



Annual Report 2017

TechnoAmenity

“Providing affluence and comfort to people
and society, with our unique technology”

Nippon Shokubai Group Mission:

TechnoAmenity

Providing affluence and comfort to people and society, with our unique technology.

Management Commitment:

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.

Corporate Credo

Safety takes priority over production.

Code of Conduct:

In the belief that it is our social responsibility to conduct business based upon the principles of compliance and self-responsibility for the sake of proper social development, we have set forth the following basic corporate behavior guidelines in the "Nippon Shokubai Code of Conduct."

1. Guided by Nippon Shokubai Group Mission of "**TechnoAmenity**", we will conduct all of our actions as a good corporate citizen.
2. We will comply with relevant laws both inside and outside of Japan, and act in accordance with in-house regulations.
3. We will create and nurture a sound, vibrant workplace, where each individual can hone their professional competence and find fulfillment in their career.
4. We will develop and market products and services that are both safe and useful, based upon an accurate understanding of social demands.
5. We will commit ourselves to eliminating labor hazards and accidents, and constantly strive to protect the global environment.
6. We will conduct business based on fair and open competition.
7. We will take a firm stance when dealing with unlawful or antisocial groups.
8. We will ensure frequent communications with our shareholders and members of society in general, and guarantee the appropriate disclosure of corporate information.
9. With respect for the culture and customs of every nation/region we serve, we will contribute to their development and wellbeing through community-based business undertakings.
10. We will ensure the solid and sustainable development of the company through business undertakings based soundly upon the above action guidelines.

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Consolidated Financial Highlights

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Net sales
¥293,970
 million
 9.0% Down

Operating profit
¥21,151
 million
 32.3% Down

Total assets
¥433,610
 million
 6.3% Up

Net assets
¥292,275
 million
 3.5% Up

ROA
5.9%
 2.4 points Down

Increase in sales of basic chemicals
and functional chemicals
 ▼
 decrease in sales of environment and
catalyst segment

Net sales are projected to increase as sales volume is forecast
to increase, centered on functional chemicals, and due to
higher selling prices in line with higher costs of raw materials
in both basic chemicals and functional chemicals

Mainly, increase in sales volume

Decrease in dividend income and
decrease in share of profit of entities
accounted for using equity method

Increase in income taxes

Messages from President



President **Yujiro Goto**

Yujiro Goto

The Nippon Shokubai Group has targeted the following goal in the run-up to fiscal 2025: Becoming “An innovative chemical company that provides new value for people’s lives” and has since been promoting our long-term business plan for the period between fiscal 2014 and 2020 called “Reborn Nippon Shokubai 2020”.

We renamed the latter-half medium-term business plan as “Reborn Nippon Shokubai 2020 NEXT” and is set for roll-out over four years: starting from fiscal 2017, expressing our aspiration to accomplish our true regeneration toward transformation and leap for the next generation, while leveraging the basic principle above.

Under the company credo: “Safety takes priority over production”, we will continue to advocate a policy which cites safety and stable operation as our key management base and aim to become “A company gaining further public trust as a responsible chemical company”. While further reinforcing our existing business fields, we will also focus on sustained growth by challenging new fields where we can leverage our strength with a sense of urgency as well as performance chemicals, green energy materials, health and medical fields.

Despite finding ourselves within the so-called era of uncertainty or one in which we are never sure what may happen, our Group will be strongly implementing our Group mission: “**TechnoAmenity** – Providing affluence and comfort to people and society, with our unique technology” by precisely grasping social needs and creating new products and services to provide in a timely manner.

We would appreciate your continued understanding and cooperation.

Special Feature

Mission/Management Commitment

Nippon Shokubai Group Mission

TechnoAmenity

Providing affluence and comfort to people and society, with our unique technology

Management Commitment

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.

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Safety takes priority over production.

The 2nd Medium-term Business Plan: “Reborn Nippon Shokubai 2020 NEXT”

Implementing Our Vision for 2025

After reviewing our 1st Medium-term Business Plan and analyzing the ongoing changes in the world around us, we have introduced our 2nd Medium-term Business Plan titled “Reborn Nippon Shokubai 2020 NEXT.” This is a concrete action plan for achieving our “Targets for 2020” in order to realize our “Vision for 2025.”

In order to achieve our targets for 2020, we are focused on adhering to the plans that will implement our established corporate strategy. We intend to uphold our Group Mission of “**TechnoAmenity** — Providing affluence and comfort to people and society, with our unique technology.” We will work on achieving the plan.

In terms of implementing this plan, all our employees will work

to achieve our targets by maintaining a crisis consciousness and remaining aware of their responsibilities as the individuals in charge. By encouraging all employees to think and act on their own with a sense of duty, we are creating “a company that everybody can be proud of.”* By 2020, the final fiscal year of our 2nd Medium-term Business Plan, our aim is to make it possible to anticipate our Group’s assured growth over the subsequent decade.

*A company that everybody can be proud of

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

2017

Targets for
2020

■ Corporate Strategy

In our 2nd Medium-term Business Plan, “Reborn Nippon Shokubai 2020 NEXT,” we will work on implementing our plan by adopting the following Business Policies, Priority Challenge, and Basic Posture.

Business Policies

- Focusing on profitability over sales
- Safe, reliable production activities

Priority challenge

- Survival of SAP business
- Launch of new businesses in high-growth potential markets for our future key driver

Basic Posture

Create products and services which market needs, and provide the products and the services when market needs.

Social issue

Market needs

TechnoAmenity

SAP: Superabsorbent polymers

Policies to priority challenge

- **Strengthen competitiveness of SAP business**
 - Improve profitability (Survival project)
 - Strengthen R&D
- **Accelerate creation of new businesses and products**

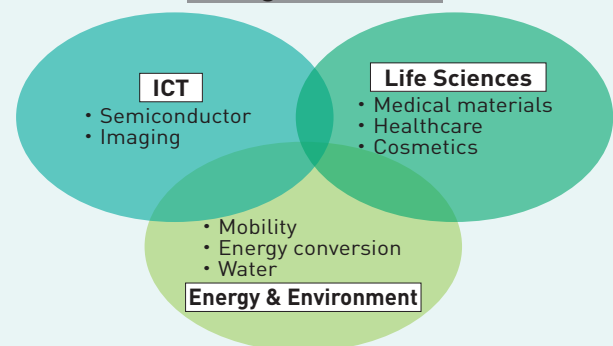
Target to continuous growth

- **Develop an active corporate team and organization**
- **Enhance the confidence of stakeholders**
- **Strengthen Group management**

■ The 2nd MTP (FY2017-2020) : Accelerate creation of new businesses and products

Considering potential market, familiarity to us and social issues, we chose 3 business sectors (8 business areas) as our new business field.

Target sectors



Create new businesses with new technologies based on our core technologies

Target

- **Enter into each sector with core product by 2020**
(sales amount by 1 billion yen each)
- **Establish business in each sector by 2025**
(sales amount by 10 billion yen each)

*We promote O/I and M&A in order to achieve the target above.

Vision for 2025

Vision for 2025

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

Segment: Existing businesses, such as EO, AA/SAP etc., will be strengthened more.

Reconfirmed

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.

Area: Accelerate business development continuously throughout the global market.

Strength: Employ our competencies in R&D, production technologies and marketing and maximize the synergy from such activities.

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

Targets for 2020

In keeping with our "Vision for 2025," we adopted the concrete targets shown below for 2020. We later reviewed our targets because the facts on which we had based our initial assumptions for our long-term business plan had deviated considerably, as seen in the significant decline in the naphtha price, for example.

Management indexes and numerical targets

Sales 400 billion yen <small>(Incl. new products* (39 billion) and new businesses (38 billion))</small>	Ordinary income 40 billion yen	ROA 7.5%
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*Total sales of products launched within the last five years, excluding SAP

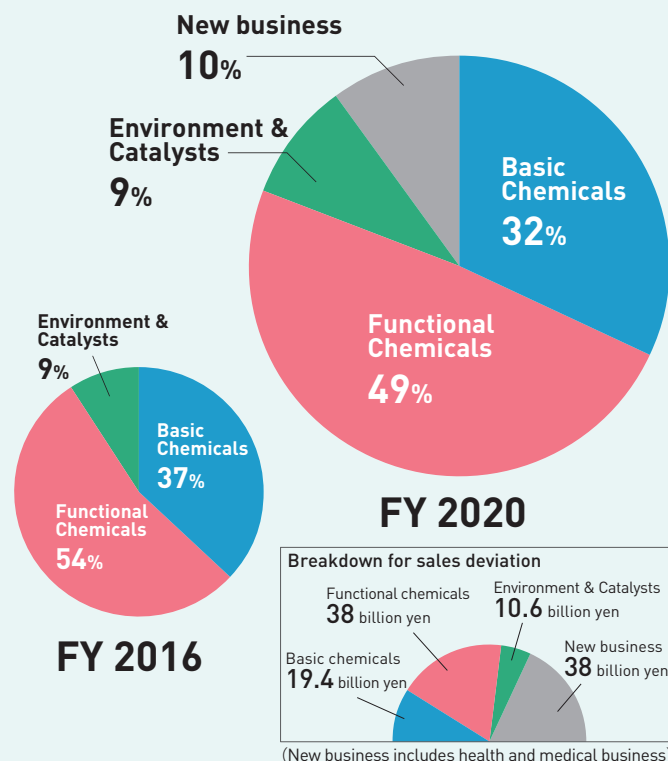
Assumptions

	Domestic naphtha price	Exchange rate(US\$)	Exchange rate(EUR)
LTP (FY2014-2020) (established in 2014)	65,000yen/kl	100 yen	130 yen
2nd MTP (FY2017-2020)	42,000yen/kl	110 yen	115 yen

Management resources (4 years cumulative total)

Capital investment 90 billion yen	Strategic investment 60 billion yen
R&D expenses 57 billion yen <small>4-5% to sales</small>	Employees as of the end of FY2020 4,600 <small>Employees as of the end of FY2016 : 4,161</small>

Business portfolio



FY 2016 Sales: 294 billion yen → +106 billion yen → FY 2020 Sales: 400 billion yen

Description of Business

Description of Business	Ethylene Oxide Business Division	Acrylic Business Division	Superabsorbents Business Division	Performance Chemicals Business Division	Catalysts & Green Energy Materials Business Division
Basic Chemicals	<ul style="list-style-type: none"> Ethylene oxide (EO) Ethylene glycol Ethanolamine Secondary alcohol ethoxylates 	<ul style="list-style-type: none"> Acrylic acid Acrylates 			
Functional Chemicals	<ul style="list-style-type: none"> Polymers for concrete admixture Water-soluble polymers 	<ul style="list-style-type: none"> Specialty acrylates Specialty methacrylates 	<ul style="list-style-type: none"> Superabsorbent polymers 	<ul style="list-style-type: none"> Maleic anhydride & Derivatives Resins for paints & adhesives Acrylic resin for optical materials 	
Environment & Catalysts		<ul style="list-style-type: none"> Process catalysts 			<ul style="list-style-type: none"> Electrolyte Sheets for SOFC (Solid Oxide Fuel Cell) Automotive catalysts De-NOx & dioxins decomposition catalysts

Basic Chemicals

Sales of acrylic acids and acrylates decreased due to a decline in sales prices in Japan in line with a drop in raw materials costs and a stronger yen, and to falling sales prices outside Japan caused by deteriorating market conditions in Southeast Asia, amid a state where global supply continues to exceed demand, despite heightened sales volume.

Sales of ethylene oxide declined due

to a drop in sales prices accompanying lower raw materials costs, despite increased sales volume.

Sales of ethylene glycol decreased due to effects such as a decline in overseas market conditions and a stronger yen, despite increased sales volume.

Sales of ethanolamine increased due to increased sales volume despite a drop in sales prices accompanying lower raw



materials costs.

Sales of secondary alcohol ethoxylates declined due to declined sales volume and falling sales prices accompanying lower raw materials costs.

As a result of the above, net sales in the basic chemicals segment decreased 8.6% year-on-year to 107,580 million yen. Operating profit fell 7.3% year-on-year, to 8,207 million yen. This was due

to factors such as a contraction in the spread, which outweighed an increase in production and sales volume and lower processing costs.

Functional Chemicals

Sales of superabsorbent polymers fell due to the yen appreciation and lower sales prices that reflected a decline in raw materials costs, despite higher sales volume.

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

Sales of special acrylates increased due to higher sales volume, even though sales prices declined as a result of effects such as a decline in overseas market conditions and a stronger yen.

Sales of maleic anhydride decreased due to lower sales volume and a drop in sales prices accompanying lower raw materials costs.

Sales of resin modifiers fell due to a decline in sales prices that reflected

lower raw materials costs, even though sales volume increased.

Sales of iodine compounds declined as a result of effects such as a decline in overseas market conditions and a stronger yen, despite increased sales volume.

Sales of polymers for concrete admixture and water-soluble polymers for raw materials of detergents decreased due to a lower sales volume and the yen appreciation.

Sales of resins for paints declined due to the product mix.

As a result, net sales in the functional chemicals segment fell 10.0% year-on-year to 159,961 million yen.

Operating profit decreased 43.4% year-on-year to 12,119 million yen. Although production and sale volume increased and processing costs and selling, general,

and administrative expenses decreased, factors contributing to the results included the effects of a contraction in the spread exceeding the above.



Environment & Catalysts

Sales of automotive catalysts decreased due to decreased sales prices that reflected the depreciation of sales prices of precious metals.

Sales of materials for lithium-ion batteries, fuel cell materials and wet oxidation catalysts rose due to higher sales volume.

Sales of process catalysts, De-NOx catalysts, dioxins decomposition catalysts and waste gas treatment

catalysts fell due to lower sales volume.

As a result of the above, net sales in the environment & catalysts segment fell 4.5% year-on-year to 26,429 million yen.

