

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

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

Summary of Consolidated Financial Results
For the Second Quarter of the Fiscal Year Ending March 31, 2020 [IFRS]
(Six Months Ended September 30, 2019)

November 6, 2019

Company name: NIPPON SHOKUBAI CO., LTD. Listing: TSE (First Section)
 Code number: 4114 URL: <http://www.shokubai.co.jp/>
 Representative: Yujiro Goto, President and Representative Member of the Board
 Contact for inquiries: Atsushi Tabata, General Manager of General Affairs Dept. Phone: +81-6-6223-9111
 Scheduled quarterly report filing date: November 11, 2019
 Scheduled date of dividend payment: December 5, 2019
 Supplementary quarterly materials prepared: Yes
 Quarterly results information meeting held: Yes (for securities analysts and institutional investors)

(Figures are rounded off to the nearest million yen)

1. Consolidated Financial Results for the Second Quarter of the Fiscal Year Ending March 31, 2020 (here after FY2019) (from April 1, 2019 to September 30, 2019)

(1) Consolidated operating results (cumulative)

(Percentages represent year-over-year changes)

	Revenue		Operating profit		Profit before tax		Profit		Profit attributable to owners of parent		Total comprehensive income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Six months ended Sep. 30, 2019	153,292	-9.3	6,638	-49.2	8,673	-47.4	5,985	-51.4	5,731	-52.7	359	-97.7
Six months ended Sep. 30, 2018	169,007	-	13,071	-	16,475	-	12,322	-	12,108	-	15,556	-

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Six months ended Sep. 30, 2019	143.71	-
Six months ended Sep. 30, 2018	303.63	-

(2) Consolidated financial position

	Total assets	Total equity	Equity attributable to owners of parent	Rate of equity attributable to owners of parent	Equity attributable to owners of parent per share
	Millions of yen	Millions of yen	Millions of yen	%	Yen
As of Sep. 30, 2019	466,498	325,732	319,673	68.5	8,016.45
As of Mar. 31, 2019	481,668	329,227	323,008	67.1	8,099.97

2. Dividends

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

Note: Revisions to dividends forecast during the period: No

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

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

	Revenue		Operating profit		Profit before tax		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	325,000	-4.1	17,500	-33.1	21,000	-34.6	16,000	-32.9	401.23

Note: Revisions to consolidated earnings forecast during the period: No

※Notes

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

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

1) Changes in accounting policies required by IFRS: Yes

2) Other changes in accounting policies: None

3) Changes in accounting estimates: None

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

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

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

Sep. 30, 2019: 40,800,000 shares Mar. 31, 2019: 40,800,000 shares

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

Sep. 30, 2019: 922,843 shares Mar. 31, 2019: 922,347 shares

3) Average number of shares outstanding during the period

Six months ended Sep. 30, 2019: 39,877,443 shares Six months ended Sep. 30, 2018: 39,878,783 shares

※ Indication regarding execution of audit procedures

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

※ Appropriate use of business forecasts and other special items

(Application of IFRS)

The Company has applied the International Financial Reporting Standards (IFRS) for the consolidated financial statements as of the end of the fiscal year ended March 31, 2019 (FY 2018) onward. In addition, figures for the six months ended September 30, 2018 have been prepared in accordance with IFRS.

(Note regarding forward-looking statements and other information)

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

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1. Qualitative Information on the Period under Review

(1) Operating Results

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

As for the Japanese economy, the country saw a slowdown in economic sentiment mainly in the manufacturing industry with weakness in exports and production, despite steady improvement in employment conditions.

In the chemicals industry, the outlook for trends in areas such as market conditions for products outside of Japan and raw material costs was unclear.

