

TechnoAmenity

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

Annual Report
2018

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

¥322,801
million

9.8% 

Operating profit

¥26,727
million

26.4% 

Total assets

¥470,102
million


8.4% 

Net assets

¥310,762
million

6.3% 

ROA

7.1%
1.2points 

Increase in sales of basic chemicals and functional chemicals to exceed 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

Increase in production and sales volume, and the spread between raw materials and sales prices to exceed increase in processing costs and selling, general, and administrative expenses

Decrease in share of profit of entities accounted for using equity method

Messages from President



President **Yujiro Goto**

Yujiro Goto

Under the Nippon Shokubai Group's Mission of “**TechnoAmenity** — Providing affluence and comfort to people and society, with our unique technology,” we are implementing reforms while taking a leap forward to a better future in the new era. To fulfill this mission, we set our sights on becoming an innovative chemical company that provides people with new value under our “Vision for 2025.” During the period from fiscal 2017 to 2020, we will be promoting our Medium-term Business Plan titled “Reborn Nippon Shokubai 2020 NEXT.” Even as we strive to further strengthen our existing businesses, we will continue to prioritize sustainable growth with a concerted effort across a range of new business sectors that will enable us to leverage our strengths. These include the life sciences, ICT, and energy and environment.

Our corporate credo — “Safety takes priority over production” — was adopted to reflect our ongoing commitment to ensuring safe and reliable operations. We remain dedicated to reconfirming our stature as a responsible chemical company that succeeds at retaining the public's trust. Moreover, we will strive to achieve sustainability by linking all our business initiatives to the Sustainable Development Goals as a means of resolving social issues through our business operations.

We welcome your continued support and candid opinions as we pursue our various objectives, and we greatly appreciate your support of our Group's initiatives.

Special Feature

Nippon Shokubai's Commitment to Sustainability

We will continue to demonstrate the essence of the corporate DNA we have inherited from our company's second president, Taizo Yatagai, renowned as the "passionate entrepreneur." Specifically, with our attitude of "pioneering spirit and vision," we will further promote sustainability management through two avenues: addressing social issues through our business operations, and pursuing issues that form the foundation of our business operations.

Conceptual Diagram of Our Commitment to Sustainability



Definition

The Passionate Entrepreneur
Taizo Yatagai, our company's second president, was the inspiration for the main character in the business novel *Hono-o no Keisha* ("The Passionate President") written by Ryo Takasugi.

Reborn Nippon Shokubai 2020 NEXT — Achieving Progress with Our Medium-term Business Plan

Our medium-term business plan — titled Reborn Nippon Shokubai 2020 NEXT — takes the form of an action plan intended to achieve our “Targets for 2020” in order to realize our “Vision for 2025.” By fiscal 2020, the final year of the plan, we intend to have established the foundation for our Group’s sustainable growth over the subsequent ten years.

Plan Outline

Vision for 2025

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

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 that the market needs, and provide the products and the services when the market needs.



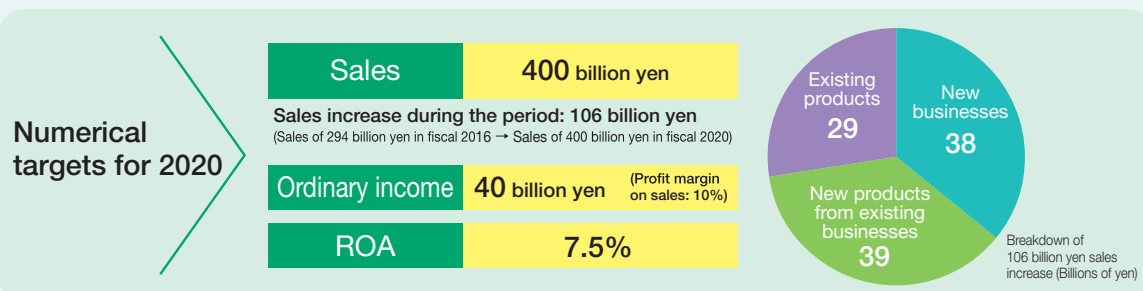
* Superabsorbent polymer

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 sustainable growth

- Develop an active corporate team and organization
- Enhance the condence of stakeholders
- Strengthen our Group management



Achievements

Strengthen competitiveness of SAP business

- Implementing the SAP Survival Project
- Summer 2018: New plant in Belgium enters commercial operation.



SAP Plant in Belgium

Accelerate creation of new businesses and products

- Collaboration with Sirrus, Inc. of the U.S.A. to commercialize new methylene malonate monomers
- July 2017: Cosmetics Business Preparation Office established.
- Commercialization of AOMA, a new functional monomer
- Start of construction of laboratory for synthesizing middle-molecule active pharmaceutical ingredients, with operation scheduled to begin in April 2019



Laboratory for synthesizing middle-molecule active pharmaceutical ingredients (artist's rendering)

Develop an active corporate team and organization

- July 2017: Work Innovation Committee established

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) Electrolyte for lithium-ion batteries "LiFSI" (IONEL) Automotive catalysts De-NOx & dioxins decomposition catalysts

Basic Chemicals

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

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

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

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

As a result of the above, net sales in



the basic chemicals segment increased 11.6% year-on-year to 120,025 million yen. Operating profit rose 57.3% year-

on-year, to 12,912 million yen. This was due to factors such as an increase in production and sales volume, widening

of the spread, and lower processing costs.

Functional Chemicals

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

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

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

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

and increased sales volume.

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

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

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

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



Environment & Catalysts

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

Sales of process catalysts increased due to higher sales volume.

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

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

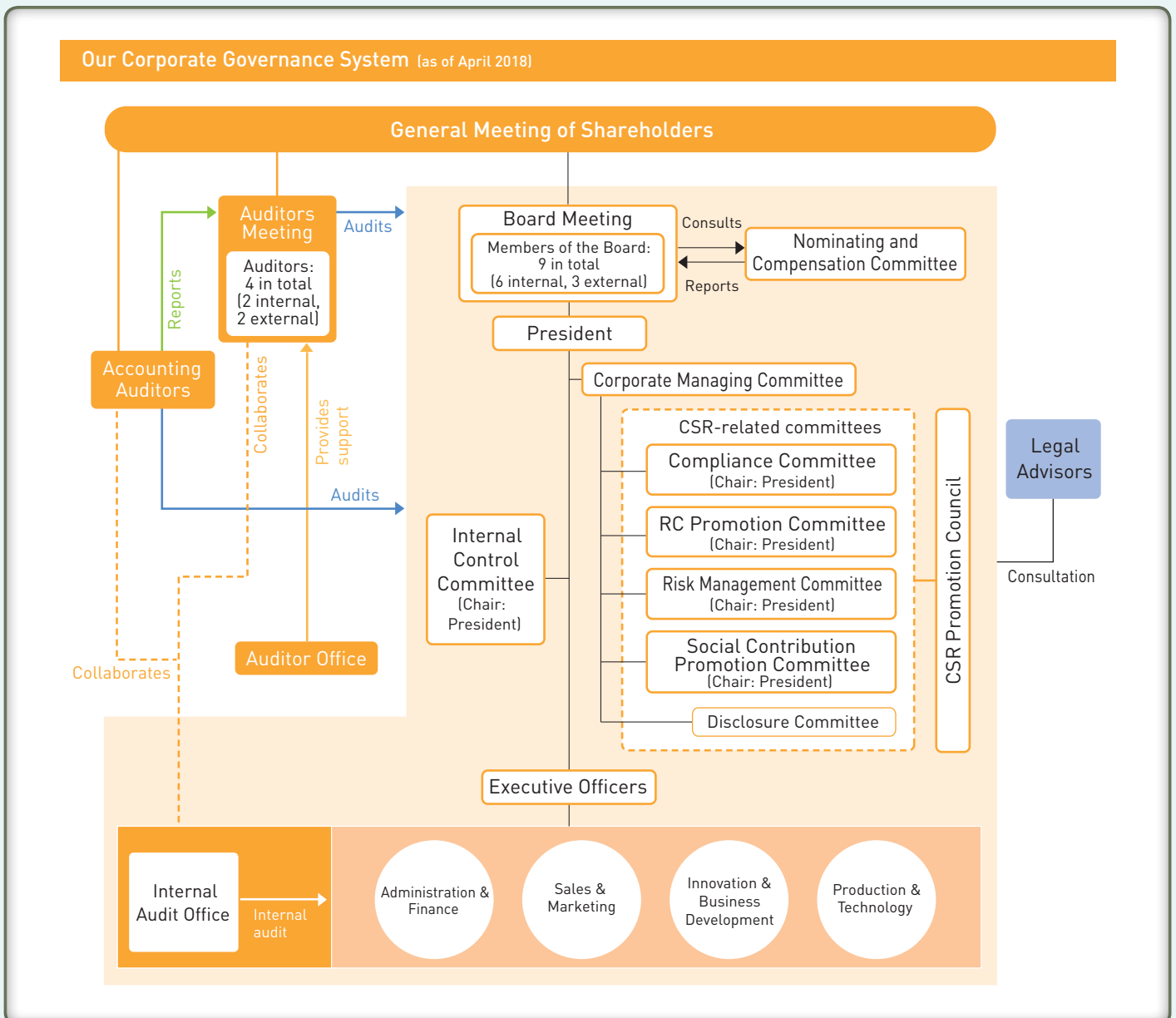
As a result of the above, net sales in the environment & catalysts segment rose 9.0% year-on-year to 28,811 million yen. Operating profit in the segment fell 64.2% year-on-year to 268 million yen, on account of an increase in processing costs and selling, general, and administrative expenses.



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 Meeting

Comprising the nine members, including three external members, the Board Meeting supervises business operations of each member of the Board through reports, deliberations, and resolutions regarding important matters. In general, it convenes monthly under the chairmanship of a member of the Board selected from the members of the Board who are not executive officers by a resolution of the Board Meeting. 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 Meeting for their consideration.

Auditors Meeting

Comprising two external auditors and two internal auditors, this meeting 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 Meeting, this is a voluntary organization comprising three or more members of the Board (including a majority of external members). It advises on draft nominations of candidates for the member of the Board and auditor positions and on compensation and bonuses for the members of the Board.