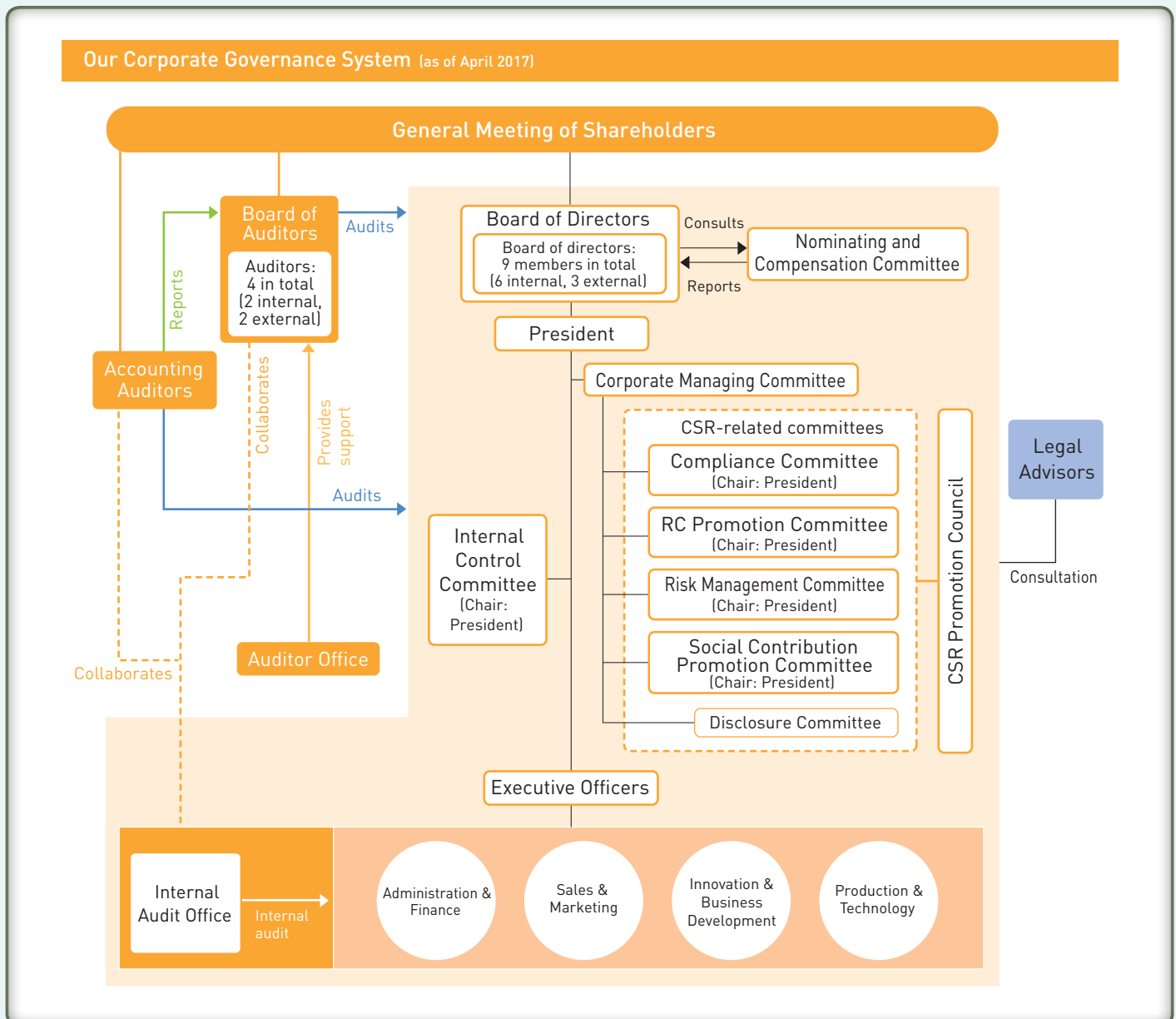
Operating profit in the segment rose 20.6% year-on-year to 748 million yen, on account of an increase in sales volume of fuel cell materials and wet oxidation catalysts.



Governance System

Under Nippon Shokubai Group's Mission of **TechnoAmenity** — “Providing affluence and comfort to people and society, with our unique technology” — our goals are to emerge as an innovative chemical company that provides new value for people's lives, to earn the greater confidence of the public as a responsible chemical company, and to become a company that all can take pride in, including our varied stakeholders. In this way we will increase our corporate value and achieve sustainable growth.

We consider the achievement of viable corporate governance as essential and have adopted initiatives toward that end: we are securing the rights and equality of shareholders and maintaining open dialogue; collaborating with various stakeholders as appropriate; disclosing information as appropriate and ensuring transparency; ensuring the roles of the board of directors and management teams related to their appropriate execution of duties; ensuring appropriate supervision of the execution of these duties; and strengthening and enhancing internal control systems.



Board of Directors

Comprising the nine members, including three external members, the board of directors supervises business operations of each director through reports, deliberations, and resolutions regarding important matters. In general, it convenes monthly under the chairmanship of a director selected from the members of the board who are not executive officers by a resolution of the board of directors. Four auditors — two external and two internal — also attend to give advice and state their opinions as appropriate when necessary.

Corporate Managing Committee

Comprising the president and executive officers appointed by the president, this committee generally convenes twice monthly (with all executive officers in attendance at one of these meetings) to deliberate items related to the implementation of basic policies and important management issues. In addition, regarding proposals discussed by the Corporate Managing Committee, important issues involving those proposals are forwarded to the board of directors for their consideration.

Board of Auditors

Comprising two external auditors and two internal auditors, this board convenes monthly in general, submits reports, and engages in discussions and deliberations on important matters.

Nominating and Compensation Committee

An advisory body of the board of directors, this is a voluntary organization comprising three or more members of the board of directors (including a majority of external directors). It advises on draft nominations of candidates for director and auditor positions and on compensation and bonuses for directors.

Internal Control Committee

Under the chairmanship of the president, this committee has established a system to ensure the reliability of financial reporting as enforced by the Financial Instruments and Exchange Act. It also seeks to process company operations more efficiently and effectively.

Compliance Committee

Chaired by the president, this committee addresses company-wide corporate ethics issues as well as compliance with laws and regulations.

RC Promotion Committee

Chaired by the president, this committee promotes the company's Responsible Care initiatives. It formulates the RC Promotion Basic Plan and focuses on further improving safety and quality while addressing environmental issues.

Risk Management Committee

Chaired by the president, this committee implements measures as appropriate in response to various wide-ranging risks to which our Group is exposed.

Social Contribution Promotion Committee

Chaired by the president, this committee promotes social contribution initiatives by focusing on further strengthening company-wide social contribution policy and by formulating annual, medium-term, and long-term activity plans.

Disclosure Committee

In order to contribute to management transparency and fulfill our social responsibilities while ensuring that all stakeholders have a better understanding of our company, this committee supports our efforts to disclose information on our company and affiliated companies fairly and appropriately and in a timely manner.

CSR Promotion Council

This council investigates and discusses issues related to our CSR, formulates plans, and organizes the progress of the various CSR-related committees.

Outside Members of the Board and Outside Corporate Auditors

Koichi Miura

(Outside Member of the Board)

Mr. Koichi Miura attended all 14 meetings of the Board that were held during the fiscal year 2016. From his viewpoint as a specialist in chemical engineering who is familiar with the chemical industry, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Takashi Sakai

(Outside Member of the Board)

Mr. Takashi Sakai attended all 14 meetings of the Board that were held during the fiscal year 2016. Due to his experience as an executive of a company that is a manufacturer and has a strong commitment to public interest, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Kozo Arao

(Outside Corporate Auditor)

Mr. Kozo Arao attended all 11 meetings of the Board that were held during the fiscal year 2016 following his election as a Member of the Board. 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 advice concerning the Company's management and supervises the Company's management from an independent perspective.

Yoichiro Komatsu

(Outside Corporate Auditor)

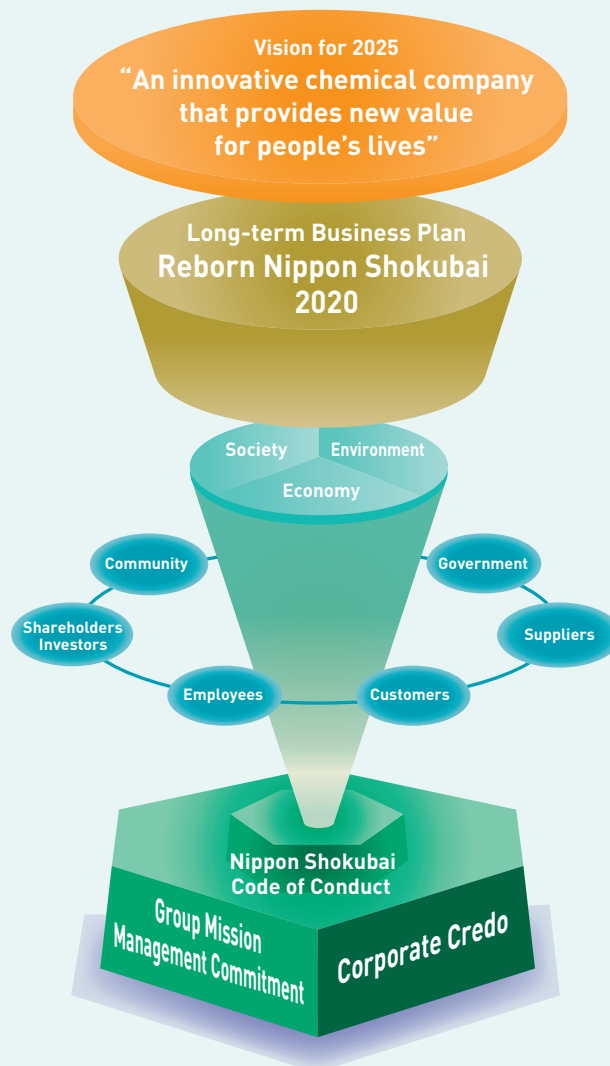
Mr. Yoichiro Komatsu attended all 11 meetings of the Board that were held during the fiscal year 2016 following his election as a Corporate Auditor. At these meetings, he provides his views from the perspective of an attorney as required. Mr. Komatsu also attended all 10 meetings of the Corporate Auditors that were held during the fiscal year 2016 following his election as a Corporate Auditor, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

CSR Based on Responsible Care Concept

CSR Concept

Nippon Shokubai has kept alive the spirit of our corporate credo, “Safety takes priority over production.” In accordance with our Group Mission of “**TechnoAmenity**,” we have established a Management Commitment and Code of Conduct to delineate our corporate behavior comprehensively from economic, social, and environmental perspectives, setting out corporate ethics, Responsible Care, risk management, human rights & labor, information disclosure, social contribution, and corporate governance as priority management issues. At the same time, we have been implementing initiatives to enhance our corporate value by maintaining dialogue with various stakeholders, including our customers, business partners, shareholders/investors, public administrators, employees, and local communities.

In keeping with our approach to corporate social responsibility (CSR), we will continue to contribute to the emergence of a sustainable society by implementing “Reborn Nippon Shokubai 2020,” our long-term business plan, with the goal of achieving our “Vision for 2025.”



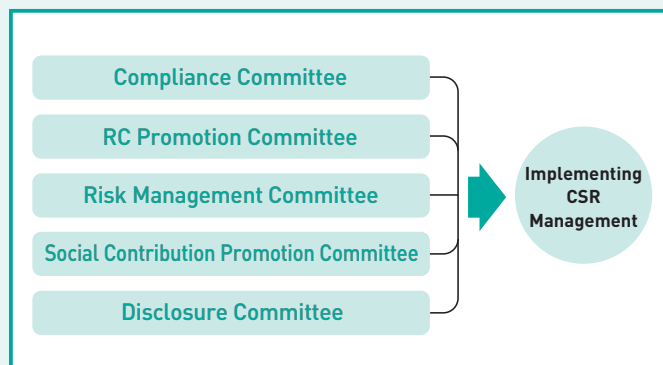
Formulation of CSR Medium-term Targets and Initiatives (2017–2020)

Under “Reborn Nippon Shokubai 2020 NEXT” (2017–2020), one priority issue that is intended to strengthen the company’s management foundation is to become “a company gaining further public trust as a responsible chemical company.”

Toward that end, we have highlighted the importance of promoting company-wide CSR activities; therefore, we have formulated CSR medium-term targets and initiatives spanning the same four years, envisioning this period as the age of the “Reborn Nippon Shokubai 2020 NEXT.”

In the years ahead, we will do our best to achieve our CSR medium-term targets and initiatives, and we will announce our achievements and progress in our annual CSR Reports.