1) Overview

(Unit: Millions of yen)

	Six months ended Sep. 30, 2018	Six months ended Sep. 30, 2019	Change		FY2018
			(Amount)	(% growth)	
Revenue	169,007	153,292	-15,715	-9.3%	338,869
Operating profit	13,071	6,638	-6,433	-49.2%	26,170
Profit before tax	16,475	8,673	-7,802	-47.4%	32,119
Profit attributable to owners of parent	12,108	5,731	-6,377	-52.7%	23,849
Basic earnings per share	303.63 yen	143.71 yen	-159.92 yen	-52.7%	598.05 yen
ROA (Ratio of profit before tax to total assets)	6.8%	3.7%	–	-3.1 points	6.7%
ROE (Ratio of profit to equity attributable to owners of parent)	7.7%	3.6%	–	-4.1 points	7.5%
Foreign exchange rates (\$ and EUR)	\$=¥110.27 EUR=¥129.79	\$=¥108.63 EUR=¥121.46		-1.64 yen -8.33 yen	\$=¥110.92 EUR=¥128.39
Naphtha price	51,200 yen/kl	42,800 yen/kl		-8,400 yen/kl	49,400 yen/kl

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

Under these conditions, the Group's revenue in the first half of the current fiscal year decreased by 9.3% year-on-year to 153,292 million yen, down 15,715 million yen. Factors included a decline in sales prices caused by a fall in raw material costs and weak market conditions for products outside of Japan, and a decline in sales volume.

With regard to profits, operating profit decreased by 6,433 million yen, or 49.2% year-on-year, to 6,638 million yen due to an increase in processing costs and a decline in sales volume.

Profit before tax decreased by 47.4% year-on-year to 8,673 million yen, down 7,802 million yen due to decreases in operating profit and share of profit of investments accounted for using equity method.

As a result, profit attributable to owners of parent fell 52.7% year-on-year to 5,731 million yen, down 6,377 million yen.

2) Outline of Sales by Business Segment

Basic Chemicals

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

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

Sales of ethylene glycol decreased due to lower sales prices accompanying weak market conditions for products outside of Japan, despite increased sales volume.

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

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As a result of the above, revenue in the basic chemicals segment decreased by 10.9% year-on-year to 62,350 million yen.

Operating profit decreased by 50.2% year-on-year, to 3,063 million yen. This was due to factors such as an increase in processing costs and a decline in production and sales volume for some products.

Functional Chemicals

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

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

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

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

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

Sales of iodine compounds increased due to a revision in sales prices.

As a result, revenue in the functional chemicals segment fell 10.0% year-on-year to 85,561 million yen.

Operating profit decreased by 65.4% year-on-year, to 2,309 million yen. This was due to factors such as an increase in processing costs and a contraction in the spread.

Environment & Catalysts

Sales of De-NOx catalysts decreased due to lower sales volume.

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

As a result, revenue in the environment & catalysts segment rose 35.7% year-on-year to 5,381 million yen.

Operating profit amounted to 498 million yen, up 590 million year-on-year. This was due to factors such as a rise in sales volume.

(2) Financial Position

1) Analysis of Financial Position

Total assets at the end of the first half of the current fiscal year decreased by 15,169 million yen from the end of the previous fiscal year to 466,498 million yen. Current assets decreased by 16,352 million yen compared to the end of the previous fiscal year. This was mainly due to a decrease in trade receivables as a result of lower sales prices in line with a fall in raw materials costs and weak market conditions for products outside of Japan, and a decline in sales volume. Non-current assets were 1,182 million yen higher than at the end of the previous fiscal year. This was due to an increase in property, plant and equipment as a result of applying IFRS 16 *Leases*.

Total liabilities decreased by 11,675 million yen compared to the end of the previous fiscal year to 140,766 million yen. This was due to a decrease in trade payables as a result of a fall in raw materials costs and repayments of borrowings, despite an increase in other financial liabilities as a result of applying IFRS 16 *Leases*.

Total equity decreased by 3,494 million yen compared to the end of the previous fiscal year to 325,732 million yen. This was due to a decrease in other components of equity as a result of a decrease in exchange differences on translation of foreign operations caused by fluctuations in exchange rates.