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 improves and strengthens the company-wide system for addressing corporate ethics issues and 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 Group 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.

Principal Activities of Outside Members of the Board and Outside Corporate Auditors

Koichi Miura

(Outside Member of the Board)

Mr. Koichi Miura attended all of the 14 Board meetings that were held during the fiscal year 2017. From his viewpoint as a specialist in chemical engineering who is familiar with the chemical industry, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.

Takashi Sakai

(Outside Member of the Board)

Mr. Takashi Sakai attended all of the 14 Board meetings that were held during the fiscal year 2017. Due to his experience as an executive of a company that is a manufacturer and has a strong commitment to public interest, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.

Kozo Arao

(Outside Member of the Board)

Mr. Kozo Arao attended all of the 14 Board meetings that were held during the fiscal year 2017. Based on his highly professional expertise and a wealth of experience as attorney-at-law and achievements as outside officers of other companies, he provides useful opinions and proposals that contribute to the Company's management and supervises the Company's management from an independent perspective.

Yoichiro Komatsu

(Outside Corporate Auditor)

Mr. Yoichiro Komatsu attended 12 of the 14 Board meetings that were held during the fiscal year 2017. At these meetings, he provides his views from the perspective of an attorney as required.

Mr. Komatsu also attended all of the 13 Corporate Auditors meetings that were held during the fiscal year 2017, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

Katsuyuki Ota

(Outside Corporate Auditor)

Mr. Katsuyuki Ota attended 10 of the 11 Board meetings that were held during the fiscal year 2017 following his election as a Corporate Auditor. At these meetings, he provides his views from the perspective of a corporate executive as required.

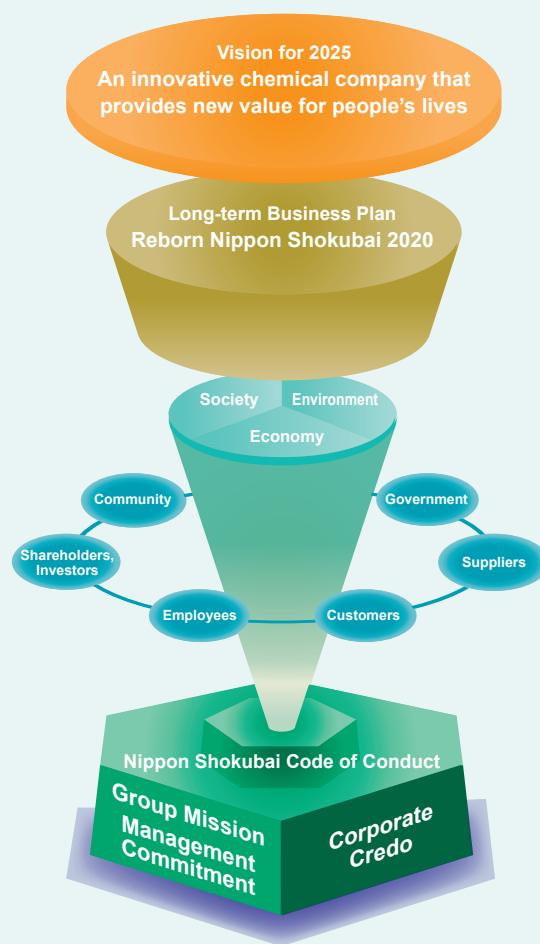
Mr. Ota also attended all of the 10 Corporate Auditors meetings that were held during the fiscal year 2017 following his election as a Corporate Auditor, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

CSR Based on Responsible Care Concept

CSR Concept

Our Corporate Credo, “Safety takes priority over production,” guides us in all our activities. In accordance with our Group Mission, **TechnoAmenity**, we have established our Management Commitment and Code of Conduct. We take a comprehensive view of our corporate actions that encompasses the economy, society, and the environment. We therefore prioritize corporate ethics, Responsible Care, risk management, human rights and labor, information disclosure, social contribution, and corporate governance. In implementing sustainable actions to increase corporate value, we emphasize dialogue with our customers, business partners, shareholders and investors, public administrators, employees, the communities we serve, and all other stakeholders.

This CSR concept is the foundation underpinning our Vision for 2025. We intend to achieve this vision by implementing Reborn Nippon Shokubai 2020, our long-term business plan, and contributing to the emergence of a sustainable society.



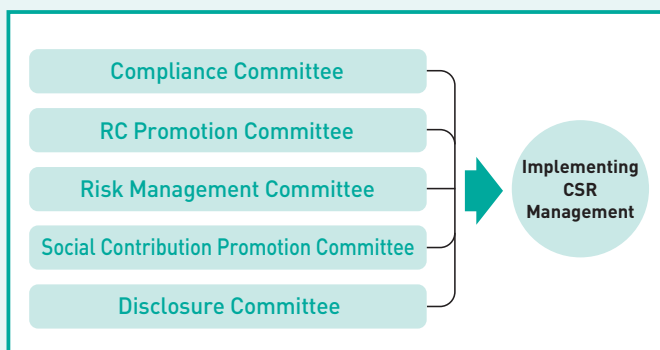
Formulation of CSR Medium-term Targets and Initiatives (2017–2020)

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.”

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	Achievements (Fiscal 2017 Results)
Company-wide	Corporate Ethics		To continue to emphasize corporate ethics while strengthening our regulatory compliance structure and enhancing various training programs	<ul style="list-style-type: none"> Implemented corporate ethics training for general employees, and training in various regulations (cross-border competition laws, cross-border trading risk, loan management, cross-border anti-bribery laws, insider trading regulations). Implemented corporate ethics training for officers and managerial staff of affiliated companies in Japan.
	Risk Management		To endeavor to expand our risk management while regularly analyzing risk, including undertaking a review of our current Business Continuity Plan	<ul style="list-style-type: none"> Reviewed risk survey forms in order to more accurately clarify risks to be addressed. Reviewed the Business Continuity Plan regarding our response to large-scale earthquakes.
	Corporate Governance		To further strengthen and enhance corporate governance, including improving the functioning of the Board Meeting, in order to enhance corporate value and achieve sustainable growth	<ul style="list-style-type: none"> Early publishing of the convocation notice for the General Meeting of Shareholders on our website (about four weeks in advance) prior to the mailing Enhanced provision of information to attendees of the Board Meeting based on implementation of board effectiveness evaluation and results.
	Information Security		To revise regulations covering information management in order to focus on the utilization of electronic data To establish an information security system to implement the above	Formulated basic information security regulations and related regulations.
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 CO ₂ emissions intensity (by energy origin) by 5% from fiscal 2015 levels by fiscal 2020 4) To reduce fuel consumption intensity for road transport by 5% from fiscal 2015 levels by fiscal 2020; to promote modal shift	1) Reduced energy consumption by 2,168 kL of crude oil equivalent 2) Reduced energy intensity by 9.3% from fiscal 2015 levels. 3) Reduced CO ₂ intensity (energy origin) by 11.1% from fiscal 2015 levels. 4) Increased fuel consumption intensity by 0.7% from fiscal 2015 levels. Continued to promote modal shift.
		Waste	To maintain zero emissions (Quantity of final off-site landfill) ≤ (Total amount of waste generated × 0.1%)	Continued to implement zero emissions policy.
		PRTR	To reduce emissions of substances subject to the PRTR Law by 25% from fiscal 2015 levels by fiscal 2020	Reduced emissions of substances subject to the PRTR Law by 9.8% from fiscal 2015 levels.
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"	Company-wide quality initiatives implemented: 1) Improved customer satisfaction. 2) Implemented initiatives to increase customer trust. 3) One serious quality complaint was filed.
	Chemical Safety		To achieve zero problems related to chemical safety (legal or social problems)	Registered zero legal or social problems related to chemical safety.
Suppliers	Logistics Safety		To achieve zero accidents and disasters related to logistics	Registered zero accidents and disasters related to logistics.
	Procurement		To continue implementing green procurement To promote CSR procurement.	Implemented continual surveys on green procurement and prepared for a change in survey tools. Initiated formulation of CSR procurement policy.
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.	<ul style="list-style-type: none"> Posted our corporate governance system and various reports on our corporate website. Continuously disclosed financial results and other materials. Conducted IR meetings for analysts and institutional investors in May and November and held an IR meeting for individual investors in December.
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	<ul style="list-style-type: none"> Group companies also took part in forest development initiatives. Formulated our Third-term Five-year Plan (fiscal 2018–2022) with the addition of new initiatives for Indonesia.
	Process Safety and Disaster Prevention		To achieve zero severe process safety accidents	Registered zero severe process safety accidents.
	RC Communication		To promote dialogue on Responsible Care initiatives with local residents and implement appropriate information disclosure	Participated in a dialogue on Responsible Care with local residents (Kawasaki).
Employees 	Human Resources		To identify and train leaders who can lead the organization; to promote Diversity & Inclusion	<ul style="list-style-type: none"> Implemented new company-wide training for division managers, manufacturing managers, and line managers in order to strengthen the development of leadership personnel. Implemented training for female leaders and their supervisors as a measure to promote women's participation and advancement in the workplace.
	Occupational Safety		To achieve zero injuries with or without loss of workdays, including contractors	Target not reached: Registered 4 injuries with loss of workdays and 9 injuries without loss of workdays.
	Occupational Health		To provide all workers with a supportive and ideal work environment; to promote a healthy work-life balance	<ul style="list-style-type: none"> Implemented planned reduction of overtime hours through regular meetings of Labor-Management Committee. Organized the Working Reform Group under the Work Innovation Committee and initiated policy review to support employees' diverse work styles.
Government	Collaboration		To continue to cooperate with the administration through industrial associations and other avenues	Participated in a plan to contribute to emergence of a low-carbon society and reported the results.