CSR Implementation Structure



CSR Medium-term Targets and Initiatives

Stakeholder	Subject	Medium-term Targets & Initiatives
Company-wide	Corporate Ethics	To continue to emphasize corporate ethics while strengthening our regulatory compliance structure and enhancing various training programs
	Risk Management	To endeavor to expand our risk management while regularly analyzing risk, including undertaking a review of our current Business Continuity Plan
	Corporate Governance	To further strengthen and enhance corporate governance, including improving the functioning of the Board of Directors, in order to enhance corporate value and achieve sustainable growth
Environment	Environmental Protection	Preventing Global Warming 1) To reduce energy consumption by an amount equivalent to 8,000 kL of crude oil (over 4 years) 2) To reduce energy intensity by 5% from fiscal 2015 levels by fiscal 2020 3) To reduce fuel consumption intensity for road transport by 5% from fiscal 2015 levels by fiscal 2020; to promote modal shift
		Waste To maintain zero emissions (Quantity of final off-site landfill) ≤ (Total amount of waste generated × 0.1%)
		PRTR To reduce emissions of substances subject to the PRTR Law by 25% from fiscal 2015 levels by fiscal 2020
Customers	Quality Promotion of company-wide quality initiatives 1) To improve customer satisfaction 2) To attain more trust from customers 3) To achieve “Zero quality complaints”	
	Chemical Safety To achieve zero problems related to chemical safety (legal or social problems)	
Suppliers	Logistics Safety To achieve zero accidents and disasters related to logistics	
	Procurement To continue implementing green procurement	
Shareholders & Investors	Information Disclosure To continue to disclose information in accordance with our corporate governance code and to aim for more relevant responses in order to maintain high-quality constructive dialogue with shareholders and investors.	
Community	Social Contribution To enhance the social contribution initiatives of the Nippon Shokubai Group as a whole To formulate and implement the Third-term Plan (fiscal 2018–fiscal 2022) addressing our forest development initiatives	
	Process Safety and Disaster Prevention To achieve zero severe process safety accidents	
	RC Communication To promote dialogue on Responsible Care initiatives with local residents and implement appropriate information disclosure	
Employees	Human Resources To identify and train leaders who can lead the organization; to promote Diversity & Inclusion	
	Occupational Safety To achieve zero injuries with or without loss of workdays, including contractors	
	Occupational Health To provide all workers with a supportive and ideal work environment; to promote a healthy work-life balance	
Government	Collaboration To continue to cooperate with the administration through industrial associations and other avenues	

Basic Policy on Responsible Care

In conformity with the Nippon Shokubai Group mission, Management commitment, Corporate credo and the Nippon Shokubai Code of Conduct, we rank it as an important management measure to provide products and technologies that contribute to society and environmental protection. In addition, while paying due respect to the principle of Sustainable Development, we are determined to conduct all activities in accordance with the following policy related to environmental protection, safety and product quality that will bring our business operations into harmony with the global environment.

- 1 Aim at environmental protection and reduction of negative environmental impact throughout the entire life cycle of a product, from development to disposal.
- 2 Ensure the safety of our employees and our communities by targeting zero accidents and zero disasters with a commitment to the principle “Safety takes priority over production.”
- 3 Confirm the safety of chemical materials, intermediates and products, and consider the health of our customers, employees of our logistics subcontractors, our employees, and others.
- 4 Stably supply products and associated services that meet customer satisfaction and inspire their trust.
- 5 Publicly announce the results of these activities and make an effort to communicate for proper understanding.

We will implement this RC Policy in all our business operations by ensuring all employees have a thorough understanding and awareness of its importance. The president shall be the person with the ultimate responsibility for implementing this policy.

Ten-Years Summary

	FY2007	FY2008	FY2009
Operating results			
Net sales	¥302,669	¥289,102	¥244,317
Operating income	18,379	622	13,881
Net income (loss)	11,875	-5,307	10,832
Financial position			
Total assets	352,783	302,948	310,946
Net assets	175,634	151,662	163,781
Cash flows			
Cash flows from operating activities	20,129	17,613	44,346
Cash flows from investment activities	-33,100	-16,675	-23,850
Cash flows from financing activities	17,495	8,099	-21,772
Cash and cash equivalents	21,371	29,450	28,234
Per share			
Earnings per share	¥ 64.91	¥ -29.61	¥ 60.85
Net assets	947.34	831.11	898.33
Cash dividends	16.0	15.5	14.0
Shareholders' equity ratio (%)	48.6	48.8	51.4
ROE (%)	6.9	-3.3	7.0
ROA (%)	6.1	0.2	4.9
Liquidity ratio (%)	150	159	155
PER (%)	10.18	—	13.89
Dividend payout ratio (%)	24.6	—	23.0
Market data			
Exchange rate, average (¥/\$)	114.38	100.58	92.88
Naphtha price (¥/kl)	61,400	58,900	41,200
Share Price (¥) (Closing)	661	622	845
(High)	1,316	866	920
(Low)	626	442	600

*As the Company conducted a reverse stock split at a ratio of one share for every five shares on October 1, 2015, figures for the dividends per share for FY 2015 are amounts that take into account the reverse stock split.

FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2016
(Millions of yen)						(Millions of U.S. dollars)	
¥288,345	¥320,704	¥269,520	¥302,136	¥374,873	¥323,124	¥293,970	\$2,620
29,813	31,100	10,034	13,752	26,133	31,234	21,151	189
21,119	21,257	8,401	10,503	19,089	26,003	19,361	173
329,332	356,407	352,373	398,396	419,634	407,997	433,610	3,865
194,266	209,070	220,248	242,193	270,128	282,485	292,275	2,605
31,706	43,857	27,322	16,992	32,697	53,264	37,474	334
-16,696	-21,747	-31,878	-25,141	-18,941	-12,963	-44,515	-397
-3,050	-9,671	81	-2,519	-10,237	-20,012	-3,533	-31
39,174	50,812	47,801	39,619	44,336	64,055	51,700	461
¥ 110.30	¥ 104.71	¥ 41.38	¥ 51.74	¥ 94.06	¥ 640.69	¥ 478.36	\$ 4.3
938.67	1,006.48	1,059.85	1,164.10	1,307.13	6,870.84	7,238.33	64.5
22.0	22.0	16.0	16.0	24.0	150.0	150.0	1.3
57.9	57.3	61.1	59.3	63.2	68.3	66.6	—
12.1	10.8	4.0	4.7	7.6	9.6	6.8	—
9.7	9.7	3.9	4.4	7.3	8.3	5.9	—
197	174	189	168	205	241	212	—
9.45	9.16	19.94	23.56	18.74	8.94	15.85	—
19.9	21.0	38.7	30.9	25.5	23.4	31.4	—
85.72	79.07	83.09	100.21	109.88	120.14	108.36	—
47,500	54,900	57,500	67,300	63,500	42,800	34,700	309.3
1,042	959	825	1,219	1,763	5,730	7,580	67.6
1,047	1,100	987	1,286	1,832	—	8,020	71.5
682	764	738	791	1,093	—	5,140	45.8

Notes: Conversions into USD are just for indication only. The exchange rate is the rate at March 31, 2017. (¥112.19 / \$1.00) Figures are rounded off.

Management Discussion and Analysis of Operation

Fiscal 2016 Performance

The world economy in the current fiscal year saw the United States economy continuing to recover and the situation in Europe also recovering moderately, while economic deceleration continued in China and resource-rich countries.

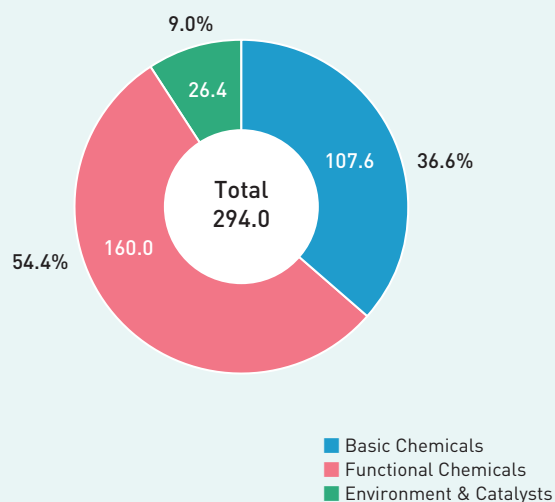
As for the Japanese economy, although there were signs of weakness in personal consumption, the country saw a

moderate recovery trend due primarily to steady employment conditions.

In the chemicals industry, the future outlook remained unclear including the trend of costs of raw materials and foreign exchange.

Segment Sales

(¥billion)



Financial position

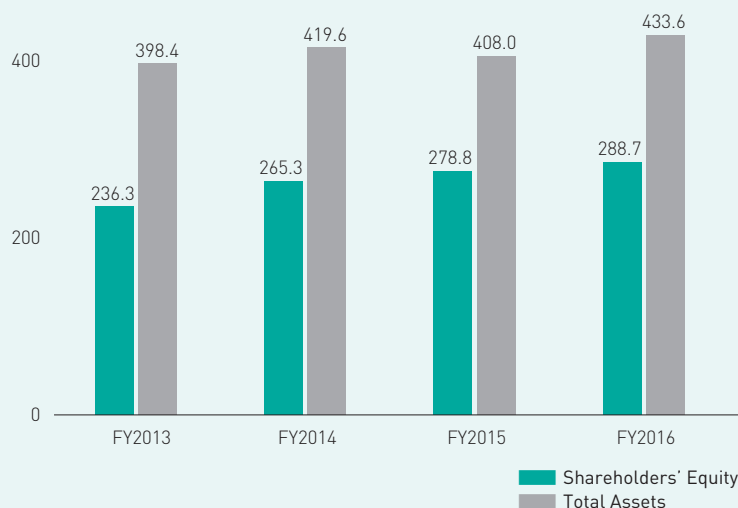
Under these conditions, the Group's consolidated net sales in the current fiscal year declined 9.0% year-on-year to 293,970 million yen, down 29,154 million yen. Contributing factors included a drop in sales prices on account of falling raw material costs and market conditions for products outside of Japan, as well as the yen appreciation.

With regard to profits, in spite of decreased processing costs and increased production and sales volume resulting in volume effects, a contraction in the spread owing to a decline in market conditions for products in excess of the decrease in raw material costs led to lower operating profit, which was down 32.3% year-on-year to 21,151 million yen, down 10,083 million yen.

Non-operating income increased 405 million yen due to improved foreign exchange losses and decreased technology transfer study related expenses, although share of profit of entities accounted for using equity method decreased. As a result, ordinary profit was down 28.2% to 24,664 million yen, 9,678 million yen lower than the previous fiscal year. Extraordinary income fell 838 million yen year-on-year due to recording of loss on closing of laboratory and the absence of gain on sales of shares of subsidiaries and associates, while gain on sales of investment securities was posted. As a result, profit attributable to owners of parent fell 25.5% to 19,361 million yen, down 6,642 million yen.

Shareholders' Equity and Total Assets

(¥billion)



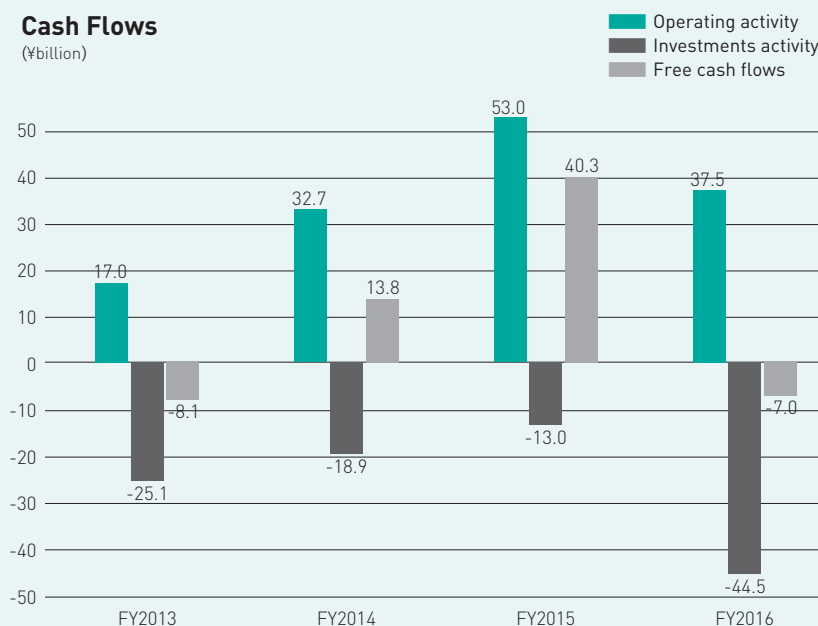
Cash Flows

Cash and cash equivalents at the end of the current fiscal year decreased 12,355 million yen compared to the end of the previous fiscal year to 51,700 million yen, as cash flows used in investing activities including capital investment and cash flows used in financing activities outweighed cash flows provided by operating activities.

Net cash provided by operating activities in the current fiscal year amounted to 37,474 million yen (53,264 million yen was provided in the previous fiscal year). This was due primarily to decreased profit before income taxes, which led to decreased inflows of 15,790 million yen compared to the previous fiscal year.

Net cash used in investing activities totaled 44,515 million yen (12,963 million yen was used in the previous fiscal year). Outflows increased for the purchase of property, plant and equipment and the purchase of shares of subsidiaries and associates, which led to increased outflows of 31,552 million yen compared to the previous fiscal year.

Net cash used in financing activities amounted to 3,533 million yen (20,012 million yen was used in the previous fiscal year). This was a decrease of 16,479 million yen in cash outflows compared to the previous fiscal year. Contributing factors included the issuance of bonds, despite the purchase of treasury shares.



Basic Policy on the Distribution of Profits, and Dividends

Nippon Shokubai has positioned the return of profits to shareholders as the most important management task, and, in consideration of the dividend payout ratio, 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. In addition to dividend distributions, the Company intends to consider stock buybacks as one of the options to raise the value per share.

The Company will continue to distribute profits by taking into careful consideration a balance between the critical need to maintain competitiveness and continue growth into the future by aggressively investing in equipment, making strategic investment, and investing in R&D and other areas,

with the need to accomplish these investments, recognizing the importance of keeping on hand a sufficient level of retained earnings.

The Company pays dividends twice a year, once at the end of the interim period and once at the end of the fiscal year. Based on the above basic policy, the Company plans to pay a year-end dividend of 75 yen per share for FY 2016, taking into consideration the business environment, earnings results and future prospects for business growth. As a result, annual dividends will total 150 yen per share, for a consolidated payout ratio of 31.4%.

For FY 2017, based on the above basic policy, annual dividends are scheduled to be 150 yen (interim dividends of 75 yen and year-end dividends of 75 yen), taking into consideration the state of achievement of profit forecasts.

Fiscal 2017 Outlook

The Japanese economy is expected to remain on a moderate recovery trend, supported by an improvement in the employment environment and capital and public investment. Meanwhile, it is predicted that the management environment surrounding the Company will be unpredictable, owing to factors such as policy operation by the new administration in the United States, uncertainty in the political situation in Europe, and trends in the Chinese economy.

Under such conditions, projected earnings in the next fiscal year are based on exchange rates of 110 yen to the U.S. dollar and 115 yen to the euro, and naphtha prices of 42,000 yen/kl. Sales volumes are projected to increase centered around functional chemicals, and sales prices are expected to increase due to higher raw material prices. We therefore forecast consolidated net sales to increase 5.5% to 310,000

million yen (+16,030 million yen), with 150,000 million yen in the first half.