Ratio of profit to equity attributable to owners of parent rose 1.4 percentage points, from 67.1% at the end of the previous fiscal year to 68.5%. Equity attributable to owners of parent per share decreased by 83.52 yen compared to the end of the previous fiscal year to 8,016.45 yen.

2) Cash Flows

Cash and cash equivalents at the end of the first half of the current fiscal year amounted to 46,315 million yen, a decrease of 1,119 million yen from the end of the previous fiscal year, as cash flows used in investing activities including capital investment and cash flows used in financing activities exceeded cash flows provided by operating activities.

Cash flow from operating activities

Net cash provided by operating activities in the first half of the current fiscal year amounted to 22,203 million yen (12,364 million yen was provided in the same period of the previous fiscal year). Despite a decrease in profit before tax, settlement of trade receivables made progress, which led to increased inflows of 9,840 million yen compared to the same period of the previous fiscal year.

Cash flow from investing activities

Net cash used in investing activities in the first half of the current fiscal year totaled 16,630 million yen (14,037 million yen was used in the same period of the previous fiscal year). Outflows increased for purchase of intangible assets including software and purchase of property, plant and equipment, which led to increased outflows of 2,594 million yen compared to the same period of the previous fiscal year.

Cash flow from financing activities

Net cash used in financing activities in the first half of the current fiscal year amounted to 6,229 million yen (6,482 million yen was used in the same period of the previous fiscal year). Despite repayments of borrowings and an increase in dividends paid, an increase in proceeds from long-term borrowings for capital investment led to decreased outflows of 254 million yen compared to the same period of the previous fiscal year.

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

For full fiscal year results, the Group forecasts revenue of 325.0 billion yen, operating profit of 17.5 billion yen, profit before tax of 21.0 billion yen and profit attributable to owners of parent of 16.0 billion yen, as announced on July 31, 2019.

Figures for the second half of the current fiscal year are based on exchange rates of 110 yen to the U.S. dollar and 120 yen to the euro, and domestic naphtha prices of 40,000 yen/kl.

Full-year forecasts by reportable segment also remain the same as announced on August 2, 2019.

(Reference) Our previous forecasts by reportable segment are as follows:

(Unit: Billions of yen)

	Basic Chemicals		Functional Chemicals		Environment & Catalysts		Adjustment	Total	
	Revenue	Operating profit	Revenue	Operating profit	Revenue	Operating profit	Operating profit	Revenue	Operating profit
Previous forecasts	131.0	8.5	185.5	7.8	8.5	0.4	0.8	325.0	17.5

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

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

	(Unit: Millions of yen)	
	FY2018 As of Mar. 31, 2019	2Q-FY2019 As of Sep. 30, 2019
Assets		
Current assets		
Cash and cash equivalents	47,434	46,315
Trade receivables	81,158	70,137
Inventories	59,266	56,864
Other financial assets	8,945	7,447
Other current assets	4,768	4,456
Total current assets	201,571	185,219
Non-current assets		
Property, plant and equipment	193,632	198,145
Goodwill	4,360	4,234
Intangible assets	9,200	9,739
Investments accounted for using equity method	21,773	19,060
Other financial assets	38,296	37,382
Retirement benefit asset	8,149	8,114
Deferred tax assets	2,736	2,799
Other non-current assets	1,951	1,808
Total non-current assets	280,097	281,280
Total assets	481,668	466,498

	FY2018 As of Mar. 31, 2019	2Q-FY2019 As of Sep. 30, 2019
Liabilities and equity		
Liabilities		
Current liabilities		
Trade payables	51,866	39,850
Bonds and borrowings	20,851	13,448
Other financial liabilities	7,818	8,020
Income taxes payable	3,850	2,547
Provisions	5,178	5,027
Other current liabilities	4,464	3,679
Total current liabilities	94,028	72,570
Non-current liabilities		
Bonds and borrowings	34,902	39,394
Other financial liabilities	1,501	7,186
Retirement benefit liability	14,119	14,253
Provisions	1,896	1,825
Deferred tax liabilities	5,995	5,538
Total non-current liabilities	58,413	68,196
Total liabilities	152,441	140,766
Equity		
Share capital	25,038	25,038
Capital surplus	22,472	22,472
Treasury shares	-6,274	-6,278
Retained earnings	276,934	279,061
Other components of equity	4,838	-620
Total equity attributable to owners of parent	323,008	319,673
Non-controlling interests	6,219	6,059
Total equity	329,227	325,732
Total liabilities and equity	481,668	466,498

