoichiro Komatsu	Attorney-at-law Patent attorney Director of Kansai University
Statutory Corporate Auditor	Satoshi Taguchi	Director, Senior Vice President of JXTG Holdings, Inc.

(Note 1) Mr. Katsuyuki Ota resigned from Statutory Corporate Auditor at the conclusion of the 106th Ordinary General Meeting of Shareholders held on June 20, 2018.

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

(Note 3) Mr. Yoichiro Komatsu and Mr. Satoshi Taguchi are External Statutory Corporate Auditors.

(Note 4) Mr. Kozo Arao, Mr. Shinji Hasebe and Mr. Tetsuo Setoguchi, Outside Members of the Board, and Mr. Yoichiro Komatsu, an External Statutory Corporate Auditor, are registered at Tokyo Stock Exchange Markets as independent officers.

(Note 5) There was a change in positions, responsibilities in the Company and/or important positions concurrently held at other companies of directors of the Company as of April 1, 2017 as follows:

Position	Name	Responsibility in the Company
Representative Member of the Board, Senior Managing Executive Officer	Masao Yamamoto	Administration, HR, Finance, Accounting, Information Technology General Affairs & HR Division, IT Management Office and ERP Innovation Project
Member of the Board, Senior Managing Executive Officer	Yojiro Takahashi	Innovation & Business Development Health & Medical Business Development Office Malonates Business Development Office and Cosmetics Business Office
Member of the Board, Managing Executive Officer	Koichiro Yamada	Sales, Marketing, Purchasing, Logistics Ethylene Oxide Business Division and Business Development & Marketing
Member of the Board, Managing Executive Officer	Jiro Iriguchi	Production & Technology, Production Division, Engineering Division, Indonesia Project and AI Promotion Team
Member of the Board	Shinji Hasebe	Program-Specific Professor of the Institute for Liberal Arts and Sciences, Kyoto University

(Reference)

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

(As of April 1, 2019)

Position	Name	Responsibility in the Company
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
Managing Executive Officer	Teruo Kamei	Plant Manager of Kawasaki Plant
Executive Officer	Kazukiyo Arakawa	Plant Manager of Himeji Plant
Executive Officer	Ren Hasebe	Director of Performance Chemicals Business Division
Executive Officer	Gun Saito	Director of Responsible Care Division
Executive Officer	Katsunori Kajii	Director of Acrylic Business Division
Executive Officer	Masahiro Watanabe	Director of Purchasing & Logistics Division
Executive Officer	Kazuhiro Noda	Director of Superabsorbents Business Division
Executive Officer	Takashi Kobayashi	Director of Finance & Accounting Division

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

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

Title	Number of Persons (persons)	Aggregate Amount of Remuneration (¥ millions)
Members of the Board	13	408
(Outside Members of the Board)	(5)	(34)
Statutory Corporate Auditors	5	62
(External Statutory Corporate Auditors)	(3)	(13)

(Note 1) “Number of Persons” above includes four Members of the Board and one Statutory Corporate Auditor who stepped down during the fiscal year 2018.

(Note 2) The “Aggregate Amount of Remuneration” includes 150 million yen in bonuses for officers, which is scheduled for resolution at the 107th Ordinary General Meeting of Shareholders.

(Note 3) Aside from the above payments, retirement benefits in a total amount of 6 million yen were paid to one Member of the Board who stepped down during the fiscal year 2018.