With regard to profits, the Company projections incorporate the expected effect of higher sales volumes that will lead to an increase in operating profit by 8.7%, to 23,000 million yen (+1,849 million yen), with 10,000 million yen in the first half. The Company projects an increase in ordinary profit by 5.4%, to 26,000 million yen (+1,336 million yen), with 12,000 million yen in the first half, assuming deterioration in non-operating profit and expenses due to factors such as a decrease in dividend income and share of profit of entities accounted for using equity method, as well as an increase in profit attributable to owners of parent by 0.7%, to 19,500 million yen (+139 million yen), with 9,000 million yen in the first half.

Financial Statements

Consolidated Balance Sheet

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Assets			
Current assets:			
Cash and cash equivalents <i>(Note 4)</i>	¥ 51,700	¥ 64,055	\$ 460,825
Time deposits <i>(Notes 4 and 7)</i>	4,439	5,117	39,567
Notes and accounts receivable <i>(Note 4)</i> :			
Unconsolidated subsidiaries and affiliates	7,590	7,843	67,653
Trade	56,611	57,093	504,599
Allowance for doubtful accounts	(11)	(18)	(98)
Inventories <i>(Note 6)</i>	51,109	49,007	455,558
Deferred income taxes <i>(Note 9)</i>	3,154	3,218	28,113
Other current assets	9,917	9,367	88,395
Total current assets	184,509	195,682	1,644,612
Property, plant and equipment, at cost <i>(Notes 7 and 23)</i> :			
Land	32,607	33,084	290,641
Buildings and structures	104,509	98,375	931,536
Machinery and equipment	370,429	364,588	3,301,801
Construction in progress	25,664	7,911	228,755
Leased assets	580	616	5,170
Accumulated depreciation	(370,629)	(357,986)	(3,303,584)
Property, plant and equipment, net	163,160	146,588	1,454,319
Investments and other assets:			
Investments in securities <i>(Notes 3 and 4)</i>	37,488	30,318	334,147
Investments in unconsolidated subsidiaries and affiliates	32,603	23,851	290,605
Deferred income taxes <i>(Note 9)</i>	1,868	1,341	16,650
Asset for retirement benefits <i>(Note 8)</i>	7,298	3,529	65,050
Other assets <i>(Note 7)</i>	6,684	6,688	59,578
Total investments and other assets	85,941	65,727	766,030
Total assets	¥ 433,610	¥ 407,997	\$ 3,864,961

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Liabilities and Net Assets			
Current liabilities:			
Short-term bank loans <i>(Notes 4 and 7)</i>	¥ 9,976	¥ 13,186	\$ 88,921
Current portion of long-term debt <i>(Notes 4 and 7)</i>	11,583	8,195	103,244
Notes and accounts payable <i>(Note 4)</i> :			
Unconsolidated subsidiaries and affiliates	5,758	6,350	51,324
Trade	38,857	32,960	346,350
Lease obligations <i>(Note 7)</i>	25	25	223
Income taxes payable <i>(Note 9)</i>	3,378	4,507	30,110
Accrued bonuses to employees	3,065	3,273	27,320
Accrued bonuses to directors and audit & supervisory board members	159	188	1,417
Reserve for periodic repairs	2,525	2,436	22,506
Other current liabilities	11,519	9,934	102,674
Total current liabilities	86,845	81,054	774,089
Long-term liabilities:			
Long-term debt <i>(Notes 4 and 7)</i>	36,374	29,166	324,218
Lease obligations <i>(Note 7)</i>	83	108	740
Deferred income taxes <i>(Note 9)</i>	4,971	1,628	44,309
Liability for retirement benefits <i>(Note 8)</i>	12,072	12,568	107,603
Other	990	989	8,824
Total long-term liabilities	54,490	44,459	485,694
Contingent liabilities <i>(Note 20)</i>			
Net assets:			
Shareholders' equity <i>(Note 10)</i>:			
Common stock:			
Authorized – 127,200,000 shares in 2017 and 127,200,000 shares in 2016			
Issued – 40,800,000 shares in 2017 and 40,800,000 shares in 2016	25,038	25,038	223,175
Capital surplus	22,395	22,395	199,617
Retained earnings	229,091	216,223	2,041,991
Less treasury stock, at cost	(6,249)	(1,010)	(55,700)
Total shareholders' equity	270,275	262,646	2,409,083
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	12,248	7,614	109,172
Translation adjustments	6,153	11,474	54,844
Net unrealized deferred gain on hedges	11	16	98
Retirement benefit liability adjustments	(16)	(2,916)	(143)
Total accumulated other comprehensive income, net	18,396	16,188	163,971
Non-controlling interests	3,604	3,650	32,124
Total net assets	292,275	282,484	2,605,178
Total liabilities and net assets	¥ 433,610	¥ 407,997	\$ 3,864,961

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Net sales (Note 23)	¥ 293,970	¥ 323,124	\$ 2,620,287
Cost of sales (Note 11)	233,499	253,123	2,081,282
Gross profit	60,471	70,001	539,005
Selling, general and administrative expenses (Note 11)	39,320	38,767	350,477
Operating income (Note 23)	21,151	31,234	188,528
Other income (expenses):			
Interest and dividend income	1,456	1,252	12,978
Interest expense	(445)	(440)	(3,966)
Royalty income	347	350	3,093
Equity in earnings of an unconsolidated subsidiary and affiliates	2,150	2,458	19,164
Rent income from real estate	1,108	1,176	9,876
Foreign exchange losses, net	(630)	(1,270)	(5,615)
Technology transfer study related expenses	(267)	(592)	(2,380)
Loss on disposal of property, plant and equipment	(47)	(36)	(419)
Compensation expenses	(444)	-	(3,958)
Gain on sales of investment securities	1,199	-	10,687
Gain on sales of property, plant and equipment (Note 12)	136	-	1,212
Government subsidies	3	318	27
Gain on sales of investment in a subsidiary (Note 13)	-	620	-
Loss on closing of research center (Note 14)	(797)	-	(7,104)
Loss on liquidation of business (Note 15)	(159)	-	(1,417)
Loss on devaluation of investments in other securities	(115)	-	(1,025)
Loss on reduction of non-current assets	(3)	(292)	(27)
Other, net (Note 16)	(172)	210	(1,533)
Profit before income taxes	24,471	34,988	218,121
Income taxes (Note 9):			
Current	5,631	7,430	50,192
Deferred	(519)	1,445	(4,626)
	5,112	8,875	45,566
Profit	19,359	26,113	172,555
Profit attributable to non-controlling interests	2	(110)	18
Profit attributable to owners of parent	¥ 19,361	¥ 26,003	\$ 172,573

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 2)</i>
Profit	¥ 19,359	¥ 26,113	\$ 172,555
Other comprehensive income (loss) <i>(Note 18)</i>			
Net unrealized holding gain (loss) on securities	4,641	(3,046)	41,367
Net unrealized deferred loss on hedges	(6)	(11)	(53)
Translation adjustments	(4,526)	(843)	(40,342)
Retirement benefits liability adjustments	2,980	(2,777)	26,562
Share of other comprehensive loss of an unconsolidated subsidiary and affiliates accounted for by the equity method	(913)	(765)	(8,138)
Total other comprehensive income (loss)	2,176	(7,442)	19,396
Comprehensive income	¥ 21,535	¥ 18,671	\$ 191,951
Total comprehensive income attributable to:			
Owners of parent	¥ 21,569	¥ 18,579	\$ 192,254
Non-controlling interests	(34)	92	(303)

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>											
Balance at April 1, 2015	¥ 25,038	¥ 22,083	¥ 195,497	¥ (956)	¥ 241,662	¥ 10,652	¥ 13,095	¥ 27	¥ (162)	¥ 23,612	¥ 4,854	¥ 270,128
Changes during the year:												
Cash dividends	-	-	(5,277)	-	(5,277)	-	-	-	-	-	-	(5,277)
Profit attributable to owners of parent ...	-	-	26,003	-	26,003	-	-	-	-	-	-	26,003
Purchases of treasury stock	-	-	-	(54)	(54)	-	-	-	-	-	-	(54)
Disposal of treasury stock	-	0	-	0	0	-	-	-	-	-	-	0
Change in equity resulting from transaction with non-controlling shareholders	-	312	-	-	312	-	-	-	-	-	-	312
Net changes in items other than shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
Total changes during the year	-	312	20,726	(54)	20,984	(3,038)	(1,621)	(11)	(2,754)	(7,424)	(1,204)	12,356
Balance at March 31, 2016	¥ 25,038	¥ 22,395	¥ 216,223	¥ (1,010)	¥ 262,646	¥ 7,614	¥ 11,474	¥ 16	¥ (2,916)	¥ 16,188	¥ 3,650	¥ 282,484

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Shareholders' equity

	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	<i>(Millions of yen)</i>				
Balance at April 1, 2016	¥ 25,038	¥ 22,395	¥ 216,223	¥ (1,010)	¥ 262,646
Changes during the year:					
Cash dividends	-	-	(6,493)	-	(6,493)
Profit attributable to owners of parent ...	-	-	19,361	-	19,361
Purchases of treasury stock	-	-	-	(5,239)	(5,239)
Disposal of treasury stock	-	0	-	0	0
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-
Net changes in items other than shareholders' equity	-	-	-	-	-
Total changes during the year	-	0	12,868	(5,239)	7,629
Balance at March 31, 2017	¥ 25,038	¥ 22,395	¥ 229,091	¥ (6,249)	¥ 270,275

Accumulated other comprehensive income (loss)

	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>						
Balance at April 1, 2016	¥ 7,614	¥ 11,474	¥ 16	¥ (2,916)	¥ 16,188	¥ 3,650	¥ 282,484
Changes during the year:							
Cash dividends	-	-	-	-	-	-	(6,493)
Profit attributable to owners of parent ...	-	-	-	-	-	-	19,361
Purchases of treasury stock	-	-	-	-	-	-	(5,239)
Disposal of treasury stock	-	-	-	-	-	-	0
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	4,634	(5,321)	(5)	2,900	2,208	(46)	2,162
Total changes during the year	4,634	(5,321)	(5)	2,900	2,208	(46)	9,791
Balance at March 31, 2017	¥ 12,248	¥ 6,153	¥ 11	¥ (16)	¥ 18,396	¥ 3,604	¥ 292,275

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Shareholders' equity							
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity		
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at April 1, 2016	\$ 223,175	\$ 199,617	\$ 1,927,293	\$ (9,003)	\$ 2,341,082		
Changes during the year:							
Cash dividends	-	-	(57,875)	-	(57,875)		
Profit attributable to owners of parent	-	-	172,573	-	172,573		
Purchases of treasury stock	-	-	-	(46,697)	(46,697)		
Disposal of treasury stock	-	0	-	0	0		
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-		
Net changes in items other than shareholders' equity	-	-	-	-	-		
Total changes during the year	-	0	114,698	(46,697)	68,001		
Balance at March 31, 2017	\$ 223,175	\$ 199,617	\$ 2,041,991	\$ (55,700)	\$ 2,409,083		
Accumulated other comprehensive income (loss)							
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive income, net	Non- controlling interests	Total net assets
<i>(Thousands of U.S. dollars) (Note 2)</i>							
Balance at April 1, 2016	\$ 67,867	\$ 102,273	\$ 143	\$ (25,992)	\$ 144,291	\$ 32,534	\$ 2,517,907
Changes during the year:							
Cash dividends	-	-	-	-	-	-	(57,875)
Profit attributable to owners of parent	-	-	-	-	-	-	172,573
Purchases of treasury stock	-	-	-	-	-	-	(46,697)
Disposal of treasury stock	-	-	-	-	-	-	0
Change in equity resulting from transaction with non-controlling shareholders	-	-	-	-	-	-	-
Net changes in items other than shareholders' equity	41,305	(47,429)	(45)	25,849	19,680	(410)	19,270
Total changes during the year	41,305	(47,429)	(45)	25,849	19,680	(410)	87,271
Balance at March 31, 2017	\$ 109,172	\$ 54,844	\$ 98	\$ (143)	\$ 163,971	\$ 32,124	\$ 2,605,178

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Operating activities:			
Profit before income taxes	¥ 24,471	¥ 34,988	\$ 218,121
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	17,957	17,875	160,059
Gain on sales of investments in securities	(1,199)	–	(10,687)
Gain on sales of property, plant and equipment	(136)	–	(1,212)
Government subsidies	(3)	(318)	(27)
Loss on closing of research center	797	–	7,104
Loss on liquidation of business	159	–	1,417
Loss on devaluation of investments in other securities	115	–	1,025
Loss on reduction of non-current assets	3	292	27
Gain on sales of investment in a subsidiary	–	(620)	–
Increase in asset for retirement benefits	(1,153)	(1,435)	(10,277)
Increase in liability for retirement benefits	245	1	2,184
Interest and dividend income	(1,456)	(1,252)	(12,978)
Interest expense	445	440	3,966
Equity in earnings of an unconsolidated subsidiary and affiliates	(2,150)	(2,458)	(19,164)
Other, net	563	4,220	5,018
Changes in operating assets and liabilities:			
Notes and accounts receivable	53	7,476	472
Inventories	(2,796)	5,176	(24,922)
Notes and accounts payable	6,712	(6,155)	59,827
Other current liabilities	(726)	650	(6,471)
Subtotal	41,901	58,880	373,482
Interest and dividends received	2,847	2,425	25,377
Interest paid	(430)	(431)	(3,833)
Proceeds from government subsidies	3	318	27
Income taxes paid	(6,847)	(7,928)	(61,030)
Net cash provided by operating activities	¥ 37,474	¥ 53,264	\$ 334,023
Investing activities:			
Purchases of property, plant and equipment	(36,228)	(13,311)	(322,916)
Proceeds from sales of property, plant and equipment	150	103	1,337
Purchase of intangible assets	(320)	(495)	(2,852)
Purchases of investments in securities	(558)	(730)	(4,974)
Proceeds from sales of investments in securities	1,668	985	14,868
Payments for purchases of shares of affiliates	(9,588)	(22)	(85,462)
Proceeds from sales of shares of a subsidiary resulting in change in scope of consolidation	–	211	–
Collection of loans receivable	127	736	1,132
Other, net	234	(440)	2,085
Net cash used in investing activities	¥ (44,515)	¥ (12,963)	\$ (396,782)

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Financing activities:			
Net decrease in short-term bank loans	¥ (3,035)	¥ (7,179)	\$ (27,052)
Proceeds from long-term debt	9,262	1,000	82,556
Repayment of long-term debt	(7,999)	(7,491)	(71,299)
Issuance of bonds	10,000	-	89,135
Purchase of investments in a subsidiary not resulting in change in scope of consolidation	-	(952)	-
Purchases of treasury stock	(5,239)	(54)	(46,698)
Cash dividends paid	(6,494)	(5,277)	(57,884)
Cash dividends paid to non-controlling shareholders	(13)	(32)	(116)
Other, net	(15)	(27)	(133)
Net cash used in financing activities	(3,533)	(20,012)	(31,491)
Effect of exchange rate changes on cash and cash equivalents	(1,781)	(570)	(15,876)
(Decrease) Increase in cash and cash equivalents	(12,355)	19,719	(110,126)
Cash and cash equivalents at beginning of year	64,055	44,336	570,951
Cash and cash equivalents at end of year	¥ 51,700	¥ 64,055	\$ 460,825

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

March 31, 2017

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Nippon Shokubai Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2016 to the 2017 presentation. Such reclassifications had no effect on consolidated profit or net assets.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, a date which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these overseas consolidated subsidiaries and the year end of the Company.