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

Condensed Quarterly Consolidated Statements of Profit or Loss

Condensed Year to Quarter and Consolidated Statements of Profit or Loss

(Unit: Millions of yen)

	2Q-FY 2018 Apr. 1, 2018 to Sep. 30, 2018	2Q-FY 2019 Apr. 1, 2019 to Sep. 30, 2019
Revenue	169,007	153,292
Cost of sales	135,951	126,424
Gross profit	33,056	26,869
Selling, general and administrative expenses	20,539	21,302
Other operating income	1,066	1,570
Other operating expenses	511	499
Operating profit	13,071	6,638
Finance income	1,011	999
Finance costs	361	747
Share of profit of investments accounted for using equity method	2,754	1,783
Profit before tax	16,475	8,673
Income tax expense	4,153	2,688
Profit	12,322	5,985
Profit attributable to		
Owners of parent	12,108	5,731
Non-controlling interests	214	254
Profit	12,322	5,985
Earnings per share		
Basic earnings per share (Yen)	303.63	143.71
Diluted earnings per share (Yen)	-	-

Condensed Quarterly Consolidated Statements of Comprehensive Income
Condensed Year to Quarter and Consolidated Statements of Comprehensive Income

(Unit: Millions of yen)

	2Q-FY 2018 Apr. 1, 2018 to Sep. 30, 2018	2Q-FY 2019 Apr. 1, 2019 to Sep. 30, 2019
Profit	12,322	5,985
Other comprehensive income		
Items that will not be reclassified to profit or loss		
Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	1,554	-1,091
Share of other comprehensive income of investments accounted for using equity method	-8	12
Total of items that will not be reclassified to profit or loss	1,546	-1,079
Items that may be reclassified to profit or loss		
Exchange differences on translation of foreign operations	2,761	-3,733
Effective portion of cash flow hedges	-3	-
Share of other comprehensive income of investments accounted for using equity method	-1,070	-814
Total of items that may be reclassified to profit or loss	1,688	-4,547
Other comprehensive income	3,234	-5,626
Comprehensive income	15,556	359
Comprehensive income attributable to		
Owners of parent	15,397	258
Non-controlling interests	160	101
Comprehensive income	15,556	359

(3) Condensed Quarterly Consolidated Statements of Changes in Equity

Six months ended Sep. 30, 2018 (Apr. 1, 2018 to Sept. 30, 2018)

(Unit: Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of period	25,038	22,400	-6,263	258,117	8,072	-
Profit	-	-	-	12,108	-	-
Other comprehensive income	-	-	-	-	1,554	-8
Comprehensive income	-	-	-	12,108	1,554	-8
Purchase of treasury shares	-	-	-6	-	-	-
Dividends	-	-	-	-3,390	-	-
Increase (decrease) in non-controlling interests	-	54	-	-	-	-
Transfer from other components of equity to retained earnings	-	-	-	8	-16	8
Total transactions with owners	-	54	-6	-3,381	-16	8
Balance at end of period	25,038	22,454	-6,269	266,844	9,610	-

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Effective portion of cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	3	1,705	9,780	309,073	7,115	316,188
Profit	-	-	-	12,108	214	12,322
Other comprehensive income	-3	1,745	3,288	3,288	-54	3,234
Comprehensive income	-3	1,745	3,288	15,397	160	15,556
Purchase of treasury shares	-	-	-	-6	-	-6
Dividends	-	-	-	-3,390	-355	-3,745
Increase (decrease) in non-controlling interests	-	-	-	54	-654	-600
Transfer from other components of equity to retained earnings	-	-	-8	-	-	-
Total transactions with owners	-	-	-8	-3,342	-1,009	-4,352
Balance at end of period	-	3,450	13,060	321,127	6,266	327,393