2) Policy for Determination of Remuneration for Members of the Board and Statutory 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 Statutory 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 Statutory 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
Kozo Arao (Outside Member of the Board)	Attorney-at-law, Corporate Auditor of Nankai Electric Railway Co., Ltd., External Audit and Supervisory Board member of The Japan Wool Textile Co., Ltd., Outside Audit & Supervisory Board Member of HOSOKAWA MICRON CORPORATION
Shinji Hasebe (Outside Member of the Board)	Professor of Graduate School of Engineering, Kyoto University
Tetsuo Setoguchi (Outside Member of the Board)	Advisor to Osaka Gas Co., Ltd., Chairman and Director of Gas and Power Co., Ltd.
Yoichiro Komatsu (External Statutory Corporate Auditor)	Attorney-at-law, patent attorney, Director of Kansai University
Satoshi Taguchi (External Statutory Corporate Auditor)	Director, Senior Vice President 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 2018

Name	Principal Activities
Kozo Arao (Outside Member of the Board)	Mr. Kozo Arao attended all of the 13 Board meetings that were held during the fiscal year 2018. 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.
Shinji Hasebe (Outside Member of the Board)	Mr. Shinji Hasebe attended all of the 10 Board meetings that were held during the fiscal year 2018 following his election as an Outside Member of the Board. From the perspective of 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.
Tetsuo Setoguchi (Outside Member of the Board)	Mr. Tetsuo Setoguchi attended all of the 10 Board meetings that were held during the fiscal year 2018 following his election as an Outside Member of the Board. Based on his wealth of experience in corporate management in the manufacturing industry and at a company with high public utility properties, 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 (External Statutory Corporate Auditor)	Mr. Yoichiro Komatsu attended all of the 13 Board meetings that were held during the fiscal year 2018. At these meetings, he provides his views from the perspective of an attorney as required. Mr. Komatsu also attended all of the 13 Auditors meetings that were held during the fiscal year 2018, 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.
Satoshi Taguchi (External Statutory Corporate Auditor)	Mr. Satoshi Taguchi attended 9 of the 10 Board meetings that were held during the fiscal year 2018 following his election as a Statutory Corporate Auditor. At these meetings, he provides his views from the perspective of a corporate executive as required. Mr. Taguchi also attended 9 of the 10 Auditors meetings that were held during the fiscal year 2018 following his election as a Statutory 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 External Statutory 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 External Statutory 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	¥52 million
(2) Total amount of cash and other financial benefits payable by the Company and its subsidiaries to the Accounting Auditor	¥79 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., NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) Co., Ltd., NIPPON SHOKUBAI (ASIA) PTE. LTD. and Singapore Acrylic PTE 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 Auditors meeting 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 Auditors meeting determines that the Accounting Auditor falls under any of the items of Article 340, Paragraph 1 of the Companies Act, the Auditors meeting will dismiss the Accounting Auditor upon unanimous consent of the Statutory 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 Auditors meeting 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 the Board meeting (*torishimariyakukai gijiroku*), internal memo to obtain approval (*ringisho*) and other documents, pursuant to the Regulations of the Board meeting (*torishimariyakukai kitei*), the Regulations of Approval (*ringi kitei*) and the Rules for Document Control (*bunsho kanri kisoku*).

(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 risk management 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, the Board meeting shall, in principle, be held once a month so that prompt decision-making may be carried out.
2. The Board meeting shall select executive officers. The Board meeting 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 meeting.
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. In order to achieve sound management of the group companies and overall development of the Group through mutual cooperation of each company, the Corporate Planning Office requests the group companies to have prior consultation with the Company on important matters. The Corporate Planning Office also requests the group companies to obtain approval for the important matters from the corporate management meeting and the Board meeting of the Company as needed.
 2. 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.
 3. 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 meeting.
 4. 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.
 5. The Corporate Ethics Committee shall make effort to improve corporate ethics across the Group.
 6. 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 Statutory 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 Statutory Corporate Auditors to the employees who assist the Statutory Corporate Auditors
1. The Auditor Office, which shall be established under the direct control of the Statutory Corporate Auditors of the Company, and the employees thereof shall assist the Statutory Corporate Auditors in their duties.
 2. The Auditor Office shall be independent from the Board meeting, and the employees assigned thereto shall, pursuant to the Business Segregation Rules (*gyoumu bunshou*) and instructions of the Statutory Corporate Auditors, perform their duties independent from the Board meeting, 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 Statutory Corporate Auditors.
- (7) Systems for submitting reports from Members of the Board and employees to the Statutory Corporate Auditors, for posting other reports to Statutory Corporate Auditors and for ensuring effective of audits by the Statutory Corporate Auditors
1. In order to understand important decision-making processes and the status of executing operations executed/to be executed, the Statutory Corporate Auditors shall attend important meetings such as the corporate management meetings and budget meetings, in addition to the Board meetings.
 2. Members of the Board, executive officers, and employees shall report to Statutory 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 Statutory Corporate Auditors.
 4. Members of the Board, Statutory Corporate Auditors and employees of the group companies shall immediately report to the Statutory Corporate Auditors when the Statutory 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 Statutory Corporate Auditors shall not receive any disadvantageous treatment due to their reporting.