Investments in an unconsolidated subsidiary and significant affiliates are accounted for by the equity method.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

(c) Foreign currency translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of profit but are reported as translation adjustments and non-controlling interests in the accompanying consolidated balance sheets at March 31, 2017 and 2016.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the consolidated balance sheet date and gain or loss on each translation is credited or charged to profit.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(e) Allowance for doubtful accounts

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(f) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the moving average method.

(g) Property, plant and equipment

Depreciation is computed principally by the straight-line method over the estimated useful lives of the respective assets except for leased assets.

(h) Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

For finance lease transactions that do not transfer ownership to the lessee, those that started on or before March 31, 2008 continue to be accounted for as operating lease transactions.

(i) Investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(j) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(k) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed based on the temporary differences between financial reporting and the tax bases of the assets and liabilities which will result in taxable or tax-deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(l) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign currency exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates ("Allocation method").

(m) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which is charged to income in the current year.

(n) Accrued bonuses to directors and audit & supervisory board members

Accrued bonuses to directors and audit & supervisory board members are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(o) Reserve for periodic repairs

The Company and certain consolidated subsidiaries provide a reserve for the cost of periodic repairs to production facilities at plants based on their estimates of the future cost of such repairs.

(p) Retirement benefits

The liability for retirement benefits is provided based on the retirement benefit obligation reduced by the pension plan assets at fair value at the end of the year.

The retirement benefits are attributed to periods corresponding to the service years of eligible employees based on the benefit formula method.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method principally over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is amortized by the straight-line method principally over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

(q) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 25).

(r) Recognition of contract revenue and cost

The Company recognizes revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥112.19 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2017. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Additional Information

Application of Implementation Guidance on Recoverability of Deferred Tax Assets

Effective from the year ended March 31, 2017, the Company and its consolidated domestic subsidiaries adopted "Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan ("ASBJ")) Guidance No.26, issued on March 28, 2016.

4. Financial Instruments

(1) Current status of financial instruments

1) Policy for financial instruments

The Group manages temporary surplus funds through short-term bank deposits. The Group raises funds through bank loans. The Group uses derivatives for the purpose of reducing foreign currency exchange rate fluctuation risk or interest rate fluctuation risk, and does not enter into derivatives for speculative or trading purposes.

2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Trade receivables in foreign currencies, arising from export transactions for the global business, are exposed to foreign currency exchange rate fluctuation risk, which are hedged by forward foreign exchange contracts.

Investments in securities are composed of the shares of common stock of other companies with which the Group has business or capital relationships, which are also exposed to market price volatility risk.

Substantially all notes and accounts payable, trade have payment due dates within one year, which are also hedged by forward foreign currency exchange contracts. The loans are taken out principally for the purpose of making capital expenditures. The loans with variable interest rates are exposed to interest rate fluctuation risk. However, the interest rate fluctuation risk is covered by interest rate swap transactions.

Regarding derivatives, the Group enters into forward foreign currency exchange transactions to avoid foreign currency exchange rate fluctuation risk related to trade receivables and trade payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to avoid interest rate fluctuation risk related to the loans.

Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 22.

3) Risk management for financial instruments

i) Monitoring for credit risk (the risk that customers or counterparties may default)

With respect to trade receivables, each related division of the Company monitors the conditions of their main customers periodically, monitors due dates and outstanding balances of individual customers, and evaluates credit worthiness of their main customers semiannually. The consolidated subsidiaries also monitor trade receivables in a same manner.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

ii) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and trade payables in foreign currencies, the Group enters into forward foreign currency exchange contracts.

For investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

For derivative transactions, the finance department of the Company enters into and manages derivative transactions. Results of derivative transactions are reported to the director in charge monthly.

iii) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on the scheduled due dates)

Based on reports from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives in the following table are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair value of financial instruments

Carrying value, fair value, and unrealized gain or loss on financial instruments at March 31, 2017 and 2016 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	2017			2016		
	<i>(Millions of yen)</i>					
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized (loss) gain
Assets:						
i) Cash and cash equivalents, and time deposits	¥ 56,139	¥ 56,139	¥ -	¥ 69,172	¥ 69,172	¥ -
ii) Notes and accounts receivable	64,201	64,201	-	64,936	64,936	-
iii) Investments in securities:						
Other securities	36,274	36,274	-	28,968	28,968	-
Total assets	¥ 156,614	¥ 156,614	¥ -	¥ 163,076	¥ 163,076	¥ -
Liabilities:						
iv) Notes and accounts payable	¥ 44,615	¥ 44,615	¥ -	¥ 39,310	¥ 39,310	¥ -
v) Short-term bank loans	9,976	9,976	-	13,186	13,186	-
vi) Current portion of long-term debt	11,583	11,565	(18)	8,195	8,180	(15)
vii) Long-term debt	26,374	26,210	(164)	29,166	29,260	94
Total liabilities	¥ 92,548	¥ 92,366	¥ (182)	¥ 89,857	¥ 89,936	¥ 79
Derivatives	¥ 15	¥ 15	¥ -	¥ 23	¥ 23	¥ -

	2017		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Fair value	Unrealized loss
Assets:			
i) Cash and cash equivalents, and time deposits	\$ 500,392	\$ 500,392	\$ -
ii) Notes and accounts receivable	572,252	572,252	-
iii) Investments in securities:			
Other securities	323,326	323,326	-
Total assets	\$ 1,395,970	\$ 1,395,970	\$ -

	2017		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Fair value	Unrealized loss
Liabilities:			
iv) Notes and accounts payable	\$ 397,674	\$ 397,674	\$ -
v) Short-term bank loans	88,921	88,921	-
vi) Current portion of long-term debt	103,244	103,084	(160)
vii) Long-term debt	235,083	233,622	(1,462)
Total liabilities	<u>\$ 824,922</u>	<u>\$ 823,301</u>	<u>\$ (1,622)</u>
Derivatives	\$ 134	\$ 134	\$ -

1) Calculation methods of fair value of financial instruments, securities, and derivatives are as follows:

Assets:

- i) Cash and cash equivalents, time deposits, and ii) notes and accounts receivable
Since these items are settled in a short period of time, their carrying values approximate the fair value.
- iii) Investments in securities
Please refer to Note 1(i).

Liabilities:

- iv) Notes and accounts payable, and v) short-term bank loans
Since these items are settled in a short period of time, their carrying values approximate the fair value.
- vi) Current portion of long-term debt, and vii) long-term debt
The fair value of long-term debt is based on present value of the total amount including principal and interest, discounted by the expected interest rate in the case of new borrowings under the same conditions and in the same amount of the balance as of the end of the period. Long-term loans with floating interest rates were hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The estimated fair value of those long-term loans is reasonably based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to loans made under similar conditions.

Derivative transactions:

Please refer to Note 22.

2) Financial instruments for which it is extremely difficult to determine the fair value:

Other securities whose market value was not determinable at March 31, 2017 and 2016 are presented as follows:

	2017		2016		2017	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
	¥	1,214	¥	1,350	\$	10,821
Unlisted securities and other						

Since there is no market price for unlisted securities and it is difficult to determine the fair value, they are not included in the preceding table "(2) Fair value of financial instruments."

The impairment losses on investment in unlisted securities in the amount of ¥115 million (\$1,025 thousand) were recognized for the year ended March 31, 2017.

3) The redemption schedule for monetary assets with maturity dates as of March 31, 2017 and 2016 is as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
	Due within one year	Due within one year	Due within one year
Cash and cash equivalents, and time deposits	¥ 56,139	¥ 69,172	\$ 500,392
Notes and accounts receivable	64,201	64,936	572,252
	¥ 120,340	¥ 134,108	\$ 1,072,644

5. Investments in Securities

Marketable securities classified as other securities at March 31, 2017 and 2016 are summarized as follows:

	2017			2016		
	<i>(Millions of yen)</i>					
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 36,214	¥ 19,019	¥ 17,195	¥ 27,031	¥ 16,424	¥ 10,607
Subtotal	36,214	19,019	17,195	27,031	16,424	10,607
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	60	85	(25)	1,937	2,231	(294)
Subtotal	60	85	(25)	1,937	2,231	(294)
Total	¥ 36,274	¥ 19,104	¥ 17,170	¥ 28,968	¥ 18,655	¥ 10,313

	2017		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 322,792	\$ 169,525	\$ 153,267
Subtotal	322,792	169,525	153,267
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	535	758	(223)
Subtotal	535	758	(223)
Total	\$ 323,327	\$ 170,283	\$ 153,044

Sales of other securities for the years ended March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Proceeds	¥ 1,260	¥ 447	\$ 11,231
Gross realized gain	¥ 1,199	¥ 48	\$ 10,687

6. Inventories

Inventories at March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥ 28,162	¥ 27,884	\$ 251,021
Raw materials	6,315	9,860	56,288
Work in process	10,595	5,574	94,438
Supplies	6,037	5,689	53,811
Total	¥ 51,109	¥ 49,007	\$ 455,558

7. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2017 and 2016 were 1.42% and 0.89%, respectively.

Long-term debt and lease obligations at March 31, 2017 and 2016 consisted of the following:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unsecured bonds payable in Japanese yen, at rate of 0.11%, due through 2021	¥ 10,000	¥ -	\$ 89,135
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates from 0.26% to 0.87%, due through 2022	17,271	17,832	153,944
Unsecured loans from banks, payable in U.S. dollars, at rates from 1.44% to 1.62%, due through 2020	13,324	19,524	118,762
Unsecured loans from banks, payable in Euro, at rates from 0.24% to 0.53%, due through 2023	7,362	-	65,621
Secured loans from banks, payable in Japanese yen, at rate of 1.24%, due through 2016	-	5	-
Lease obligations	108	133	963
Subtotal	48,065	37,494	428,425
Less current portion	(11,608)	(8,220)	(103,467)
Total	¥ 36,457	¥ 29,274	\$ 324,958

The aggregate annual maturities of long-term debt subsequent to March 31, 2017 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2018	¥ 11,583	\$ 103,244
2019	5,192	46,279
2020	9,431	84,063
2021	2,271	20,242
2022 and thereafter	19,480	173,633
	¥ 47,957	\$ 427,462

The aggregate annual maturities of lease obligations to March 31, 2017 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>	
2018	¥	25	\$	223
2019		27		241
2020		21		187
2021		7		62
2022 and thereafter		28		250
	¥	108	\$	963

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2017 and 2016 were as follows:

	2017		2016		2017	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
Time deposits	¥	8	¥	8	\$	71
Land		550		550		4,902
Buildings and structures		105		72		936
Machinery and equipment		175		206		1,560
Other assets		5		5		45
Total	¥	843	¥	841	\$	7,514

8. Retirement Benefits

Outline of Retirement Benefit Plan

Employees of the Company and consolidated subsidiaries are mainly covered by funded and unfunded defined benefit plans and defined contribution pension plans to provide for retirement benefits. In funded defined benefit corporate pension plans, lump-sum payments or pensions at retirement based on salary and length of service are paid. In unfunded lump-sum payments plan, lump-sum payments based on salary and length of service are paid as retirement benefits. In addition, the Company has a cash balance plan for a defined benefit corporate pension plan and a retirement lump-sum plan. Under the cash balance plan, each eligible employee has a hypothetical account, which is equivalent to the funded amount as the basis for the pension payment. The hypothetical accounts accumulate contribution credits based on salary level and interest credits based on market interest trends.

The Company also has the employees' retirement benefit trust.

Certain consolidated subsidiaries calculate the retirement benefit obligations, retirement benefit assets and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum payments plans based on the amount which would be payable at the year-end if all eligible employees terminated their services voluntarily ("the simplified method").

Certain consolidated subsidiaries participate in a multi-employer pension plan. Since the portion of pension assets of the consolidated subsidiaries held in the multi-employer pension plan could not be reasonably calculated, the required contribution amount is recognized as retirement benefit expense.