Six months ended Sep. 30, 2019 (Apr. 1, 2019 to Sep. 30, 2019)

(Unit: Millions of yen)

	Share capital	Capital surplus	Treasury shares	Retained earnings	Other components of equity	
					Net change in fair value of equity instruments designated as measured at fair value through other comprehensive income	Remeasurements of defined benefit plans
Balance at beginning of period	25,038	22,472	-6,274	276,934	3,942	—
Profit	—	—	—	5,731	—	—
Other comprehensive income	—	—	—	—	-1,089	12
Comprehensive income	—	—	—	5,731	-1,089	12
Purchase of treasury shares	—	—	-3	—	—	—
Dividends	—	—	—	-3,589	—	—
Increase (decrease) in non-controlling interests	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	—	-15	27	-12
Total transactions with owners	—	—	-3	-3,604	27	-12
Balance at end of period	25,038	22,472	-6,278	279,061	2,879	—

	Other components of equity			Total equity attributable to owners of parent	Non-controlling interests	Total equity
	Effective portion of cash flow hedges	Exchange differences on translation of foreign operations	Total			
Balance at beginning of period	—	896	4,838	323,008	6,219	329,227
Profit	—	—	—	5,731	254	5,985
Other comprehensive income	—	-4,396	-5,473	-5,473	-153	-5,626
Comprehensive income	—	-4,396	-5,473	258	101	359
Purchase of treasury shares	—	—	—	-3	—	-3
Dividends	—	—	—	-3,589	-261	-3,850
Increase (decrease) in non-controlling interests	—	—	—	—	—	—
Transfer from other components of equity to retained earnings	—	—	15	—	—	—
Total transactions with owners	—	—	15	-3,592	-261	-3,854
Balance at end of period	—	-3,500	-620	319,673	6,059	325,732

(4) Condensed Quarterly Consolidated Statements of Cash Flows

(Unit: Millions of yen)

	2Q-FY 2018 Apr. 1, 2018 to Sep. 30, 2018	2Q-FY 2019 Apr. 1, 2019 to Sep. 30, 2019
Cash flows from operating activities		
Profit before tax	16,475	8,673
Depreciation and amortization	12,284	14,032
Decrease (increase) in retirement benefit asset	17	35
Increase (decrease) in retirement benefit liability	-47	169
Interest and dividend income	-1,009	-997
Interest expenses	275	290
Share of loss (profit) of investments accounted for using equity method	-2,754	-1,783
Decrease (increase) in trade receivables	-4,419	10,240
Decrease (increase) in inventories	-1,135	1,610
Increase (decrease) in trade payables	-5,968	-11,535
Other	1,061	1,363
Subtotal	14,779	22,097
Interest and dividends received	3,586	4,512
Interest paid	-239	-234
Income taxes paid	-5,762	-4,172
Net cash provided by (used in) operating activities	12,364	22,203
Cash flows from investing activities		
Purchase of property, plant and equipment	-15,289	-15,650
Purchase of intangible assets	-66	-919
Purchase of investments	-2,159	-2,498
Proceeds from sale and redemption of investments	2,464	2,371
Acquisition of shares of subsidiaries and affiliates	-	-400
Other	1,013	466
Net cash provided by (used in) investing activities	-14,037	-16,630
Cash flows from financing activities		
Net increase (decrease) in short-term borrowings	-95	-1,291
Proceeds from long-term borrowings	800	8,771
Repayments of long-term borrowings	-2,772	-9,005
Repayments of lease liabilities	-64	-849
Purchase of treasury shares	-6	-3
Dividends paid	-3,390	-3,589
Dividends paid to non-controlling interests	-355	-261
Purchase of investments in subsidiaries not resulting in change in scope of consolidation	-600	-
Net cash provided by (used in) financing activities	-6,482	-6,229
Effect of exchange rate changes on cash and cash equivalents	553	-463
Net increase (decrease) in cash and cash equivalents	-7,602	-1,119
Cash and cash equivalents at beginning of period	52,635	47,434
Cash and cash equivalents at end of period	45,033	46,315

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

Not applicable.