6. In the case that Statutory 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 Statutory 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 13 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 22 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

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

Statutory Corporate Auditors also attend important meetings such as corporate management meetings and the Board meeting 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, Statutory Corporate Auditor interview locations are determined according to audit plans where Statutory 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 17 to 21.

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 the 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 External Statutory Corporate Auditors (including substitute External Statutory 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 meeting 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.

(Reference)

The effective term of the Rules will expire at the conclusion of the 107th Ordinary General Meeting of Shareholders to be held on June 20, 2019 (hereinafter, the "Meeting") In light of this, the Company has examined the advantages and disadvantages of the continuation of the rules by taking into consideration the business environment surrounding the Company since the Rules introduction as well as the recent trends involving takeover defense measures. As a result, we resolved at the Board meeting held on May 8, 2019 to abolish the Rules at the conclusion of the Meeting, without its continuation.

Even after the expiration of the Rules, for the benefit of common interests of shareholders by maintaining and increasing corporate value in a stable and consistent manner, the Company continues to request those who conducting or intending to conduct a large-scale purchase of the Company's stock to provide sufficient information necessary for the shareholders to properly judge whether or not to accept such a large-scale purchase. In addition, the Company will disclose the opinions of its Board meeting and secure time and information to enable the shareholders' examination, while taking appropriate measures pursuant to the Financial Instruments and Exchange Act, the Companies Act, and other relevant laws and regulations.

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, 2019)

(Unit: Millions of yen)

[Assets]	
Current assets	198,780
Cash and deposits	50,144
Notes and accounts receivable - trade	80,156
Merchandise and finished goods	35,119
Work in process	5,654
Raw materials and supplies	18,619
Other	9,095
Allowance for doubtful accounts	-6
Non-current assets	272,269
Property, plant and equipment	180,527
Buildings and structures, net	45,241
Machinery, equipment and vehicles, net	92,524
Tools, furniture and fixtures, net	3,581
Land	32,517
Leased assets, net	1,204
Construction in progress	10,036
Accumulated impairment loss	-4,576
Intangible assets	3,496
Investments and other assets	88,247
Investment securities	71,416
Investments in capital	2,429
Long-term loans receivable	849
Deferred tax assets	2,516
Net defined benefit asset	8,149
Other	2,952
Allowance for doubtful accounts	-63
Total assets	471,050

[Liabilities]	
Current liabilities	92,370
Notes and accounts payable - trade	51,132
Short-term loans payable	8,091
Current portion of long-term loans payable	12,759
Lease obligations	70
Income taxes payable	3,726
Provision for bonuses	3,676
Provision for directors' bonuses	180
Provision for repairs	2,513
Other	10,223
Non-current liabilities	53,309
Bonds payable	10,000
Long-term loans payable	24,902
Lease obligations	442
Deferred tax liabilities	1,805
Net defined benefit liability	13,535
Other	2,625
Total liabilities	145,679
[Net assets]	
Shareholders' equity	307,821
Capital stock	25,038
Capital surplus	22,467
Retained earnings	266,590
Treasury shares	-6,274
Accumulated other comprehensive income	14,789
Valuation difference on available-for-sale securities	10,729
Foreign currency translation adjustment	4,207
Remeasurements of defined benefit plans	-147
Non-controlling interests	2,761
Total net assets	325,371
Total liabilities and net assets	471,050