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

	FY2008	FY2009	FY2010
Operating results			
Net sales	¥289,102	¥244,317	¥288,345
Operating income	622	13,881	29,813
Net income (loss)	-5,307	10,832	21,119
Financial position			
Total assets	302,948	310,946	329,332
Net assets	151,662	163,781	194,266
Cash flows			
Cash flows from operating activities	17,613	44,346	31,706
Cash flows from investment activities	-16,675	-23,850	-16,696
Cash flows from financing activities	8,099	-21,772	-3,050
Cash and cash equivalents	29,450	28,234	39,174
Per share			
Earnings per share	¥ -29.61	¥ 60.85	¥ 110.30
Net assets	831.11	898.33	938.67
Cash dividends	15.5	14.0	22.0
Shareholders' equity ratio (%)	48.8	51.4	57.9
ROE (%)	-3.3	7.0	12.1
ROA (%)	0.2	4.9	9.7
Liquidity ratio (%)	159	155	197
PER (%)	—	13.9	9.5
Dividend payout ratio (%)	—	23.0	19.9
Market data			
Exchange rate, average (¥/\$)	100.58	92.88	85.72
Naphtha price (¥/kl)	58,900	41,200	47,500
Share Price (¥) (Closing)	622	845	1,042
(High)	866	920	1,047
(Low)	442	600	682

*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.

FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2017
(Millions of U.S. dollars)							
¥320,704	¥269,520	¥302,136	¥374,873	¥323,124	¥293,970	¥322,801	\$3,038
31,100	10,034	13,752	26,133	31,234	21,151	26,727	252
21,257	8,401	10,503	19,089	26,003	19,361	24,280	229
356,407	352,373	398,396	419,634	407,997	433,610	470,102	4,425
209,070	220,248	242,193	270,128	282,485	292,275	310,762	2,925
43,857	27,322	16,992	32,697	53,264	37,474	38,823	365
-21,747	-31,878	-25,141	-18,941	-12,963	-44,515	-27,498	-259
-9,671	81	-2,519	-10,237	-20,012	-3,533	-9,762	92
50,812	47,801	39,619	44,336	64,055	51,700	51,612	486
¥ 104.71	¥ 41.38	¥ 51.74	¥ 94.06	¥ 640.69	¥ 478.36	¥ 608.84	\$ 5.7
1,006.48	1,059.85	1,164.10	1,307.13	6,870.84	7,238.33	7,705.05	72.5
22.0	16.0	16.0	24.0	150.0	150.0	160.0	1.5
57.3	61.1	59.3	63.2	68.3	66.6	65.4	—
10.8	4.0	4.7	7.6	9.6	6.8	8.1	—
9.7	3.9	4.4	7.3	8.3	5.9	7.1	—
174	189	168	205	241	212	218	—
9.2	19.9	23.6	18.7	8.9	15.9	11.9	—
21.0	38.7	30.9	25.5	23.4	31.4	26.3	—
79.07	83.09	100.21	109.88	120.14	108.36	110.82	—
54,900	57,500	67,300	63,500	42,800	34,700	41,900	394.4
959	825	1,219	1,763	5,730	7,580	7,220	68
1,100	987	1,286	1,832	—	8,020	8,650	81.4
764	738	791	1,093	—	5,140	6,670	62.8

Notes: Conversions into USD are just for indication only. The exchange rate is the rate at March 31, 2018. (¥106.24 / \$1.00) Figures are rounded off.

Management Discussion and Analysis of Operation

Fiscal 2017 Performance

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

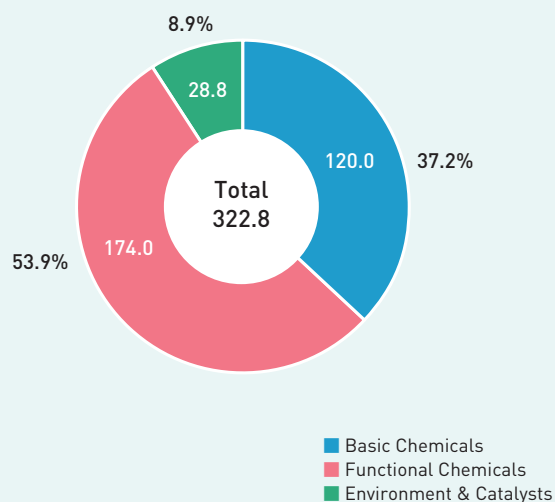
As for the Japanese economy, the country saw a

moderate recovery trend due primarily to an increase in capital investment and steady employment conditions.

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

Segment Sales

(¥billion)



Financial position

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

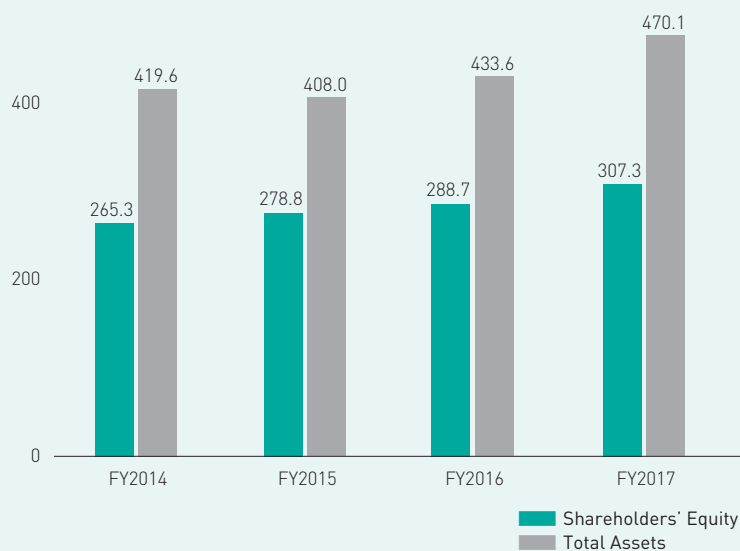
With regard to profits, in spite of a contraction in the spread owing to a hike in raw material costs in excess of the increase in sales prices, increased production and sales volume resulting in volume effects led to higher operating profit, which was up 26.4% year-on-year to 26,727 million yen, up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

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

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

Shareholders' Equity and Total Assets

(¥billion)



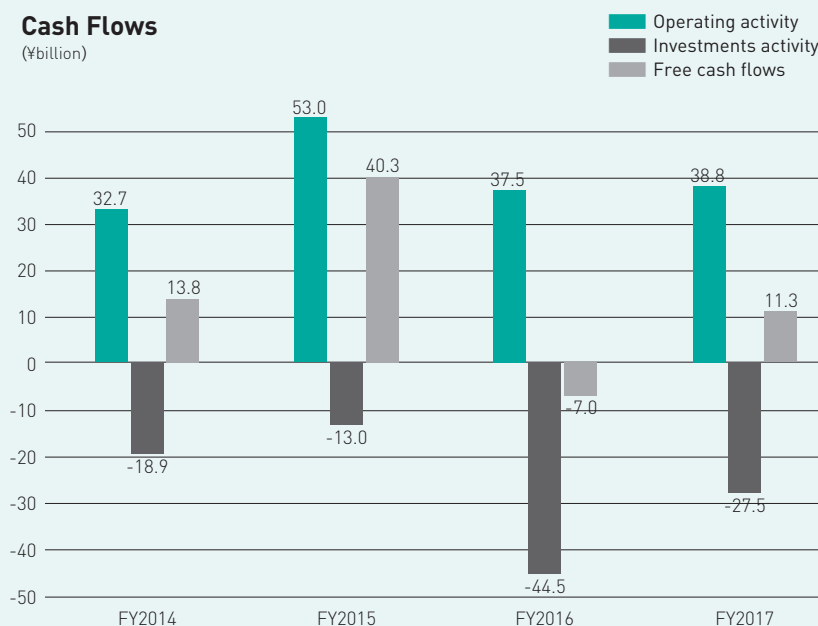
Cash Flows

Net cash provided by operating activities in the current fiscal year amounted to 38,823 million yen (37,474 million yen was provided in the previous fiscal year). This was due primarily to increased profit before income taxes, which led to increased inflows of 1,349 million yen compared to the previous fiscal year.

Net cash used in investing activities totaled 27,498 million yen (44,515 million yen was used in the previous fiscal year). Outflows decreased for the purchase of property, plant

and equipment and the purchase of shares of subsidiaries and associates, which led to decreased outflows of 17,017 million yen compared to the previous fiscal year.

Net cash used in financing activities amounted to 9,762 million yen (3,533 million yen was used in the previous fiscal year). This was an increase of 6,229 million yen in cash outflows compared to the previous fiscal year. Contributing factors included the absence of the proceeds from issuance of bonds recorded in the previous fiscal year.



Basic Policy on the Distribution of Profits, and Dividends

The Company has positioned the return of profits to shareholders as the most important management task, and, in consideration of the dividend payout ratio, etc., 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.

Meanwhile, aggressive investments in equipment, strategies, and R&D are also necessary for the maintenance of competitiveness and continued growth. As such, the Company regards retention of internal reserves also essential; therefore

we will continue to distribute profits by carefully considering the balance of above factors.

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 85 yen per share for FY 2017, taking into consideration the business environment, results and future prospects for business growth. As a result, annual dividends will total 160 yen per share, marking a record-high, for a consolidated payout ratio of 26.3%.

For FY 2018, based on the above basic policy, annual dividends are scheduled to be 160 yen (interim dividends of 80 yen and year-end dividends of 80 yen), taking into consideration the state of achievement of profit forecasts.

Fiscal 2018 Outlook

The Japanese economy is expected to remain on a moderate recovery trend, due to an improvement in the employment environment, an increase in capital investment and the expansion of exports in line with the global economic recovery. Meanwhile, it is predicted that the management environment surrounding the Company will be unpredictable, owing to factors such as trends in the policy operation in the United States and China, and uncertainty in the political situation in Europe.

Under such conditions, projected earnings in the next fiscal year are based on exchange rates of 110 yen to the U.S. dollar and 130 yen to the euro, and naphtha prices of 46,000 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 8.4% to 350,000 million yen (up 27,199 million yen), with 170,000 million yen in the first half compared to the current fiscal year.

With regard to profits, while fixed costs such as depreciation expense accompanying the reinforcement of facilities at overseas subsidiaries will increase, the Company projections incorporate the expected effect of increased sales volumes and widening of the spread, that will lead to an increase in operating profit by 1.0%, to 27,000 million yen (up 273 million yen), with 12,000 million yen in the first half compared to the current fiscal year.