Information on defined benefit pension plans for the years ended March 31, 2017 and 2016 is as follows:

The change in retirement benefit obligation is outlined as follows (excluding plans to which the simplified method is applied):

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 38,988	¥ 36,412	\$ 347,518
Service cost	1,885	1,682	16,802
Interest cost	203	417	1,809
Actuarial (gain) loss	(2,436)	2,492	(21,713)
Benefits paid	(1,793)	(1,977)	(15,982)
Prior service cost	-	(9)	-
Other	(1)	(29)	(9)
Balance at the end of the year	¥ 36,846	¥ 38,988	\$ 328,425

The change in plan assets at fair value is outlined as follows (excluding plans to which the simplified method is applied):

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 31,007	¥ 31,122	\$ 276,379
Expected return on plan assets	607	911	5,410
Actuarial (loss) gain	914	(1,590)	8,147
Contributions by the employer	1,720	1,702	15,332
Benefits paid	(1,076)	(1,138)	(9,591)
Balance at the end of the year	¥ 33,172	¥ 31,007	\$ 295,677

The change in liabilities for retirement benefits calculated by the simplified method is outlined as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,059	¥ 988	\$ 9,439
Retirement benefit expenses	85	100	758
Benefits paid	(30)	(112)	(267)
Other	(14)	(13)	(125)
Decrease resulting from exclusion of subsidiaries from consolidation	-	96	-
Balance at the end of the year	¥ 1,100	¥ 1,059	\$ 9,805

The reconciliation of the ending balance of the retirement benefit obligation and plan assets to the asset and liability for retirement benefits recognized in the consolidated balance sheets were as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 26,412	¥ 28,247	\$ 235,422
Plan assets at fair value	(33,387)	(31,200)	(297,593)
	(6,975)	(2,953)	(62,171)
Unfunded retirement benefit obligation	11,749	11,992	104,724
Net amount of liabilities and assets recognized in consolidated balance sheets	4,774	9,039	42,553
Liability for retirement benefits	12,072	12,568	107,603
Asset for retirement benefits	(7,298)	(3,529)	(65,050)
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ 4,774	¥ 9,039	\$ 42,553

Retirement benefit calculated by the simplified method is included in the above table.

The components of retirement benefit expenses are outlined as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 1,886	¥ 1,682	\$ 16,810
Interest cost	203	417	1,809
Expected return on plan assets	(607)	(911)	(5,410)
Amortization:			
Actuarial loss	836	174	7,452
Past service cost	14	16	125
Retirement benefit expenses calculated by simplified method	84	99	749
Retirement benefit expenses	¥ 2,416	¥ 1,477	\$ 21,535

The components of retirement benefits liability adjustments included in other comprehensive income, before the tax effect, are outlined as follows:

	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service cost	¥ 14	¥ 25	\$ 125
Actuarial gain (loss)	4,187	(3,909)	37,320
Total	¥ 4,201	¥ (3,884)	\$ 37,445

The components of retirement benefit liability adjustments included in accumulated other comprehensive income, before the tax effect, are outlined as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized past service cost	¥ 7	¥ 21	\$ 62
Unrecognized actuarial (loss) gain	(389)	3,798	(3,467)
Total	¥ (382)	¥ 3,819	\$ (3,405)

The breakdown of plan assets by major category is as follows:

	2017	2016
Bonds	57%	55%
Equities	24%	23%
Cash and deposits	10%	14%
Other	9%	8%
Total	100%	100%

(Note) The breakdown of plan assets in the above table is determined based on the percentage of composition of the various assets in the pension fund. Bonds include alternative investments that are approximately the same as bonds in terms of level of risk.

(Note) 0.4% of pension assets are part of a retirement benefit trust for a corporate pension plan.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2017 and 2016 are as follows:

	2017	2016
Discount rates	Principally 0.8%	Principally 0.4%
Expected long-term rate of return on plan assets	Principally 2.0%	Principally 3.0%
Rates of salary increase	Principally 5.2%	Principally 5.2%

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rates of return from multiple plan assets at present and in the future.

The required contributions to defined contribution pension plans for the years ended March 31, 2017 and 2016 amounted to ¥165 million (\$1,471 thousand) and ¥175 million, respectively.

The following table sets forth the status of the multi-employer pension plan at March 31, 2016 and 2015 the most recent date on which such data was available:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Plan assets	¥ 531,917	¥ 571,380	\$ 4,741,216
Total amounts of actuarial liability calculated under pension financing and minimum actuarial reserve	538,161	561,736	4,796,872
Difference	¥ (6,244)	¥ 9,644	\$ (55,656)

The contribution ratio of the Company and consolidated subsidiaries to the multi-employer plan was 0.5% at March 31, 2017 and 2016. This percentage is not the same as the Company and consolidated subsidiaries' percentage of obligation.

Additional information

The difference of ¥6,244 million (\$55,656 thousand) in the above table is the net amount of the balance of prior service cost of ¥34,541 million (\$307,879 thousand) calculated under pension financing, the shortage of the plan of ¥21,455 million (\$191,238 thousand) and the general reserve of ¥49,752 million (\$443,462 thousand) at March 31, 2016. Prior service cost is amortized on a straight-line basis over 6 years as of March 31, 2016, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥29 million (\$258 thousand) for amortization of prior service cost.

The difference of ¥9,644 million in the above table is the net amount of the balance of prior service cost of ¥40,107 million calculated under pension financing, the general reserve of ¥35,441 million and the surplus of the plan of ¥14,311 million at March 31, 2015. Prior service cost was amortized on a straight-line basis over 7 years as of March 31, 2015, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥28 million for amortization of prior service cost.

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended March 31, 2017 and 2016 were, in the aggregate, approximately 30.8% and 33.0%, respectively.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2017 and 2016 differed from the above statutory tax rates for the following reasons:

	<u>2017</u>	<u>2016</u>
Statutory tax rates.....	30.8 %	33.0 %
Effect of:		
Valuation allowance	(1.4)	(1.8)
Different tax rate applicable to income of subsidiaries	(0.7)	0.2
Tax credit for research and development costs	(4.5)	(2.6)
Equity in earnings of an unconsolidated subsidiary and affiliates ..	(2.7)	(2.3)
Other tax credit	(1.6)	(0.3)
Decrease in deferred income tax assets resulting from change in the statutory tax rates	-	0.8
Other, net	1.0	(1.6)
Effective tax rates	<u>20.9 %</u>	<u>25.4 %</u>

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Depreciation and amortization (including loss on impairment)	¥ 2,014	¥ 2,043	\$ 17,952
Liability for retirement benefits for employees	1,497	2,746	13,343
Tax loss carryforwards	4,842	4,845	43,159
Intercompany profit on inventories and property, plant and equipment	609	729	5,428
Accrued bonuses to employees	888	963	7,915
Loss on impairment of land	1,038	886	9,252
Reserve for periodic repairs	778	750	6,935
Loss on devaluation of investments in securities and other	681	645	6,070
Other	1,218	1,126	10,857
Gross deferred tax assets	<u>13,565</u>	14,733	<u>120,911</u>
Less: Valuation allowance	<u>(4,530)</u>	(4,938)	<u>(40,378)</u>
Total deferred tax assets	<u>9,035</u>	9,795	<u>80,533</u>
Deferred tax liabilities:			
Net unrealized holding gain on securities	(4,775)	(2,611)	(42,562)
Equity in earnings of an overseas consolidated subsidiary	(653)	(945)	(5,820)
Deferred capital gain on property (in overseas subsidiaries) ..	(245)	(245)	(2,184)
Depreciation and amortization	(1,625)	(1,342)	(14,484)
Reserve for depreciation for tax purposes	(9)	(12)	(80)
Other	(1,677)	(1,709)	(14,949)
Total deferred tax liabilities	<u>(8,984)</u>	(6,864)	<u>(80,079)</u>
Net deferred tax assets	<u>¥ 51</u>	¥ 2,931	<u>\$ 454</u>

10. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥3,920 million (\$34,940 thousand) at March 31, 2017 and 2016.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2017 and 2016 are summarized as follows:

	2017			
	Number of shares			
	<i>(Thousands)</i>			
	April 1, 2016	Increase	Decrease	March 31, 2017
Common stock	40,800	-	-	40,800
Treasury stock	217	701	0	919

The increase in treasury stock of 701 thousand shares was due to the acquisition of shares based on the articles of incorporation of the Company under Article 165 (2) of the Companies Act (700 thousand shares) and the acquisition of fractional shares (1 thousand shares).

The decrease in treasury stock of 0 thousand shares was due to the sale of shares less than one standard unit (0 thousand shares).

	2016			
	Number of shares			
	<i>(Thousands)</i>			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	204,000	-	163,200	40,800
Treasury stock	1,056	14	853	217

The Company completed a reverse stock split of its common stock at a ratio of 1 share for 5 shares on October 1, 2015 on the basis of a resolution by the annual meeting of shareholders held on June 19, 2015. As a result, the number of issued shares decreased by 163,200 thousand shares.

The increase in treasury stock of 14 thousand shares was due to the acquisition of fractional shares (14 thousand shares) and the acquisition of shares less than one standard unit as a result of the reverse stock split (0 thousand shares).

The decrease in treasury stock of 853 thousand shares was due to the reverse stock split (853 thousand shares) and the sale of shares less than one standard unit (0 thousand shares).

11. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2017 and 2016 totaled ¥13,283 million (\$118,397 thousand) and ¥12,303 million, respectively.

12. Gain on Sales of Property, Plant and Equipment

Gain on sale of land was included in gain on sales of property, plant and equipment for the year ended March 31, 2017.

13. Gain on Sales of Investment in a Subsidiary

On June 30, 2015, the Company sold all shares of Nippon Polyester Co., Ltd. to Takiron Co., Ltd. As a result, the Company recorded a gain on sales of investment in a subsidiary in the amount of ¥620 million for the year ended March 31, 2016.

14. Loss on Closing of Research Center

For the year ended March 31, 2017, the Company recorded a loss due to the closure of the Tsukuba Research Center. The main component was loss on impairment.

Details of the loss on impairment of property, plant and equipment are summarized as follows:

2017

Company	Application	Classification	(Millions of yen)	(Thousands of U.S. dollars)
Tsukuba Research Center (Tsukuba, Ibaraki Prefecture)	Research base	Buildings and structures	¥ 217	\$ 1,934
		Equipment	2	18
		Land	497	4,430
		Other	1	9
Total			¥ 717	\$ 6,391

Assets are grouped by the smallest units generating largely independent cash flows based on the business units. In addition, assets not expected to be utilized in the future are grouped individually.

During the year ended March 31, 2017, the Tsukuba Research Center, located in Tsukuba, Ibaraki Prefecture, has been closed and related assets were written down to their respective net recoverable amounts, and a loss on impairment was recognized. The net recoverable amounts of these impaired assets were measured at net selling value based on appraisal value by a real estate appraiser.

15. Loss on Liquidation of Business

For the year ended March 31, 2017, the Company recorded a loss on liquidation of business consisting mainly of impairment loss on manufacturing equipment. Details of the loss on liquidation of business are as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Fumaric acid business in Himeji plant	¥ 108	\$ 963
Ethylene glycol monoethyl ether business in Kawasaki plant	51	454
Total	¥ 159	\$ 1,417

16. Other

For the year ended March 31, 2017, the Company recorded expenses in the amount of ¥457 million (\$4,073 thousand) related to emergency dredging for the recovery of water depth around the port at the Himeji plant.

17. Assets and Liabilities of a Subsidiary Excluded from Consolidation Following Sales of Its Shares

The assets and liabilities of Nippon Polyester Co., Ltd., a former subsidiary excluded from consolidation following the sales of its shares for the year ended March 31, 2016, are as follows:

(As of the acquisition date)	(Millions of yen)
Current assets	¥ 2,773
Non-current assets	136
Current liabilities	(2,627)
Non-current liabilities	(632)
Non-controlling interests	0
Gain on sales of shares	620
Proceeds from sales of shares of common stock	270
Cash and cash equivalents held by the subsidiary	(59)
Net proceeds	¥ 211

18. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of components of other comprehensive income for the years ended March 31, 2017 and 2016:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 7,872	¥ (4,750)	\$ 70,167
Reclassification adjustments	(1,069)	(48)	(9,529)
Before tax effects	6,803	(4,798)	60,638
Tax effects	(2,162)	1,752	(19,271)
Net unrealized holding gain (loss) on securities	4,641	(3,046)	41,367
Net unrealized deferred loss on hedges:			
Amount arising during the year	(8)	(17)	(71)
Before tax effects	(8)	(17)	(71)
Tax effects	2	6	18
Net deferred loss on hedges	(6)	(11)	(53)
Translation adjustments:			
Amount arising during the year	(4,526)	(843)	(40,342)
Translation adjustments	(4,526)	(843)	(40,342)
Retirement benefits liability adjustments:			
Amount arising during the year	3,350	(4,073)	29,860
Reclassification adjustments	851	190	7,585
Before tax effects	4,201	(3,883)	37,445
Tax effects	(1,221)	1,106	(10,883)
Retirement benefits liability adjustments	2,980	(2,777)	26,562
Share of other comprehensive loss of an unconsolidated subsidiary and affiliates accounted for by the equity method:			
Amount arising during the year	(933)	(785)	(8,316)
Reclassification adjustments	20	20	178
Share of other comprehensive loss of an unconsolidated subsidiary and affiliates accounted for by the equity method	(913)	(765)	(8,138)
Total other comprehensive income (loss)	¥ 2,176	¥ (7,442)	\$ 19,396

19. Lease

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its domestic consolidated subsidiaries at March 31, 2017 and 2016 which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Equipment:			
Acquisition costs	¥ 491	¥ 532	\$ 4,377
Accumulated depreciation	(451)	(440)	(4,020)
Net book value	¥ 40	¥ 92	\$ 357

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases amounted to ¥52 million (\$463 thousand) and ¥54 million for the years ended March 31, 2017 and 2016, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥52 million (\$463 thousand) and ¥54 million for the years ended March 31, 2017 and 2016, respectively, if it had been reflected in the accompanying consolidated balance sheet.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2017 under finance lease transactions, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that were entered into on or before March 31, 2008 are summarized as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2018	¥ 40	\$ 357

20. Contingent Liabilities

The Company and a consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates at March 31, 2017 and 2016 as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
American Acryl L.P.	¥ 1,361	¥ 1,709	\$ 12,131
Re-guaranteed by Arkema Delaware Inc.	681	854	6,070

21. Amounts per Share

	2017	2016	2017
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Profit attributable to owners of parent	¥ 478.36	¥ 640.69	\$ 4.26
Cash dividends	150.00	98.00	1.34
Net assets	7,238.33	6,870.84	64.52

Profit attributable to owners of parent per share has been computed based on the profit attributable to owners of parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted profit attributable to owners of parent per share has not been presented for the years ended March 31, 2017 and 2016 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2017 and 2016.