Consolidated Statements of Income
(April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

Net sales	349,678
Cost of sales	284,467
Gross profit	65,212
Selling, general and administrative expenses	39,102
Operating profit	26,110
Non-operating income	9,277
Interest and dividend income	1,747
Share of profit of entities accounted for using equity method	5,388
Miscellaneous income	2,142
Non-operating expenses	2,285
Interest expenses	510
Miscellaneous loss	1,775
Ordinary profit	33,101
Extraordinary income	727
State subsidy	590
Gain on sales of non-current assets	134
Insurance income	2
Extraordinary losses	815
Loss on reduction of non-current assets	590
Loss on disaster	203
Loss on sales of non-current assets	22
Profit before income taxes	33,013
Income taxes	7,841
Income taxes - current	7,244
Income taxes - deferred	597
Profit	25,173
Profit attributable to non-controlling interests	161
Profit attributable to owners of parent	25,012

Consolidated Statements of Changes in Equity

(April 1, 2018 to March 31, 2019)

(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	22,400	248,158	-6,263	289,334
Changes of items during period					
Dividends of surplus			-6,580		-6,580
Profit attributable to owners of parent			25,012		25,012
Purchase of treasury shares				-12	-12
Change in ownership interest of parent due to transactions with non-controlling interests		67			67
Net changes of items other than shareholders' equity					
Total changes of items during period	—	67	18,432	-12	18,487
Balance at end of current period	25,038	22,467	266,590	-6,274	307,821

	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	14,786	3	4,868	-1,719	17,937	3,491	310,762
Changes of items during period							
Dividends of surplus							-6,580
Profit attributable to owners of parent							25,012
Purchase of treasury shares							-12
Change in ownership interest of parent due to transactions with non-controlling interests							67
Net changes of items other than shareholders' equity	-4,057	-3	-661	1,572	-3,149	-730	-3,879
Total changes of items during period	-4,057	-3	-661	1,572	-3,149	-730	14,609
Balance at end of current period	10,729	—	4,207	-147	14,789	2,761	325,371

(Reference)

Consolidated Statements of Cash Flows
(April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

I	Cash flows from operating activities	
	Profit before income taxes	33,013
	Depreciation	19,539
	Subsidy income	-590
	Loss (gain) on sales of non-current assets	-112
	Insurance income	-2
	Loss on reduction of non-current assets	590
	Loss on disaster	203
	Decrease (increase) in net defined benefit asset	-542
	Increase (decrease) in net defined benefit liability	105
	Interest and dividend income	-1,747
	Interest expenses	510
	Share of (profit) loss of entities accounted for using equity method	-5,388
	Decrease (increase) in notes and accounts receivable - trade	-1,851
	Decrease (increase) in inventories	-2,394
	Increase (decrease) in notes and accounts payable - trade	-6,921
	Increase (decrease) in accrued consumption taxes	-251
	Other, net	1,229
	Subtotal	35,392
	Interest and dividend income received	4,734
	Interest expenses paid	-513
	Proceeds from subsidy income	590
	Income taxes paid	-8,989
	Net cash provided by (used in) operating activities	31,213
II	Cash flows from investing activities	
	Purchase of property, plant and equipment	-26,512
	Purchase of investment securities	-57
	Proceeds from sales of investment securities	52
	Purchase of shares of subsidiaries and associates	-1,111
	Other, net	485
	Net cash provided by (used in) investing activities	-27,143
III	Cash flows from financing activities	
	Net increase (decrease) in short-term loans payable	-516
	Proceeds from long-term loans payable	3,043
	Repayments of long-term loans payable	-4,557
	Cash dividends paid	-6,580
	Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-884
	Other, net	-99
	Net cash provided by (used in) financing activities	-9,593
IV	Effect of exchange rate change on cash and cash equivalents	183
V	Net increase (decrease) in cash and cash equivalents	-5,340
VI	Cash and cash equivalents at beginning of period	51,612
VII	Cash and cash equivalents at end of period	46,272

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. 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.