Non-operating profit is projected to decrease 65 million yen due to a decrease in share of profit of entities accounted for using equity method, despite an absence of foreign exchange losses. As a result of these, the Company projects an increase in ordinary profit by 0.6%, to 32,500 million yen (up 207 million yen), with 15,000 million yen in the first half, and an increase in profit attributable to owners of parent by 0.9%, to 24,500 million yen (up 220 million yen), with 11,500 million yen in the first half, compared to the current fiscal year.

Financial Statements

Consolidated Balance Sheet

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2018	2017	2018
	<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>	¥ 51,612	¥ 51,700	\$ 485,806
Time deposits <i>(Notes 4 and 7)</i>	4,308	4,439	40,550
Notes and accounts receivable <i>(Notes 3 and 4)</i> :			
Unconsolidated subsidiaries and affiliates	9,426	7,590	88,724
Trade	68,612	56,611	645,821
Allowance for doubtful accounts	(9)	(11)	(85)
Inventories <i>(Note 6)</i>	57,014	51,109	536,653
Deferred income taxes <i>(Note 9)</i>	3,129	3,154	29,452
Other current assets	7,440	9,917	70,030
Total current assets	201,532	184,509	1,896,951
Property, plant and equipment, at cost <i>(Notes 7 and 22)</i> :			
Land	32,609	32,607	306,937
Buildings and structures	105,155	104,509	989,787
Machinery and equipment	375,447	370,429	3,533,951
Construction in progress	44,470	25,664	418,581
Leased assets	615	580	5,789
Accumulated depreciation	(383,055)	(370,629)	(3,605,563)
Property, plant and equipment, net	175,241	163,160	1,649,482
Investments and other assets:			
Investments in securities <i>(Notes 4 and 5)</i>	41,460	37,488	390,248
Investments in unconsolidated subsidiaries and affiliates	36,438	32,603	342,978
Deferred income taxes <i>(Note 9)</i>	2,239	1,868	21,075
Asset for retirement benefits <i>(Note 8)</i>	6,160	7,298	57,982
Other assets <i>(Note 7)</i>	7,032	6,684	66,190
Total investments and other assets	93,329	85,941	878,473
Total assets <i>(Note 22)</i>	¥ 470,102	¥ 433,610	\$ 4,424,906

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2018	2017	2018
	<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>	¥ 8,244	¥ 9,976	\$ 77,598
Current portion of long-term debt <i>(Notes 4 and 7)</i>	4,438	11,583	41,773
Notes and accounts payable <i>(Notes 3 and 4)</i> :			
Unconsolidated subsidiaries and affiliates	7,182	5,758	67,602
Trade	50,884	38,857	478,953
Lease obligations <i>(Note 7)</i>	28	25	264
Income taxes payable <i>(Note 9)</i>	5,489	3,378	51,666
Accrued bonuses to employees	3,405	3,065	32,050
Accrued bonuses to directors and audit and supervisory board members	172	159	1,619
Reserve for periodic repairs	2,442	2,525	22,986
Other current liabilities	10,352	11,519	97,439
Total current liabilities	92,636	86,845	871,950
Long-term liabilities:			
Long-term debt <i>(Notes 4 and 7)</i>	45,301	36,374	426,402
Lease obligations <i>(Note 7)</i>	52	83	489
Deferred income taxes <i>(Note 9)</i>	5,087	4,971	47,882
Liability for retirement benefits <i>(Note 8)</i>	13,607	12,072	128,078
Other	2,657	990	25,010
Total long-term liabilities	66,704	54,490	627,861
Contingent liabilities <i>(Note 19)</i>			
Net assets:			
Shareholders' equity <i>(Note 10)</i>:			
Common stock:			
Authorized – 127,200,000 shares in 2018 and 127,200,000 shares in 2017			
Issued – 40,800,000 shares in 2018 and 40,800,000 shares in 2017	25,038	25,038	235,674
Capital surplus	22,400	22,395	210,843
Retained earnings	248,158	229,091	2,335,825
Less treasury stock, at cost	(6,263)	(6,249)	(58,951)
Total shareholders' equity	289,333	270,275	2,723,391
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	14,786	12,248	139,175
Translation adjustments	4,868	6,153	45,821
Net unrealized deferred gain on hedges	3	11	28
Retirement benefit liability adjustments	(1,719)	(16)	(16,180)
Total accumulated other comprehensive income, net	17,938	18,396	168,844
Non-controlling interests	3,491	3,604	32,860
Total net assets	310,762	292,275	2,925,095
Total liabilities and net assets	¥ 470,102	¥ 433,610	\$ 4,424,906

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 2)</i>
Net sales (Note 22)	¥ 322,801	¥ 293,970	\$ 3,038,413
Cost of sales (Note 11)	256,664	233,499	2,415,889
Gross profit	66,137	60,471	622,524
Selling, general and administrative expenses (Note 11)	39,410	39,320	370,952
Operating income (Note 22)	26,727	21,151	251,572
Other income (expenses):			
Interest and dividend income	1,384	1,456	13,027
Interest expense	(387)	(445)	(3,643)
Royalty income	570	347	5,365
Equity in earnings of an unconsolidated subsidiary and affiliates	4,405	2,150	41,463
Rent income from real estate	1,174	1,108	11,050
Foreign exchange losses, net	(393)	(630)	(3,699)
Technology transfer study related expenses	(167)	(267)	(1,572)
Loss on disposal of property, plant and equipment	(472)	(47)	(4,443)
Gain on sales of investments in securities	589	1,199	5,544
Government subsidies	36	3	339
Gain on sales of property, plant and equipment (Note 12)	-	136	-
Loss on impairment of property, plant and equipment (Notes 13 and 22)	(465)	-	(4,377)
Removal cost of property, plant and equipment	(198)	-	(1,864)
Loss on reduction of non-current assets	(36)	(3)	(339)
Loss on closing of research center (Note 14)	-	(797)	-
Loss on liquidation of business (Note 15)	-	(159)	-
Loss on devaluation of investments in other securities	-	(115)	-
Other, net (Note 16)	(555)	(616)	(5,223)
Profit before income taxes	32,212	24,471	303,200
Income taxes (Note 9):			
Current	8,322	5,631	78,332
Deferred	(435)	(519)	(4,095)
	7,887	5,112	74,237
Profit	24,325	19,359	228,963
(Profit) loss attributable to non-controlling interests	(45)	2	(424)
Profit attributable to owners of parent	¥ 24,280	¥ 19,361	\$ 228,539

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
			<i>(Note 2)</i>
Profit	¥ 24,325	¥ 19,359	\$ 228,963
Other comprehensive (loss) income <i>(Note 17)</i>			
Net unrealized holding gain on securities	2,538	4,641	23,888
Net unrealized deferred loss on hedges	(8)	(6)	(75)
Translation adjustments	(2,537)	(4,526)	(23,880)
Retirement benefits liability adjustments	(1,765)	2,980	(16,613)
Share of other comprehensive income (loss) of an unconsolidated subsidiary and affiliates accounted for by the equity method	1,170	(913)	11,013
Total other comprehensive (loss) income	(602)	2,176	(5,667)
Comprehensive income	¥ 23,723	¥ 21,535	\$ 223,296
Total comprehensive income (loss) attributable to:			
Owners of parent	¥ 23,823	¥ 21,569	\$ 224,238
Non-controlling interests	(100)	(34)	(942)

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, 2017	¥ 25,038	¥ 22,395	¥ 229,091	¥ (6,249)	¥ 270,275	¥ 12,248	¥ 6,153	¥ 11	¥ (16)	¥ 18,396	¥ 3,604	¥ 292,275
Changes during the year:												
Cash dividends	-	-	(5,982)	-	(5,982)	-	-	-	-	-	-	(5,982)
Profit attributable to owners of parent ...	-	-	24,280	-	24,280	-	-	-	-	-	-	24,280
Purchases of treasury stock	-	-	-	(14)	(14)	-	-	-	-	-	-	(14)
Disposal of treasury stock	-	0	-	0	0	-	-	-	-	-	-	0
Effect resulting from change of accounting period of consolidated subsidiaries	-	-	769	-	769	-	-	-	-	-	-	769
Change in equity resulting from transaction with non-controlling shareholders	-	5	-	-	5	-	-	-	-	-	-	5
Net changes in items other than shareholders' equity	-	-	-	-	-	-	-	-	-	-	-	-
Total changes during the year	-	5	19,067	(14)	19,058							
Balance at March 31, 2018	¥ 25,038	¥ 22,400	¥ 248,158	¥ (6,263)	¥ 289,333	¥ 14,786	¥ 4,868	¥ 3	¥ (1,719)	¥ 17,938	¥ 3,491	¥ 310,762

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, 2017	.....	\$ 235,674	\$ 210,796	\$ 2,156,354	\$ (58,820)	\$ 2,544,004		
Changes during the year:								
Cash dividends	.....	-	-	(56,306)	-	(56,306)		
Profit attributable to owners of parent	...	-	-	228,539	-	228,539		
Purchases of treasury stock	.....	-	-	-	(131)	(131)		
Disposal of treasury stock	.....	-	0	-	0	0		
Effect resulting from change of accounting period of consolidated subsidiaries	.....	-	-	7,238	-	7,238		
Change in equity resulting from transaction with non-controlling shareholders	.....	-	47	-	-	47		
Net changes in items other than shareholders' equity	.....	-	-	-	-	-	
Total changes during the year	.....	-	47	179,471	(131)	179,387		
Balance at March 31, 2018	.....	\$ 235,674	\$ 210,843	\$ 2,335,825	\$ (58,951)	\$ 2,723,391		
		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, 2017	.....	\$ 115,286	\$ 57,916	\$ 104	\$ (151)	\$ 173,155	\$ 33,923	\$ 2,751,082
Changes during the year:								
Cash dividends	.....	-	-	-	-	-	-	(56,306)
Profit attributable to owners of parent	...	-	-	-	-	-	-	228,539
Purchases of treasury stock	.....	-	-	-	-	-	-	(131)
Disposal of treasury stock	.....	-	-	-	-	-	-	0
Effect resulting from change of accounting period of consolidated subsidiaries	.....	-	-	-	-	-	-	7,238
Change in equity resulting from transaction with non-controlling shareholders	.....	-	-	-	-	-	-	47
Net changes in items other than shareholders' equity	.....	23,889	(12,095)	(76)	(16,029)	(4,311)	(1,063)	(5,374)
Total changes during the year	.....	23,889	(12,095)	(76)	(16,029)	(4,311)	(1,063)	174,013
Balance at March 31, 2018	.....	\$ 139,175	\$ 45,821	\$ 28	\$ (16,180)	\$ 168,844	\$ 32,860	\$ 2,925,095