The Company completed a reverse stock split of its common stock at a ratio of 1 share for 5 shares on October 1, 2015. The amounts per share of net assets and profit attributable to owners of parent have been computed based on the assumption that the reverse stock split had been completed at the beginning of the prior year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of profit attributable to owners of parent per share for the years ended March 31, 2017 and 2016 is summarized as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Profit attributable to owners of parent	¥ 19,361	¥ 26,003	\$ 172,573
Deductions from profit attributable to owners of parent	-	-	-
Adjusted profit attributable to owners of parent available to shareholders of common stock	¥ 19,361	¥ 26,003	\$ 172,573
Weighted-average number of shares of common stock outstanding during the year <i>(thousands of shares)</i>	40,474	40,585	

22. Derivatives

(1) Derivative transactions to which hedge accounting is not applied

There were no derivative transactions to which hedge accounting was not applied as of March 31, 2017 and 2016.

(2) Derivative transactions to which hedge accounting is applied

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting as of March 31, 2017 and 2016 are summarized as follows:

Currency-related transactions

			2017		
			Contract value		Fair value
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	
<i>Millions of yen</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	¥ 71	¥ -	¥ 15
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	6,587	-	(*)
	Buy	Accounts payable, trade	24	-	(*)
			2016		
			Contract value		Fair value
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	
<i>Millions of yen</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	¥ 120	¥ -	¥ 23
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	1,977	-	(*)
	Buy	Accounts payable, trade	25	-	(*)

			2017		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<i>Thousands of U.S. dollars</i>					
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	\$ 633	\$ -	\$ 134
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	58,713	-	(*)
	Buy	Accounts payable, trade	214	-	(*)

Fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.

(*) Fair value of forward foreign currency exchange contracts under the allocation method is included in accounts receivable, trade or accounts payable, trade.

Interest-rate related transactions

			2017		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
<i>(Millions of yen)</i>					
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 5,000	¥ -	(*)

			2016		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
<i>(Millions of yen)</i>					
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 5,000	¥ 5,000	(*)

			2017		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
<i>(Thousands of U.S. dollars)</i>					
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	\$ 44,567	\$ -	(*)

(*) Because interest rate swap agreements are accounted for by applying swap rates to underlying long-term debt, their fair value is included in that of the long-term debt disclosed in Note 3.

23. Segment Information

(1) Outline of reporting segments

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

The Group'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 Group has three reporting segments based on product family: Basic chemicals, Functional chemicals, and Environment and catalysts.

Basic chemicals division is engaged in manufacturing and sales of acrylic acids, acrylic ester, ethylene oxides, ethylene glycols, ethanolamine, higher-alcohol and glycol ether.

Functional chemicals division is engaged in manufacturing and sales of superabsorbent polymers, pharmaceutical intermediates, polymer for concrete admixture, electronic and information materials, iodine, maleic anhydride, resins for adhesives and paints, and process adhesive products.

Environment and catalysts division is engaged in manufacturing and sales of automotive catalysts, De-NOx catalysts, dioxin decomposition catalysts, industrial catalysts, exhaust gas treatment equipment and fuel cell material.

(2) Calculation methods used for sales, income or loss, assets, and other items on each reporting segment.

The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

(3) Information as to sales, profit or loss, assets, and other items on each reporting segment

The segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2017 and 2016 is outlined as follows:

	Year ended March 31, 2017					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
	<i>(Millions of yen)</i>					
Sales to third parties	¥ 107,580	¥ 159,961	¥ 26,429	¥ 293,970	¥ -	¥ 293,970
Intragroup sales and transfers	29,311	4,877	725	34,913	(34,913)	-
Net sales	¥ 136,891	¥ 164,838	¥ 27,154	¥ 328,883	¥ (34,913)	¥ 293,970
Segment profit	¥ 8,207	¥ 12,119	¥ 748	¥ 21,074	¥ 77	¥ 21,151
Segment assets	132,191	227,037	29,330	388,558	45,052	433,610
Depreciation and amortization	9,359	8,572	570	18,501	-	18,501
Increases in property, plant and equipment and other assets	6,905	28,753	2,792	38,450	-	38,450

Year ended March 31, 2016

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
<i>(Millions of yen)</i>						
Sales to third parties	¥ 117,643	¥ 177,798	¥ 27,683	¥ 323,124	¥ -	¥ 323,124
Intragroup sales and transfers	34,353	5,010	746	40,109	(40,109)	-
Net sales	¥ 151,996	¥ 182,808	¥ 28,429	¥ 363,233	¥ (40,109)	¥ 323,124
Segment profit	¥ 8,851	¥ 21,422	¥ 620	¥ 30,893	¥ 341	¥ 31,234
Segment assets	134,121	207,886	27,665	369,672	38,325	407,997
Depreciation and amortization	9,441	8,425	520	18,386	-	18,386
Increases in property, plant and equipment and other assets	4,585	10,830	341	15,756	-	15,756

Year ended March 31, 2017

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
<i>(Thousands of U.S. dollars)</i>						
Sales to third parties	\$ 958,909	\$ 1,425,804	\$ 235,574	\$ 2,620,287	\$ -	\$ 2,620,287
Intragroup sales and transfers	261,262	43,471	6,462	311,195	(311,195)	-
Net sales	\$ 1,220,171	\$ 1,469,275	\$ 242,036	\$ 2,913,482	\$ (311,195)	\$ 2,620,287
Segment profit	\$ 73,153	\$ 108,022	\$ 6,667	\$ 187,842	\$ 686	\$ 188,528
Segment assets	1,178,278	2,023,683	261,431	3,463,392	401,569	3,864,961
Depreciation and amortization	83,421	76,406	5,081	164,908	-	164,908
Increases in property, plant and equipment and other assets	61,547	256,289	24,886	342,722	-	342,722

Notes 1. The adjustments in segment profit are related to the elimination between inter segment transactions. The adjustments in segment assets consist of inter segment elimination and the common properties of the group. The common properties are the investments held by the Company, mainly cash and cash equivalents, and investments in securities.

Note 2. The amount of long-term prepaid expense and its amortized cost are included in increases in property, plant and equipment and other assets.

(4) Related information

Geographical information

1) Sales

Sales categorized by countries and regions based on locations of customers of the Group for the years ended March 31, 2017 and 2016 are summarized as follows:

2017					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Americas	Other	Total
¥ 149,943	¥ 62,473	¥ 36,891	¥ 32,331	¥ 12,332	¥ 293,970

2016					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Americas	Other	Total
¥ 162,192	¥ 63,531	¥ 46,902	¥ 31,785	¥ 18,714	¥ 323,124

2017					
<i>(Thousands of U.S. dollars)</i>					
Japan	Asia	Europe	Americas	Other	Total
\$ 1,336,509	\$ 556,850	\$ 328,826	\$ 288,181	\$ 109,921	\$ 2,620,287

“Asia” includes east and south-east Asia. “Americas” includes U.S.A. and Canada. “Other” includes areas except for Asia, Europe, North America and Japan.

2) Property, plant and equipment

Property, plant and equipment categorized by countries and regions as of March 31, 2017 and 2016 is summarized as follow:

2017					
<i>(Millions of yen)</i>					
Japan	Indonesia	Other Asia	Belgium	Other	Total
¥ 103,648	¥ 25,108	¥ 2,645	¥ 23,047	¥ 8,712	¥ 163,160

2016					
<i>(Millions of yen)</i>					
Japan	Indonesia	Other Asia	Belgium	Other	Total
¥ 100,001	¥ 28,228	¥ 2,230	¥ 5,839	¥ 10,290	¥ 146,588

2017					
<i>(Thousands of U.S. dollars)</i>					
Japan	Indonesia	Other Asia	Belgium	Other	Total
\$ 923,861	\$ 223,799	\$ 23,576	\$ 205,428	\$ 77,655	\$ 1,454,319

(5) Information about loss on impairment

		2017				
		<i>(Millions of yen)</i>				
		Reporting segments			Adjustments and eliminations	Total
		Basic chemicals	Functional chemicals	Environment and catalysts		
Loss on impairment	¥ 19	¥ 108	¥ -	¥ 717	¥ 844

		2017				
		<i>(Thousands of U.S. dollars)</i>				
		Reporting segments			Adjustments and eliminations	Total
		Basic chemicals	Functional chemicals	Environment and catalysts		
Loss on impairment	\$ 169	\$ 963	\$ -	\$ 6,391	\$ 7,523

24. Related Party Transactions

Principal transactions between the Company and its related party for the years ended March 31, 2017 and 2016 are summarized as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Sales of finished goods	¥ 18,849	¥ 19,888	\$ 168,010
Purchases of raw materials	16,501	17,844	147,081

The balances due from and to its related party at March 31, 2017 and 2016 were as follows:

	2017	2016	2017
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Notes and accounts receivable	¥ 7,005	¥ 6,970	\$ 62,439
Notes and accounts payable	4,486	4,947	39,986

The prices for the above related party transactions were determined in reference to market value and cost.

Umicore Shokubai Co., Ltd. is a related company in which the Company indirectly owns 40% of the shares.

25. Subsequent Events

Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2017, was approved at a shareholders' meeting held on June 21, 2017:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash dividends (¥75.00 = \$0.669 per share)	¥ 2,991	\$ 26,660



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Nippon Shokubai Co., Ltd.

We have audited the accompanying consolidated financial statements of Nippon Shokubai Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shokubai Co., Ltd. and its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 21, 2017
Osaka, Japan

Corporate Data

NIPPON SHOKUBAI CO., LTD. (As of March 31, 2017)

Established: August 21, 1941

Common Stock (Paid in Capital): 25,038 million yen

Number of Shares Issued: 40,800,000 shares

Number of Shares Authorized: 127,200,000 shares

Number of Employees: : 4,161 (Consolidated)
2,207 (Non-consolidated)

Markets listed: Tokyo Stock Exchange; Securities Code:
4114;
ADR (The Bank of New York Mellon Bank);
Checker Symbol: NPSHY

Fiscal Year Ends: March 31

Auditors: Ernst & Young Shin Nihon LLC

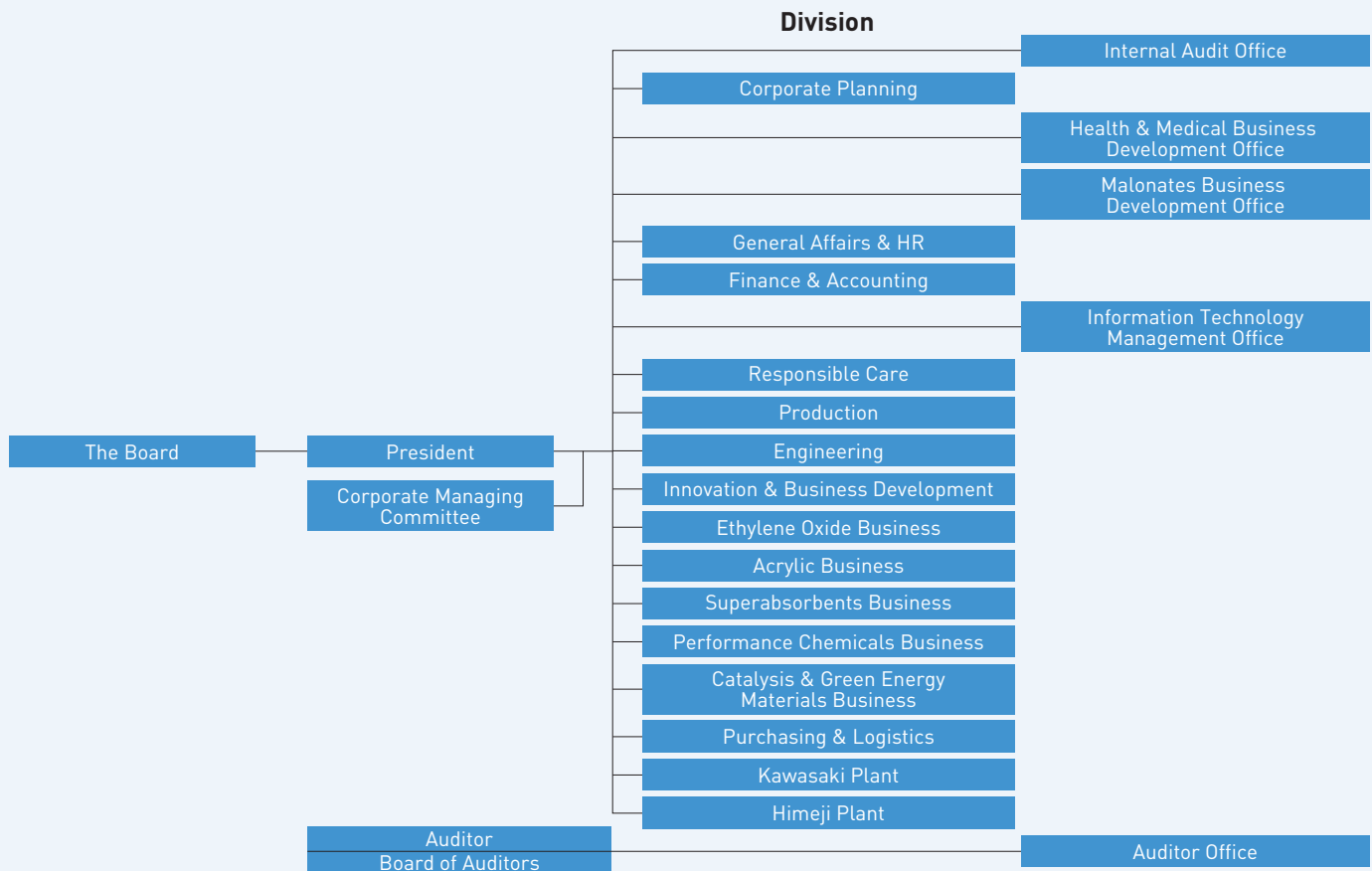
Lead Managers (Securities): Nomura Securities Co., Ltd.,
Mizuho Securities Co., Ltd.