(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.

◆ **Changes in Presentation**

The “Partial Revisions of the Regulation for Enforcement of the Companies Act and Regulation on Corporate Accounting” (Ordinance of the Ministry of Justice No. 5; March 26, 2018), in line with the enactment of The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28; February 16, 2018), has been applied from the current fiscal year. As a result, presentation method has been changed whereby deferred tax assets is presented under investments and other assets, and deferred tax liabilities is presented under non-current liabilities.

◆ Notes to Consolidated Balance Sheets

(Unit: Millions of yen)

1.	Accumulated depreciation on property, plant and equipment:	399,019
2.	Advanced depreciation deducted from acquisition amount of property, plant and equipment:	5,213
3.	Collateral and secured liabilities:	
	Assets pledged as collateral:	293
	Cash and deposits	8
	Property, plant and equipment:	280
	Investment and other assets:	5
	Liabilities corresponding to the above:	375
	Notes and accounts payable-trade:	85
	Short-term loans payable:	290
4.	Balance of guaranteed debt, etc.	
	Balance of guaranteed debt:	1,346
	Balance of guaranteed debt includes 673 million yen of debt that has been re-guaranteed by other companies.	

◆ Notes to Consolidated Statements of Changes in Net Assets

- Number of issued and outstanding shares of the Company's stock at end of the fiscal year 2018
Common stock: 40,800,000 shares

- 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 20, 2018	Common Stock	3,390	85.00	March 31, 2018	June 21, 2018
The Board meeting held on November 6, 2018	Common Stock	3,190	80.00	September 30, 2018	December 5, 2018

(2) Dividends with a record date in the fiscal year 2018 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, 2019	Common Stock	Retained Earnings	3,589	90.00	March 31, 2019	June 21, 2019

◆ 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, 2019 are shown as follows.

(Unit: Millions of yen)

	Carrying value (*)	Fair value (*)	Difference
(1) Cash and deposits	50,144	50,144	-
(2) Notes and accounts receivable-trade	80,156	80,156	-
(3) Investment securities Available-for-sale securities	34,005	34,005	-
(4) Notes and accounts payable-trade	(51,132)	(51,132)	-
(5) Short-term loans payable	(8,091)	(8,091)	-
(6) Current portion of long-term loans payable	(12,759)	(12,767)	(8)
(7) Long-term loans payable	(24,902)	(25,015)	(113)
(8) Derivatives transactions	6	6	-

(*) 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.	1,760

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: ¥8,089.98
2. Basic earnings per share: ¥627.20

Nonconsolidated Financial Statements

(As of March 31, 2019)

(Unit: Millions of yen)

[Assets]	
Current assets	140,305
Cash and deposits	35,161
Notes receivable - trade	126
Accounts receivable - trade	61,094
Merchandise and finished goods	17,838
Work in process	3,680
Raw materials and supplies	11,722
Prepaid expenses	1,022
Short-term loans receivable from subsidiaries and associates	4,175
Accounts receivable - other	2,804
Other	2,683
Non-current assets	212,437
Property, plant and equipment	88,528
Buildings	17,901
Structures	8,896
Machinery and equipment	28,719
Vehicles	49
Tools, furniture and fixtures	2,529
Land	26,914
Construction in progress	6,106
Accumulated depreciation	-2,586
Intangible assets	739
Patent right	40
Leasehold right	120
Software	459
Telephone subscription right	16
Right of using facilities	6
Other	98
Investments and other assets	123,170
Investment securities	34,794
Shares of subsidiaries and associates	71,950
Investments in capital of subsidiaries and associates	5,646
Long-term loans receivable	52
Long-term loans receivable from employees	1
Long-term loans receivable from subsidiaries and associates	1,856
Long-term prepaid expenses	1,248
Lease and guarantee deposits	428
Prepaid pension cost	7,004
Other	237
Allowance for doubtful accounts	-45
Total assets	352,742