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
Operating activities:			
Profit before income taxes	¥ 32,212	¥ 24,471	\$ 303,200
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	16,997	17,957	159,987
Gain on sales of investments in securities	(589)	(1,199)	(5,544)
Gain on sales of property, plant and equipment	-	(136)	-
Government subsidies	(36)	(3)	(339)
Loss on closing of research center	-	797	-
Loss on liquidation of business	-	159	-
Loss on devaluation of investments in other securities	-	115	-
Loss on reduction of non-current assets	36	3	339
Loss on impairment of property, plant and equipment	465	-	4,377
Removal costs of property, plant and equipment	198	-	1,864
Loss on sales of property, plant and equipment	7	-	66
Loss on disposal of property, plant and equipment	472	47	4,443
Increase in asset for retirement benefits	(1,060)	(1,153)	(9,977)
Increase in liability for retirement benefits	372	245	3,502
Interest and dividend income	(1,384)	(1,456)	(13,027)
Interest expense	387	445	3,643
Equity in earnings of an unconsolidated subsidiary and affiliates	(4,405)	(2,150)	(41,463)
Other, net	1,516	563	14,268
Changes in operating assets and liabilities:			
Notes and accounts receivable	(12,399)	53	(116,707)
Inventories	(3,339)	(2,796)	(31,429)
Notes and accounts payable	12,412	6,712	116,830
Other current liabilities	590	(773)	5,553
Subtotal	42,452	41,901	399,586
Interest and dividends received	3,159	2,847	29,735
Interest paid	(401)	(430)	(3,774)
Proceeds from government subsidies	36	3	339
Income taxes paid	(6,423)	(6,847)	(60,457)
Net cash provided by operating activities	38,823	37,474	365,429
Investing activities:			
Purchases of property, plant and equipment	(27,126)	(36,228)	(255,328)
Proceeds from sales of property, plant and equipment	58	150	546
Purchase of intangible assets	(213)	(320)	(2,005)
Purchases of investments in securities	(733)	(558)	(6,899)
Proceeds from sales of investments in securities	1,553	1,668	14,618
Payments for purchases of shares of affiliates	(1,277)	(9,588)	(12,020)
Collection of loans receivable	119	127	1,120
Other, net	121	234	1,139
Net cash used in investing activities	¥ (27,498)	¥ (44,515)	\$ (258,829)

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2018	2017	2018
	<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	¥ (1,928)	¥ (3,035)	\$ (18,148)
Proceeds from long-term debt	8,826	9,262	83,076
Repayment of long-term debt	(10,631)	(7,999)	(100,066)
Issuance of bonds	-	10,000	-
Purchases of treasury stock	(14)	(5,239)	(132)
Cash dividends paid	(5,982)	(6,494)	(56,306)
Cash dividends paid to non-controlling shareholders	(2)	(13)	(19)
Other, net	(31)	(15)	(291)
Net cash used in financing activities	(9,762)	(3,533)	(91,886)
Effect of exchange rate changes on cash and cash equivalents	(237)	(1,781)	(2,233)
Increase (decrease) in cash and cash equivalents	1,326	(12,355)	12,481
Cash and cash equivalents at beginning of year	51,700	64,055	486,634
Decrease in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries	(1,414)	-	(13,309)
Cash and cash equivalents at end of year	¥ 51,612	¥ 51,700	\$ 485,806

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

March 31, 2018

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 (the "Group") 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 ("IFRS"), 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, 2017 to the 2018 presentation. Such reclassifications had no effect on consolidated profit and cash flow.

(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.

Until the year ended March 31, 2017, the overseas consolidated subsidiaries that settled their accounts in December 31 were consolidated with the financial statements as of December 31. Accordingly, necessary adjustments were made for any significant intercompany transactions which took place during the period between the year end of these consolidated subsidiaries and the year end of the Company.

Effective April 1, 2017, to present the consolidated financial statements more appropriately, NIPPON SHOKUBAI EUROPE N.V. and other 4 overseas consolidated subsidiaries have changed the fiscal year end date to March 31. Furthermore, NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD. has been consolidated using provisional financial statements at March 31.

As a result, profit or loss of these subsidiaries for the three months from January 1 to March 31, 2017 has been recognized in retained earnings. Corresponding changes in cash and cash equivalents are indicated as "Decrease in cash and cash equivalents resulting from change of accounting period of consolidated subsidiaries" in the consolidated statement of cash flows.

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, 2018 and 2017.

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 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.

(Change in accounting policy)

Until the year ended March 31, 2017, forward foreign currency exchange contracts which met certain criteria were previously accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates. In addition, under the allocation method, 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.

Effective April 1, 2017, the accounting treatment has been changed to the principle method, in which forward foreign currency exchange contracts and interest rate swaps are measured at the market value as of the year end, in order to reflect the actual conditions of derivative transactions more accurately.

As the effects of these changes on earlier periods were immaterial, no adjustment has been made retrospectively. In addition, the effect of these changes on profit or loss were immaterial for the year ended March 31, 2018.

(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 24).

(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.

(s) Accounting standards issued but not yet effective

(1) The Company and domestic consolidated subsidiaries

(Implementation Guidance on Tax Effect Accounting and Implementation Guidance on Recoverability of Deferred Tax Assets)

On February 16, 2018, Accounting Standards Board of Japan (“ASBJ”) issued “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28) and “Implementation Guidance on Recoverability of Deferred Tax Assets” (revised 2018) (ASBJ Guidance No. 26).

1) Overview

The accounting treatment for taxable temporary differences related to investments in subsidiaries when an entity prepares non consolidated financial statements was modified. In addition, the accounting treatment related to the recoverability of deferred tax assets in entities that qualify as Category 1 was clarified.

2) Scheduled date of adoption

The Company expects to adopt the implementation guidance from the beginning of the fiscal year ending March 31, 2019.

3) Impact of the adoption of implementation guidance

The Company is currently evaluating the effect of the adoption of this implementation guidance on its consolidated financial statements.

(Accounting Standard and Implementation Guidance on Revenue Recognition)

On March 30, 2018, the ASBJ issued “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29) and “Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30).

1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

(2) Overseas consolidated subsidiaries

The accounting standards newly issued or amended but not yet effective as of March 31, 2018 are as follows:

The Company is currently evaluating the effect of the adoption of the following accounting standards on its consolidated financial statements.

Accounting Standard		Overview	Schedule date of adoption
IFRS 9	Financial Instruments	The accounting standard sets out new requirements for classification, measurement, impairment and hedge accounting of financial instruments.	From the beginning of the fiscal year ending March 31, 2020
IFRS 15	Revenue from Contracts with Customers	The accounting standard sets out a single comprehensive model to account for revenue arising from contracts with customers.	From the beginning of the fiscal year ending March 31, 2019
IFRS 16	Leases	The accounting standard requires lessees to account for all leases under a single on-balance sheet model.	From the beginning of the fiscal year ending March 31, 2020

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 ¥106.24 = U.S. \$1.00, the approximate rate of exchange in effect on March 31, 2018. 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. Notes Receivable and Notes Payable

The balance sheet date for the year ended March 31, 2018 fell on a bank holiday. Consequently, notes receivable, trade of ¥81 million (\$762 thousand) and notes payable, trade of ¥19 million (\$179 thousand) with maturity dates of March 31, 2018 were included in the respective balances in the consolidated balance sheet at March 31, 2018 and were settled on the next business day.

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.

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.

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 21.

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, 2018 and 2017 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.

	2018			2017		
	Carrying value	Fair value	Unrealized gain (loss)	Carrying value	Fair value	Unrealized loss
<i>(Millions of yen)</i>						
Assets:						
i) Cash and cash equivalents, and time deposits	¥ 55,920	¥ 55,920	¥ -	¥ 56,139	¥ 56,139	¥ -
ii) Notes and accounts receivable	78,038	78,038	-	64,201	64,201	-
iii) Investments in securities:						
Other securities	39,732	39,732	-	36,274	36,274	-
Total assets	¥ 173,690	¥ 173,690	¥ -	¥ 156,614	¥ 156,614	¥ -
Liabilities:						
iv) Notes and accounts payable	¥ 58,066	¥ 58,066	¥ -	¥ 44,615	¥ 44,615	¥ -
v) Short-term bank loans	8,244	8,244	-	9,976	9,976	-
vi) Current portion of long-term debt	4,438	4,440	2	11,583	11,565	(18)
vii) Long-term debt	35,301	35,103	(198)	26,374	26,210	(164)
Total liabilities	¥ 106,049	¥ 105,853	¥ (196)	¥ 92,548	¥ 92,366	¥ (182)
Derivatives	¥ 84	¥ 84	¥ -	¥ 15	¥ 15	¥ -

	2018		
	Carrying value	Fair value	Unrealized gain (loss)
<i>(Thousands of U.S. dollars)</i>			
Assets:			
i) Cash and cash equivalents, and time deposits	\$ 526,355	\$ 526,355	\$ -
ii) Notes and accounts receivable	734,544	734,544	-
iii) Investments in securities:			
Other securities	373,984	373,984	-
Total assets	\$ 1,634,883	\$ 1,634,883	\$ -

2018			
<i>(Thousands of U.S. dollars)</i>			
	Carrying value	Fair value	Unrealized gain (loss)
Liabilities:			
iv) Notes and accounts payable	\$ 546,555	\$ 546,555	\$ -
v) Short-term bank loans	77,598	77,598	-
vi) Current portion of long-term debt	41,773	41,792	19
vii) Long-term debt	332,275	330,412	(1,863)
Total liabilities	<u>\$ 998,201</u>	<u>\$ 996,357</u>	<u>\$ (1,844)</u>
Derivatives	\$ 791	\$ 791	\$ -

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.