Stock Transfer Agency: Mitsubishi UFJ Trust and Banking
Corporation

Banks: Resona Bank, Limited,
Mizuho Bank, Ltd.,
The Bank of Tokyo-Mitsubishi UFJ, Ltd.

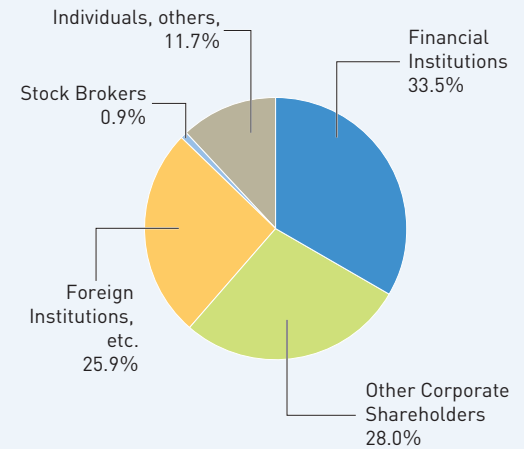
Number of shareholders: 9,984

Organization Chart (As of June 21, 2017)



Major Shareholders (As of March 31, 2017)

Name	Number of Shares Owned (thousand shares)	Ratio of capital Contribution (%)
Sumitomo Chemical Company, Limited	2,795	7.00
Japan Trustee Services Bank, Ltd. (Trust Account)	2,156	5.40
JX Holdings, Inc.	2,129	5.33
JP MORGAN CHASE BANK 385632	1,730	4.33
Resona Bank, Limited.	1,373	3.44
National Mutual Insurance Federation of Agricultural Cooperatives	1,308	3.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	1,300	3.25
Sanyo Chemical Industries, Ltd.	1,267	3.17
Japan Trustee Services Bank, Ltd. (Trust Account 9)	960	2.40
Mizuho Bank, Ltd.	948	2.37



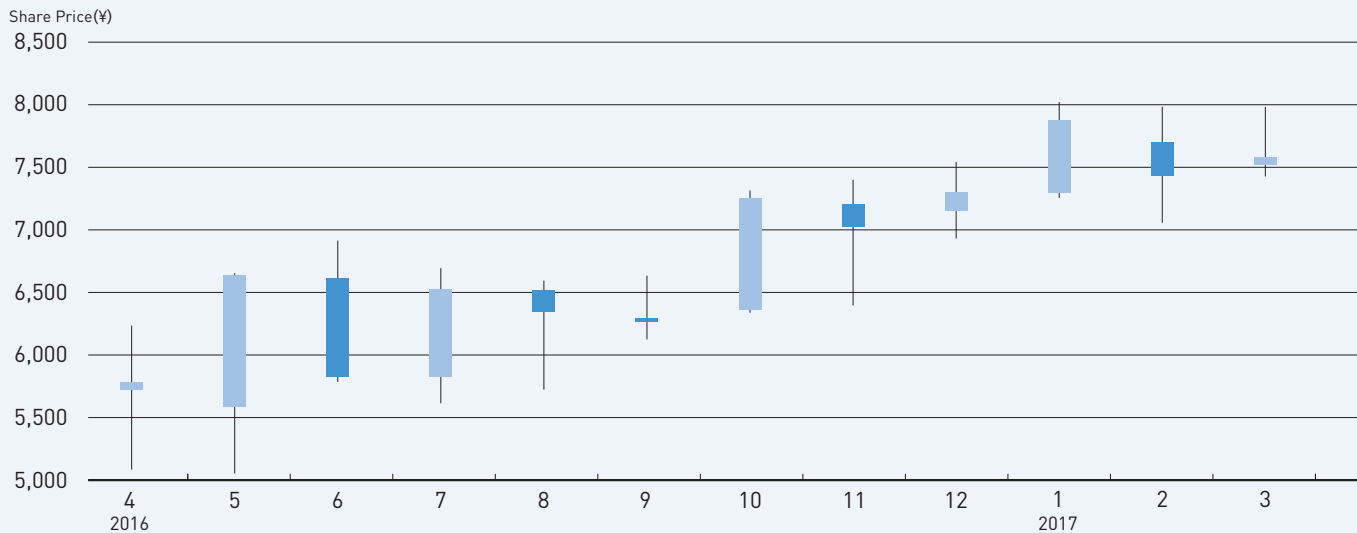
(Note 1) Other than the above, the Company holds 919 thousand shares as treasury stock.

(Note 2) Treasury stock 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.

(Note 4) JX Holdings, Inc. has merged with TonenGeneral Sekiyu K.K. as of April 1, 2017 and changed its trade name to JXTG Holdings, Inc.

Share Price and Turnover (April 2016- March 2017)



Subsidiaries & Affiliates

Japan

NIPPOH CHEMICALS CO., LTD.	Neo Kawai Bldg.,8-15,4-Chome,Nihonbashi-Honchou, Chuo-Ku, Tokyo 103-0023, Japan TEL +81-3-3270-5341 FAX +81-3-3270-3401 Principle Business: Manufacture and sale of iodine, intermediates for API and agro-chemicals, flame retardants, and photo/electro chemicals
CHUGOKU KAKO CO., LTD.	1575 Mizue, Kurashiki, Okayama 710-0802 Japan TEL +81-86-465-3555 FAX +81-86-465-7843 Principle Business: Manufacture and sale of adhesive-processed products and fine sphere particles
Nisshoku Butsuryu Co., Ltd.	6F Kogin Bldg., 4-1-1 Koraihashi, Chuo-ku, Osaka 541-0043 Japan TEL +81-6-6202-5267 FAX +81-6-6233-2475 Principle Business: Logistics of chemicals
NIPPON NYUKAZAI CO., LTD.	4-1 Nihonbashi Kobuna-cho, Chuo-ku, Tokyo 103-0024 Japan TEL +81-3-5651-5631 FAX +81-3-5651-5639 Principle Business: Manufacture and sale of surfactant and other chemicals
Tokyo Fine Chemical CO., LTD.	3F Bussan Bldg., 1-4-14 Nishi Shinbashi, Minato-ku, Tokyo 105-0003 Japan TEL +81-3-3506-7666 FAX +81-3-3506-7671 Principle Business: Manufacture and sale of stabilizer of vinyl chloride resin, antiseptics, antifouling agents and antifreeze
NISSHOKU TECHNO FINE CHEMICAL CO., LTD. (formerly NIHON JYORYU KOGYO CO., LTD)	9-1 Koutani Shinmachi, Ichikawa, Chiba 272-0011 Japan TEL +81-47-328-1185 FAX +81-47-328-1189 Principle Business: Manufacture and sale of polycyclic aromatic hydrocarbons, (meth)acrylic acid derivatives and photo/electro chemicals
NIPPON SHOKUBAI TRADING CO., LTD.	2F TT-1 Bldg., 1-14-8 Nihonbashi Ningyou-cho, Chuo-ku, Tokyo 103-0013 Japan TEL +81-3-5695-4021 FAX +81-3-5695-4024 Principle Business: Sale of chemical products
NIPPON POLYMER IND. Co., Ltd.	2114 Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4121 FAX +81-79-273-4601 Principle Business: Manufacture and sale of acrylic resins
Japan Composite Co., Ltd.	3-2-13 Nihonbashi-Honcho, Chuo-ku, Tokyo 103-0023 Japan TEL +81-3-3516-3002 FAX +81-3-3516-3090 Principle Business: Manufacture and sale of unsaturated polyester resins and plastic molded materials
Umicore Shokubai Japan Co. Ltd	1-25-19 Rinku-cho, Tokoname, Aichi 479-0882 Japan TEL +81-569-38-7670 FAX +81-569-38-7678 Principle Business: Manufacture, R&D and sale of automotive catalysts
NS Green Co., Ltd.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4744 FAX +81-79-273-4744 Principle Business: Maintenance of green tract of land of plant site
NISSHOKU ENGINEERING SERVICE CO., LTD.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-272-0677 FAX +81-79-271-5188 Principle Business: Design, construction, repair and maintenance of production facilities
NIHON METHACRYL MONOMER CO. LTD.	Sumitomo Twin Bldg., 2-27-1 Shinkawa, Chuo-ku, Tokyo 104-0033 Japan TEL +81-3-5543-5302 FAX +81-3-5543-5907 Principle Business: Manufacture and sale of MAA and MMA
CATOX Co., Ltd.	1-46 Higashi Kaigan-cho, Amagasaki, Hyogo 660-0843 Japan TEL +81-6-6409-1301 FAX +81-6-6409-1302 Principle Business: Development and sale of plant control systems

Overseas

Nippon Shokubai America Industries, Inc.	4631 Old Highway 146, Suite A, Pasadena, TX 77507, USA TEL +1-832-284-4033 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture and water soluble polymers
SINGAPORE ACRYLIC PTE LTD	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture and sale of crude acrylic acid
PT.NIPPON SHOKUBAI INDONESIA	Kawasan Industri Panca Puri Jl. Raya Anyer Km. 122 Ciwandan, Cilegon 42447 Banten, Indonesia TEL +62-254-600-660 FAX +62-254-600-657 Principle Business: Manufacture and sale of superabsorbent polymers, acrylic acid and acrylic esters
NIPPON SHOKUBAI (ASIA) PTE.LTD.	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture glacial acrylic acid, Sale of chemical products
NIPPON SHOKUBAI EUROPE N.V.	Haven 1053, Nieuwe Weg1, B-2070 Zwijndrecht, Belgium TEL +32-3-250-3705 FAX +32-3-250-3712 Principle Business: Manufacture and sale of superabsorbent polymers
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.	No.19 Changjiang Road (E),Yangtze River International Chemical Industrial Park, Zhangjiagang, Jiangsu, China, 215635 TEL +86-512-5893-7910 FAX +86-512-5893-7912 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture
SINO-JAPAN CHEMICAL CO.,LTD	14Fl, 99, Sec. 2, Jen Ai Rd., Taipei, Taiwan TEL +886-2-2396-6223 FAX +886-2-2396-9076 Principle Business: Manufacture and sale of surfactant and other chemicals
LG MMA Corporation	23F, LG Seoulstation Building, 98, Huam-ro, Joong-gu, Seoul 04637, Korea TEL +82-2-6930-3800 FAX +82-2-6930-3801 Principle Business: Manufacture and sale of MAA and PMMA
American Acryl NA,LLC American Acryl L.P.	4631 Old Highway 146, Suite B, Pasadena, TX 77507, USA Principle Business: Manufacture and sale of acrylic acid
Umicore Shokubai S.A.	L-4940, Bascharage, 5, rue Bommel, Luxembourg Principle Business: Automotive catalyst
NISSHOKU TRADING (SHANGHAI) CO., LTD	R/No.3604,The Center,989 Changle Road Shanghai, China, 200031 TEL +86-21-5407-5959 FAX +86-21-5407-5673 Principle Business: Sale of chemical products
SIRRUS, Inc.	422 Wards Corner Road, Loveland, OH 45140, USA TEL +1-513-448-0308 FAX +1-513-448-0310 Principle Business: Manufacture and sale of Malonates
NIPPON SHOKUBAI KOREA CO., LTD.	4F 26, Hwangsaeul-ro 200beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-Do, Korea, 13595 TEL +82-31-718-9111 FAX +82-31-718-9693 Principle Business: Marketing service of E&I materials and chemical products

Directory

Management

Member of the Board, Chairman

Masanori Ikeda *

Member of the Board, President

Yujiro Goto *

Member of the Board, Senior Managing Executive Officer

Haruhisa Yamamoto *
Masao Yamamoto

Member of the Board, Managing Executive Officer

Yojiro Takahashi

Member of the Board, Executive Officer

Yukihiro Matsumoto

Member of the Board

Koichi Miura
Takashi Sakai
Kozo Arao

Statutory Corporate Auditor

Taizo Maruo
Yoshihiro Arita
Yoichiro Komatsu
Katsuyuki Ota

Managing Executive Officer

Koichiro Yamada
Kin-ya Nagasuna
Masaya Yoshida

Executive Officer

Nobuyuki Harada
Kazukiyo Arakawa
Teruo Kamei
Ren Hasebe
Gun Saito

* Representative

Company Outline

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FAX +81-3-3506-7598

• Kawasaki Plant and Kawasaki Research Center

[Chidori Plant]
14-1 Chidori-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0865 Japan
TEL +81-44-288-7366
[Ukishima Plant]
10-12 Ukishima-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0862 Japan
TEL +81-44-288-5715

• Himeji Plant and Himeji Research Center

992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1282 Japan
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+81-79-273-1145
(Research Center)

• Suita Research Center

5-8 Nishi Otabi-cho, Suita, Osaka 564-0034 Japan
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Research Centers

- **Research Center** (Suita, Himeji)
- **Analysis Technology Center** (Suita, Himeji)
- **Ethylene Oxide Business Div. Research Dept.** (Suita)
- **Acrylic Business Div. Research Dept.** (Himeji)
- **Superabsorbents Research Dept.** (Himeji)
- **Performance Chemicals Business Div. Research Dept.** (Suita, Himeji)
- **Catalysts & Green Energy Materials Business Div. Research Dept.** (Suita, Himeji)
- **Process Technology Center** (Suita, Himeji)



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