[Liabilities]	
Current liabilities	64,075
Accounts payable - trade	40,011
Short-term loans payable	3,330
Current portion of long-term loans payable	5,200
Accounts payable - other	5,941
Accrued expenses	1,010
Income taxes payable	3,029
Advances received	74
Deposits received	306
Provision for bonuses	2,447
Provision for directors' bonuses	150
Provision for repairs	2,357
Other	220
Non-current liabilities	24,950
Bonds payable	10,000
Long-term loans payable	5,776
Deferred tax liabilities	405
Provision for retirement benefits	8,070
Other	699
Total liabilities	89,025
[Net assets]	
Shareholders' equity	253,238
Capital stock	25,038
Capital surplus	22,072
Legal capital surplus	22,071
Other capital surplus	1
Retained earnings	212,402
Legal retained earnings	3,920
Other retained earnings	208,482
Reserve for dividends	760
Reserve for special depreciation	7
Reserve for advanced depreciation of non-current assets	487
General reserve	140,665
Retained earnings brought forward	66,563
Treasury shares	-6,274
Valuation and translation adjustments	10,480
Valuation difference on available-for-sale securities	10,480
Total net assets	263,718
Total liabilities and net assets	352,742

Nonconsolidated Statements of Income

(April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

Net sales	232,222
Cost of sales	185,134
Gross profit	47,087
Selling, general and administrative expenses	29,731
Operating profit	17,356
Non-operating income	10,623
Interest and dividend income	5,268
Miscellaneous income	5,355
Non-operating expenses	1,763
Interest expenses	198
Miscellaneous loss	1,565
Ordinary profit	26,216
Extraordinary income	727
State subsidy	590
Gain on sales of non-current assets	134
Insurance income	2
Extraordinary losses	815
Loss on reduction of non-current assets	590
Loss on disaster	203
Loss on sales of non-current assets	22
Profit before income taxes	26,128
Income taxes	5,757
Income taxes - current	5,699
Income taxes - deferred	59
Profit	20,371

Nonconsolidated Statements of Changes in Equity
(April 1, 2018 to March 31, 2019)

(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	13	488	130,665	62,766	198,611
Changes of items during period											
Dividends of surplus										-6,580	-6,580
Profit										20,371	20,371
Reversal of reserve for special depreciation							-6			6	—
Reversal of reserve for advanced depreciation of non-current assets								-1		1	—
Provision of general reserve									10,000	-10,000	—
Purchase of treasury shares											
Net changes of items other than shareholders' equity											
Total changes of items during period	—	—	—	—	—	—	-6	-1	10,000	3,798	13,791
Balance at end of current period	25,038	22,071	1	22,072	3,920	760	7	487	140,665	66,563	212,402

(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	-6,263	239,458	14,472	3	14,474	253,933
Changes of items during period						
Dividends of surplus		-6,580				-6,580
Profit		20,371				20,371
Reversal of reserve for special depreciation		—				—
Reversal of reserve for advanced depreciation of non-current assets		—				—
Provision of general reserve		—				—
Purchase of treasury shares	-12	-12				-12
Net changes of items other than shareholders' equity			-3,992	-3	-3,995	-3,995
Total changes of items during period	-12	13,779	-3,992	-3	-3,995	9,785
Balance at end of current period	-6,274	253,238	10,480	—	10,480	263,718

(Reference)

Nonconsolidated Statements of Cash Flows
(April 1, 2018 to March 31, 2019)

(Unit: Millions of yen)