Derivative transactions:

Please refer to Note 21.

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

Other securities whose market value were not determinable at March 31, 2018 and 2017 are presented as follows:

	<u>2018</u>	<u>2017</u>	<u>2018</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted securities and other	¥ 1,728	¥ 1,214	\$ 16,264

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 were recognized for the year ended March 31, 2017.

3) The redemption schedule for monetary assets with maturity dates as of March 31, 2018 and 2017 is as follows:

	2018	2017	2018
	<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	¥ 55,920	¥ 56,139	\$ 526,355
Notes and accounts receivable	78,038	64,201	734,544
	¥ 133,958	¥ 120,340	\$ 1,260,899

5. Investments in Securities

Marketable securities classified as other securities at March 31, 2018 and 2017 are summarized as follows:

	2018			2017		
	<i>(Millions of yen)</i>					
	Carrying value	Acquisition cost	Unrealized gain	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥ 39,732	¥ 19,021	¥ 20,711	¥ 36,214	¥ 19,019	¥ 17,195
Subtotal	39,732	19,021	20,711	36,214	19,019	17,195
Securities whose acquisition cost exceeds their carrying value:						
Equity securities	-	-	-	60	85	(25)
Subtotal	-	-	-	60	85	(25)
Total	¥ 39,732	¥ 19,021	¥ 20,711	¥ 36,274	¥ 19,104	¥ 17,170

	2018		
	<i>(Thousands of U.S. dollars)</i>		
	Carrying value	Acquisition cost	Unrealized gain
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$ 373,983	\$ 179,038	\$ 194,945
Subtotal	373,983	179,038	194,945
Securities whose acquisition cost exceeds their carrying value:			
Equity securities	-	-	-
Subtotal	-	-	-
Total	\$ 373,983	\$ 179,038	\$ 194,945

Sales of other securities for the years ended March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Proceeds	¥ 867	¥ 1,260	\$ 8,161
Gross realized gain	¥ 580	¥ 1,199	\$ 5,459

6. Inventories

Inventories at March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished goods	¥ 31,414	¥ 28,162	\$ 295,689
Work in process	5,437	6,315	51,177
Raw materials	13,075	10,595	123,070
Supplies	7,088	6,037	66,717
Total	¥ 57,014	¥ 51,109	\$ 536,653

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, 2018 and 2017 were 1.77% and 1.42%, respectively.

Long-term debt and lease obligations at March 31, 2018 and 2017 consisted of the following:

	2018	2017	2018
	<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	¥ 10,000	\$ 94,127
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates from 0.14% to 0.84%, due through 2023	13,522	17,271	127,278
Unsecured loans from banks, payable in U.S. dollars, at rates of 1.80%, due through 2020	6,639	13,324	62,489
Unsecured loans from banks, payable in Euro, at rates from 0.24% to 0.75%, due through 2024	19,578	7,362	184,281
Lease obligations	80	108	753
Subtotal	49,819	48,065	468,928
Less current portion	(4,466)	(11,608)	(42,037)
Total	¥ 45,353	¥ 36,457	\$ 426,891

The aggregate annual maturities of long-term debt subsequent to March 31, 2018 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2019	¥ 4,438	\$ 41,773
2020	12,772	120,218
2021	6,131	57,709
2022	16,106	151,600
2023 and thereafter	10,292	96,875
	¥ 49,739	\$ 468,175

The aggregate annual maturities of lease obligations to March 31, 2018 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2019	¥ 28	\$ 264
2020	19	179
2021	7	66
2022	5	47
2023 and thereafter	21	197
	¥ 80	\$ 753

Assets pledged as collateral for short-term bank loans and notes and accounts payable at March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Time deposits	¥ 8	¥ 8	\$ 75
Land	550	550	5,177
Buildings and structures	101	105	951
Machinery and equipment	193	175	1,817
Other assets	4	5	37
Total	¥ 856	¥ 843	\$ 8,057

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, 2018 and 2017 is as follows:

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

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 36,846	¥ 38,988	\$ 346,819
Service cost	1,855	1,885	17,460
Interest cost	331	203	3,116
Actuarial loss (gain)	2,474	(2,436)	23,287
Benefits paid	(1,691)	(1,793)	(15,917)
Past service cost	1,537	-	14,467
Other	(10)	(1)	(94)
Balance at the end of the year	¥ 41,342	¥ 36,846	\$ 389,138

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

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 33,172	¥ 31,007	\$ 312,236
Expected return on plan assets	649	607	6,109
Actuarial gain	657	914	6,184
Contributions by the employer	1,587	1,720	14,939
Benefits paid	(1,075)	(1,076)	(10,119)
Balance at the end of the year	¥ 34,990	¥ 33,172	\$ 329,349

The changes in liabilities for retirement benefits calculated by the simplified method are outlined as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at the beginning of the year	¥ 1,100	¥ 1,059	\$ 10,354
Retirement benefit expenses	99	85	932
Benefits paid	(90)	(30)	(847)
Other	(14)	(14)	(132)
Balance at the end of the year	¥ 1,095	¥ 1,100	\$ 10,307

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:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligation	¥ 29,376	¥ 26,412	\$ 276,506
Plan assets at fair value	(35,229)	(33,387)	(331,598)
	(5,853)	(6,975)	(55,092)
Unfunded retirement benefit obligation	13,300	11,749	125,188
Net amount of liabilities and assets recognized in consolidated balance sheets	7,447	4,774	70,096
Liability for retirement benefits	13,607	12,072	128,078
Asset for retirement benefits	(6,160)	(7,298)	(57,982)
Net amount of liabilities and assets recognized in consolidated balance sheets	¥ 7,447	¥ 4,774	\$ 70,096

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

The components of retirement benefit expenses are outlined as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost	¥ 1,855	¥ 1,886	\$ 17,460
Interest cost	331	203	3,116
Expected return on plan assets	(649)	(607)	(6,109)
Amortization:			
Actuarial loss	508	837	4,783
Past service cost	321	14	3,021
Retirement benefit expenses calculated by simplified method	99	84	932
Retirement benefit expenses	¥ 2,465	¥ 2,417	\$ 23,203

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

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Past service cost	¥ (1,217)	¥ 14	\$ (11,455)
Actuarial (loss) gain	(1,319)	4,187	(12,415)
Total	¥ (2,536)	¥ 4,201	\$ (23,870)

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

	<u>2018</u>	<u>2017</u>	<u>2018</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized past service cost	¥ 1,224	¥ 7	\$ 11,520
Unrecognized actuarial gain (loss)	930	(389)	8,754
Total	<u>¥ 2,154</u>	<u>¥ (382)</u>	<u>\$ 20,274</u>

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

	<u>2018</u>	<u>2017</u>
Bonds	73%	57%
Equities	18%	24%
Cash and deposits	4%	10%
Other	5%	9%
Total	<u>100%</u>	<u>100%</u>

(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 multi-asset funds and 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, 2018 and 2017 are as follows:

	<u>2018</u>	<u>2017</u>
Discount rates	Principally 0.7%	Principally 0.8%
Expected long-term rate of return on plan assets	Principally 2.0%	Principally 2.0%
Rates of salary increase	Principally 4.5%	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, 2018 and 2017 amounted to ¥177 million (\$1,666 thousand) and ¥165 million, respectively

The following table sets forth the recent status of the multi-employer pension plan at March 31, 2017 and 2016:

	<u>2017</u>	<u>2016</u>	<u>2017</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Plan assets	¥ 549,913	¥ 531,917	\$ 5,176,139
Total amounts of actuarial liability calculated under pension financing and minimum actuarial reserve	547,839	538,161	5,156,617
Difference	<u>¥ 2,074</u>	<u>¥ (6,244)</u>	<u>\$ 19,522</u>

The contribution ratio of the Group to the multi-employer plan was 0.5% at March 31, 2018 and 2017. This percentage is not the same as the Group's percentage of obligation.

Additional information

The difference of ¥2,074 million (\$19,522 thousand) in the above table is the remaining balance after deduction of the general reserve of ¥28,297 million (\$266,350 thousand) and the surplus of the plan of ¥2,650 million (\$24,944 thousand) from the balance of past service cost of ¥28,873 million (\$271,771 thousand) calculated under pension financing at March 31, 2017. Past service cost was amortized on a straight-line basis over 5 years as of March 31, 2017, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥29 million (\$273 thousand) for amortization of past service cost.

The difference of ¥6,244 million in the above table is the remaining balance after deduction of the general reserve of ¥49,752 million from the balance of past service cost of ¥34,541 million calculated under pension financing and the shortage of the plan of ¥21,455 million at March 31, 2016. Past service cost was 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 for amortization of past 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 rate in Japan for the years ended March 31, 2018 and 2017 was, in the aggregate, approximately 30.8%.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2018 and 2017 differed from the above statutory tax rate for the following reasons:

	<u>2018</u>	<u>2017</u>
Statutory tax rate	30.8 %	30.8 %
Effect of:		
Valuation allowance	(1.6)	(1.4)
Different tax rate applicable to income of subsidiaries	(1.0)	(0.7)
Tax credit for research and development costs	(3.2)	(4.5)
Equity in earnings of an unconsolidated subsidiary and affiliates ..	(4.2)	(2.7)
Other tax credit	(0.1)	(1.6)
Other, net	3.8	1.0
Effective tax rates	<u>24.5 %</u>	<u>20.9 %</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, 2018 and 2017 are summarized as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Liability for retirement benefits for employees	¥ 2,357	¥ 1,497	\$ 22,186
Depreciation and amortization (including loss on impairment)	2,209	2,014	20,793
Tax loss carryforwards	1,816	4,842	17,093
Loss on impairment of land	972	1,038	9,149
Accrued bonuses to employees	943	888	8,876
Intercompany profit on inventories and property, plant and equipment	818	609	7,700
Reserve for periodic repairs	748	778	7,041
Loss on devaluation of investments in securities and other	673	681	6,335
Other	1,128	1,218	10,616
Gross deferred tax assets	<u>11,664</u>	<u>13,565</u>	<u>109,789</u>
Less: Valuation allowance	<u>(2,282)</u>	<u>(4,530)</u>	<u>(21,480)</u>
Total deferred tax assets	<u>9,382</u>	<u>9,035</u>	<u>88,309</u>
Deferred tax liabilities:			
Net unrealized holding gain on securities	(5,779)	(4,775)	(54,396)
Depreciation and amortization (in overseas subsidiaries)	(902)	(1,625)	(8,490)
Equity in earnings of an overseas consolidated subsidiary	(317)	(653)	(2,984)
Deferred capital gain on property	(216)	(245)	(2,033)
Reserve for depreciation for tax purposes	(6)	(9)	(56)
Other	(1,881)	(1,677)	(17,705)
Total deferred tax liabilities	<u>(9,101)</u>	<u>(8,984)</u>	<u>(85,664)</u>
Net deferred tax assets	<u>¥ 281</u>	<u>¥ 51</u>	<u>\$ 2,645</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 (\$36,898 thousand) at March 31, 2018 and 2017.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2018 and 2017 are summarized as follows:

	2018			
	Number of shares			
	<i>(Thousands)</i>			
	April 1, 2017	Increase	Decrease	March 31, 2018
Common stock	40,800	-	-	40,800
Treasury stock	919	1	0	920

The increase in treasury stock of 1 thousand shares was due to 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).