【Changes in Accounting Policies】

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

Income tax expense in the six months ended September 30, 2019 is calculated based on the estimated average annual effective tax rate.

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

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

(Accounting policies after the application of IFRS 16)

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

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

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

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

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

(Accounting treatment along with the application of IFRS 16)

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

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

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

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

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

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

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

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

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

【Segment Information, etc.】

1. Outline of Reportable Segments

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

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

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

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

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

Six months ended Sep. 30, 2018 (Apr. 1, 2018 to Sep. 30, 2018)

(Unit: Millions of yen)

	Reportable segments				Adjustment (Note)	Total
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Total		
Revenue						
(1) Revenue to third parties	69,973	95,067	3,966	169,007	–	169,007
(2) Intergroup revenue and transfers	19,238	3,505	472	23,215	-23,215	–
Total	89,211	98,573	4,438	192,222	-23,215	169,007
Segment income (loss)	6,146	6,676	-91	12,730	341	13,071
Finance income	–	–	–	–	–	1,011
Finance costs	–	–	–	–	–	361
Share of profit of investments accounted for using equity method	–	–	–	–	–	2,754
Profit before tax	–	–	–	–	–	16,475

Notes: The “Segment income (loss)” adjustment includes inter-segment transaction eliminations and corporate profit (loss) not allocated to reportable segments amounting to 341 million yen.

Six months ended Sep. 30, 2019 (Apr. 1, 2019 to Sep. 30, 2019)

(Unit: Millions of yen)

	Reportable segments				Adjustment (Note)	Total
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Total		
Revenue						
(1) Revenue to third parties	62,350	85,561	5,381	153,292	–	153,292
(2) Intergroup revenue and transfers	16,554	2,980	939	20,472	-20,472	–
Total	78,903	88,541	6,320	173,765	-20,472	153,292
Segment income	3,063	2,309	498	5,871	767	6,638
Finance income	–	–	–	–	–	999
Finance costs	–	–	–	–	–	747
Share of profit of investments accounted for using equity method	–	–	–	–	–	1,783
Profit before tax	–	–	–	–	–	8,673

Notes: The “Segment income” adjustment includes inter-segment transaction eliminations and corporate profit (loss) not allocated to reportable segments amounting to 767 million yen.

3. Information Concerning Impairment Loss of Non-current Assets or Goodwill, etc. by Reportable Segment**Six months ended Sep. 30, 2018 (Apr. 1, 2018 to Sep. 30, 2018)**

Not applicable.

Six months ended Sep. 30, 2019 (Apr. 1, 2019 to Sep. 30, 2019)

Not applicable.

【Supplementary Information】**Overseas Revenue****Six months ended Sep. 30, 2018 (Apr. 1, 2018 to Sep. 30, 2018)**

(Unit: Millions of yen)

	Asia	Europe	North America	Others	Total
I. Overseas revenue	42,212	23,944	15,180	7,179	88,514
II. Consolidated revenue					169,007
III. Overseas revenue to consolidated revenue	25.0%	14.2%	9.0%	4.2%	52.4%

Six months ended Sep. 30, 2019 (Apr. 1, 2019 to Sep. 30, 2019)

(Unit: Millions of yen)

	Asia	Europe	North America	Others	Total
I. Overseas revenue	43,212	19,585	10,911	9,366	83,074
II. Consolidated revenue					153,292
III. Overseas revenue to consolidated revenue	28.2%	12.8%	7.1%	6.1%	54.2%

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

2. Specific countries of each area:

(1) Asia: East and South East Asian countries

(2) Europe: European countries

(3) North America: North American countries

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

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