I	Cash flows from operating activities	
	Profit before income taxes	26,128
	Depreciation	9,659
	Subsidy income	-590
	Loss (gain) on sales of non-current assets	-112
	Loss on reduction of non-current assets	590
	Loss on disaster	203
	Increase (decrease) in provision for retirement benefits	431
	Decrease (increase) in prepaid pension costs	-161
	Interest and dividend income	-5,268
	Interest expenses	198
	Decrease (increase) in notes and accounts receivable - trade	2,730
	Decrease (increase) in inventories	-362
	Increase (decrease) in notes and accounts payable - trade	-7,485
	Other, net	-2,147
	Subtotal	23,813
	Interest and dividend income received	5,268
	Interest expenses paid	-197
	Proceeds from subsidy income	590
	Income taxes (paid) refund	-7,374
	Net cash provided by (used in) operating activities	22,100
II	Cash flows from investing activities	
	Purchase of property, plant and equipment	-14,205
	Purchase of shares of subsidiaries and associates	-1,995
	Payments of loans receivable	-11,752
	Collection of loans receivable	13,211
	Other, net	30
	Net cash provided by (used in) investing activities	-14,712
III	Cash flows from financing activities	
	Net increase (decrease) in short-term loans payable	-3,148
	Proceeds from long-term loans payable	1,743
	Cash dividends paid	-6,580
	Other, net	-12
	Net cash provided by (used in) financing activities	-7,996
IV	Net increase (decrease) in cash and cash equivalents	-609
V	Cash and cash equivalents at beginning of period	35,684
VI	Cash and cash equivalents at end of period	35,076

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.

◆Changes in Presentation

The “Partial Revisions of the Regulation for Enforcement of the Companies Act and Regulation on Corporate Accounting” (Ordinance of the Ministry of Justice No. 5; March 26, 2018), in line with the enactment of The “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28; February 16, 2018), has been applied from the current fiscal year. As a result, presentation method has been changed whereby deferred tax assets is presented under investments and other assets, and deferred tax liabilities is presented under non-current liabilities.

◆Notes to Nonconsolidated Balance Sheet

1. Monetary claims and liabilities relating to subsidiaries and associates

Short-term monetary claims: 28,103 million yen

Long-term monetary claims: 1,867 million yen

Short-term monetary liabilities: 7,413 million yen

Long-term monetary liabilities: 13 million yen

2. Accumulated depreciation on property, plant and equipment: 281,600 million yen

3. Entry amount deducted from acquisition cost of property, plant and equipment: 4,055 million yen

4. Guarantee obligations and guarantee reservations and obligations

Outstanding balance of guarantee obligations: 5,509 million yen

Outstanding balance of guarantee reservations and obligations: 3,737 million yen

With regard to 673 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: 64,465 million yen

Total purchase of goods: 47,628 million yen

Balance of non-operating transactions: 8,115 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: 922,347 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)	1,194 million yen
Land	886 million yen
Provision for bonuses	749 million yen
Provision for repairs	721 million yen
Provision for retirement benefits	326 million yen
Other:	754 million yen
<hr/>	
Deferred tax assets subtotal:	7,217 million yen
Valuation allowance:	-3,473 million yen
<hr/>	
Total deferred tax assets:	3,744 million yen
Deferred tax liabilities	
Valuation difference on available-for-sale securities	-3,931 million yen
Reserve for advanced depreciation of non-current assets	-215 million yen
Reserve for special depreciation	-3 million yen
<hr/>	
Total deferred tax liabilities	-4,149 million yen
Deferred tax assets, net	-405 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 (2 directors)		Investment Guarantor of obligations Concurrent director (2 directors)	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)	21,316	1,346	3,737	4,162	22,129	17,816
Category	Short-term loans receivable from subsidiaries and associates	—	—	—	Accounts receivable-trade	Accounts payable-trade
Amount at end of term (millions of yen)	3,330	—	—	—	7,315	3,314

(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 673 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: 6,613.17 yen

Basic earnings per share: 510.83 yen