	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).

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, 2018 and 2017 totaled ¥13,266 million (\$124,868 thousand) and ¥13,283 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. Loss on Impairment of Property, Plant and Equipment

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.

For the year ended March 31, 2018, as a result of a worsening demand and supply balance, the profitability of maleic anhydride deteriorated. As related continuous losses hereafter were expected due to such deterioration in profitability, a loss on impairment in the amount of ¥420 million (\$3,953 thousand) was recognized on property, plant and equipment used to manufacture maleic anhydride at the Himeji Plant in Hyogo Prefecture. Accordingly, the Company has written down such assets to net recoverable amounts. The net recoverable amounts were measured using the value in use and evaluated at the memorandum value because the related cash flows were expected to remain negative.

As the related continuous losses of polyacrylates were expected due to low business demand, a loss on impairment in the amount of ¥45 million (\$424 thousand) was recognized on property, plant and equipment used to manufacture polyacrylates at the Himeji Plant in Hyogo Prefecture. Accordingly, the Company has written down such assets to net recoverable amounts. The net recoverable amounts were measured using the value in use and evaluated at the memorandum value because the related cash flows were expected to remain negative.

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

2018

Location	Application	Classification	(Millions of yen)	(Thousands of U.S. dollars)
Himeji Plant (Hyogo Prefecture)	Equipment to manufacture maleic anhydride	Buildings and structures	¥ 184	\$ 1,732
		Machinery	234	2,202
		Equipment	2	19
		Sub total	420	3,953
Himeji Plant (Hyogo Prefecture)	Equipment to manufacture polyacrylates	Buildings and structures	¥ 3	\$ 28
		Machinery	39	368
		Equipment	3	28
		Sub total	45	424
Total		¥ 465	\$ 4,377	

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

Location	Application	Classification	(Millions of yen)
Tsukuba Research Center (Tsukuba, Ibaraki Prefecture)	Research base	Buildings and structures	¥ 217
		Equipment	2
		Land	497
		Other	1
		Total	¥ 717

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 closing of research center 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:

	<i>(Millions of yen)</i>	
Fumaric acid business in Himeji plant	¥	108
Ethylene glycol monoethyl ether business in Kawasaki plant		51
Total	¥	159

16. Other

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

17. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of components of other comprehensive income for the years ended March 31, 2018 and 2017:

	2018		2017		2018	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
Net unrealized holding gain on securities:						
Amount arising during the year	¥	4,112	¥	7,872	\$	38,705
Reclassification adjustments		(570)		(1,069)		(5,365)
Before tax effects		3,542		6,803		33,340
Tax effects		(1,004)		(2,162)		(9,452)
Net unrealized holding gain on securities		2,538		4,641		23,888
Net unrealized deferred loss on hedges:						
Amount arising during the year		(2)		(8)		(19)
Reclassification adjustments		(9)		-		(85)
Before tax effects		(11)		(8)		(104)
Tax effects		3		2		29
Net unrealized deferred loss on hedges		(8)		(6)		(75)
Translation adjustments:						
Amount arising during the year		(2,537)		(4,526)		(23,880)
Translation adjustments		(2,537)		(4,526)		(23,880)
Retirement benefits liability adjustments:						
Amount arising during the year		(3,365)		3,350		(31,674)
Reclassification adjustments		829		851		7,804
Before tax effects		(2,536)		4,201		(23,870)
Tax effects		771		(1,221)		7,257
Retirement benefits liability adjustments		(1,765)		2,980		(16,613)
Share of other comprehensive income (loss) of an unconsolidated subsidiary and affiliates accounted for by the equity method:						
Amount arising during the year		1,138		(933)		10,712
Reclassification adjustments		32		20		301
Share of other comprehensive income (loss) of an unconsolidated subsidiary and affiliates accounted for by the equity method		1,170		(913)		11,013
Total other comprehensive (loss) income	¥	(602)	¥	2,176	\$	(5,667)

18. 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 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	
	<i>(Millions of yen)</i>	
Equipment:		
Acquisition costs	¥	491
Accumulated depreciation		(451)
Net book value	¥	40

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

19. Contingent Liabilities

The Company and a consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates at March 31, 2018 and 2017 as follows:

	2018		2017		2018	
	<i>(Millions of yen)</i>				<i>(Thousands of U.S. dollars)</i>	
American Acryl L.P.	¥	1,289	¥	1,361	\$	12,133
Re-guaranteed by Arkema Delaware Inc.		644		681		6,062

20. Amounts per Share

	2018		2017		2018	
	<i>(Yen)</i>				<i>(U.S. dollars)</i>	
Profit attributable to owners of parent	¥	608.84	¥	478.36	\$	5.73
Cash dividends		160.00		150.00		1.51
Net assets		7,705.05		7,238.33		72.52

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, 2018 and 2017 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2018 and 2017.

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, 2018 and 2017 is summarized as follows:

	<u>2018</u>	<u>2017</u>	<u>2018</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Profit attributable to owners of parent	¥ 24,280	¥ 19,361	\$ 228,539
Deductions from profit attributable to owners of parent	-	-	-
Adjusted profit attributable to owners of parent available to shareholders of common stock	<u>¥ 24,280</u>	<u>¥ 19,361</u>	<u>\$ 228,539</u>
Weighted-average number of shares of common stock outstanding during the year <i>(thousands of shares)</i>	39,880	40,474	

21. Derivatives

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

Derivative transactions to which hedge accounting is not applied as of March 31, 2018 are summarized as follows:

		2018			
		<u>Contract value</u>		<u>Fair value</u>	<u>Unrealized gains</u>
<u>Classification</u>	<u>Transaction</u>	<u>Maturing within one year</u>	<u>Maturing after one year</u>		
<i>Millions of yen</i>					
Over-the-counter transactions	Forward foreign currency exchange contracts:				
	Sell	¥ 8,450	¥ -	¥ 76	¥ 76
	Buy	28	-	4	4
		2018			
		<u>Contract value</u>		<u>Fair value</u>	<u>Unrealized gains</u>
<u>Classification</u>	<u>Transaction</u>	<u>Maturing within one year</u>	<u>Maturing after one year</u>		
<i>Millions of yen</i>					
Over-the-counter transactions	Forward foreign currency exchange contracts:				
	Sell	\$ 79,537	\$ -	\$ 715	\$ 715
	Buy	264	-	38	38

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

(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, 2018 and 2017 are summarized as follows:

Currency-related transactions

			2018		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<i>Millions of yen</i>					
Deferral hedge	Forward foreign currency exchange contracts: Buy	Accounts payable, trade	¥ 23	¥ -	¥ 4
			2017		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
<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	-	(*)
			2018		
			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	\$ 216	\$ -	\$ 38

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

Method of hedge accounting	Transaction	Major hedged item	2017		
			Contract value		Fair value
			Notional amount	More than one year	
			<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	¥ -	(*)

(*) 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 4.

There were no interest-rate related transactions to which hedge accounting is applied as of March 31, 2018.

22. 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, secondary alcohol ethoxylates 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, 2018 and 2017 is outlined as follows:

Year ended March 31, 2018						
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
<i>(Millions of yen)</i>						
Sales to third parties	¥ 120,025	¥ 173,965	¥ 28,811	¥ 322,801	¥ -	¥ 322,801
Intersegment sales and transfers	34,849	6,182	2,012	43,043	(43,043)	-
Net sales	¥ 154,874	¥ 180,147	¥ 30,823	¥ 365,844	¥ (43,043)	¥ 322,801
Segment profit	¥ 12,912	¥ 13,935	¥ 268	¥ 27,115	¥ (388)	¥ 26,727
Segment assets	134,778	245,729	32,109	412,616	57,486	470,102
Depreciation and amortization	8,205	8,742	666	17,613	-	17,613
Increases in property, plant and equipment and other assets	7,103	18,621	1,115	26,839	-	26,839
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
Intersegment 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, 2018						
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
<i>(Thousands of U.S. dollars)</i>						
Sales to third parties	\$ 1,129,753	\$ 1,637,472	\$ 271,188	\$ 3,038,413	\$ -	\$ 3,038,413
Intersegment sales and transfers	328,022	58,189	18,938	405,149	(405,149)	-
Net sales	\$ 1,457,775	\$ 1,695,661	\$ 290,126	\$ 3,443,562	\$ (405,149)	\$ 3,038,413
Segment profit	\$ 121,536	\$ 131,165	\$ 2,523	\$ 255,224	\$ (3,652)	\$ 251,572
Segment assets	1,268,618	2,312,961	302,231	3,883,810	541,096	4,424,906
Depreciation and amortization	77,231	82,285	6,269	165,785	-	165,785
Increases in property, plant and equipment and other assets	66,858	175,273	10,495	252,626	-	252,626

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 depreciation and amortization, 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, 2018 and 2017 are summarized as follows:

2018					
<i>(Millions of yen)</i>					
Japan	Asia	Europe	Americas	Other	Total
¥ 167,828	¥ 71,339	¥ 41,633	¥ 28,066	¥ 13,935	¥ 322,801

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

2018					
<i>(Thousands of U.S. dollars)</i>					
Japan	Asia	Europe	Americas	Other	Total
\$ 1,579,706	\$ 671,489	\$ 391,877	\$ 264,175	\$ 131,166	\$ 3,038,413

“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, 2018 and 2017 is summarized as follow:

2018					
<i>(Millions of yen)</i>					
Japan	Indonesia	Other Asia	Belgium	Other	Total
¥ 100,333	¥ 20,460	¥ 2,835	¥ 44,961	¥ 6,652	¥ 175,241

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

2018					
<i>(Thousands of U.S. dollars)</i>					
Japan	Indonesia	Other Asia	Belgium	Other	Total
\$ 944,399	\$ 192,583	\$ 26,685	\$ 423,202	\$ 62,613	\$ 1,649,482

(5) Information about loss on impairment

		2018				
		<i>(Millions of yen)</i>				
		Reporting segments			Adjustments and eliminations	Total
		Basic chemicals	Functional chemicals	Environment and catalysts		
Loss on impairment	.....	¥ -	¥ 465	¥ -	¥ -	¥ 465
		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
		2018				
		<i>(Thousands of U.S. dollars)</i>				
		Reporting segments			Adjustments and eliminations	Total
		Basic chemicals	Functional chemicals	Environment and catalysts		
Loss on impairment	.....	\$ -	\$ 4,377	\$ -	\$ -	\$ 4,377

23. Related Party Transactions

Principal transactions between the Company and its related party for the years ended March 31, 2018 and 2017 are summarized as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Sales of finished goods	¥ 23,493	¥ 18,849	\$ 221,131
Purchases of raw materials	20,553	16,501	193,458

The balances due from and to its related party at March 31, 2018 and 2017 were as follows:

	2018	2017	2018
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<i>Umicore Shokubai Japan Co., Ltd.:</i>			
Notes and accounts receivable	¥ 8,670	¥ 7,005	\$ 81,608
Notes and accounts payable	5,679	4,486	53,454

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.

24. 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, 2018, was approved at a shareholders' meeting held on June 20, 2018:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash dividends (¥85.00 = \$0.800 per share)	¥ 3,390	\$ 31,909



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, 2018, 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, 2018, 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 20, 2018
Osaka, Japan

Corporate Data

NIPPON SHOKUBAI CO., LTD. (As of March 31, 2018)

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: 4,219 (Consolidated)
2,253 (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

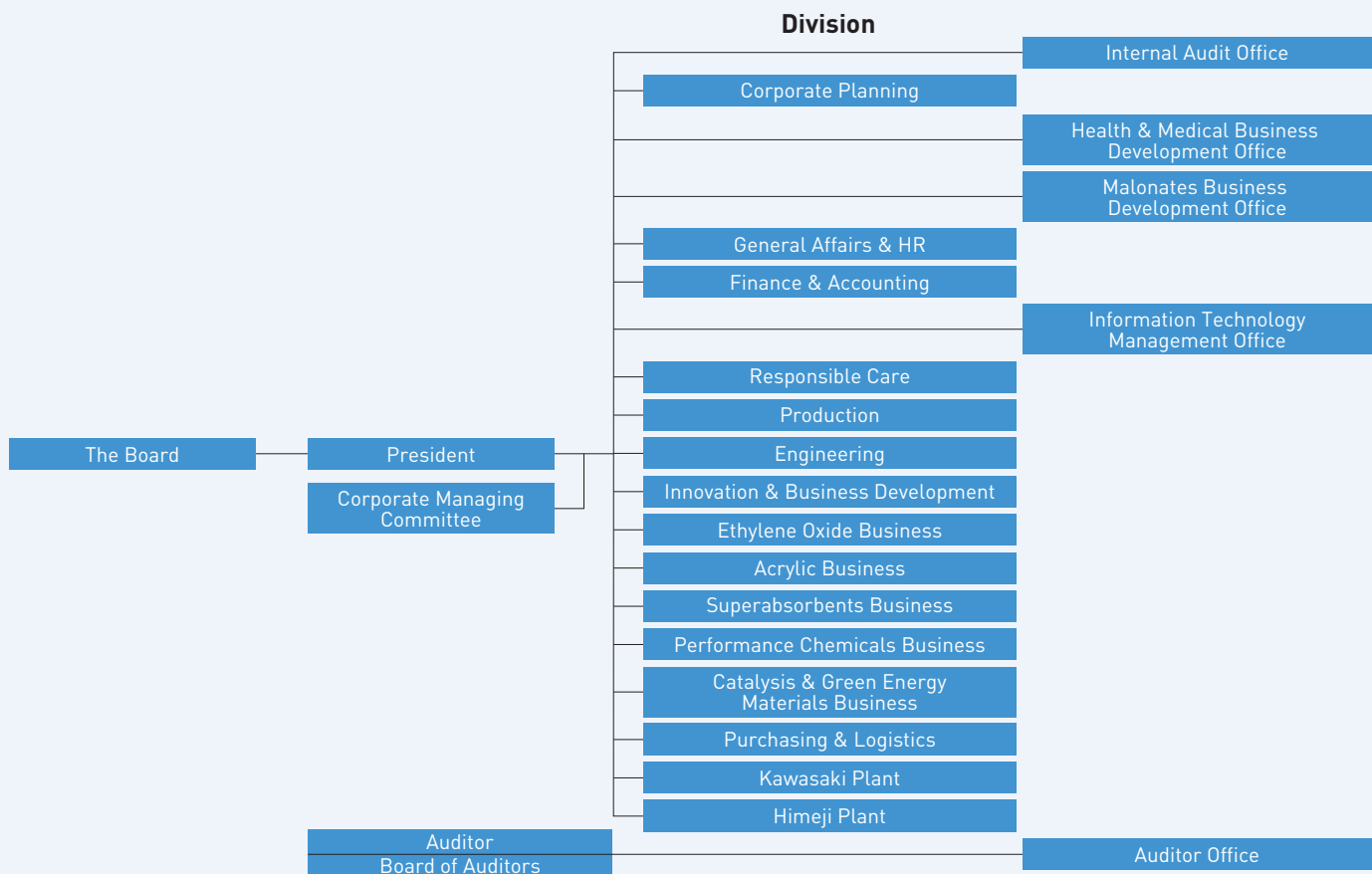
Lead Managers (Securities): Nomura Securities Co., Ltd.,
Mizuho Securities Co., Ltd.

Stock Transfer Agency: Mitsubishi UFJ Trust and Banking
Corporation

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

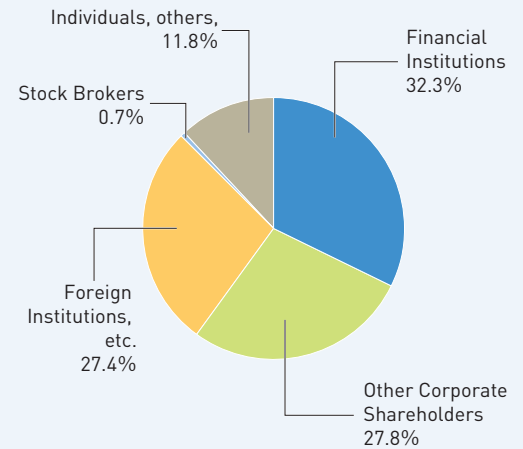
Number of shareholders: 10,254

Organization Chart (As of June 20, 2018)



Major Shareholders (As of March 31, 2018)

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

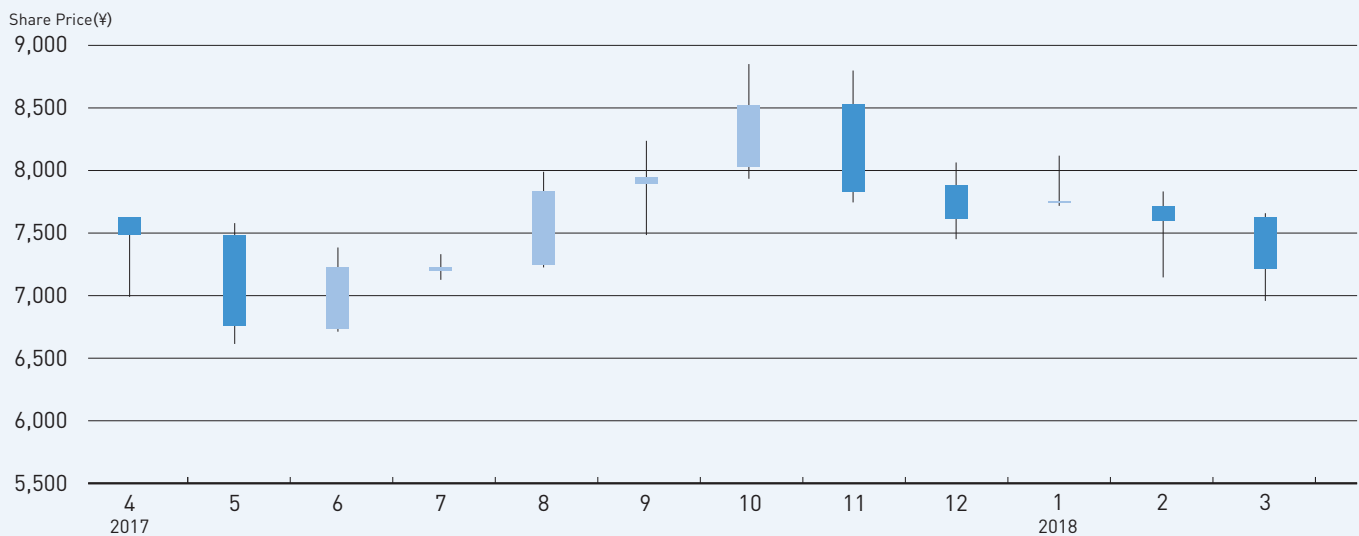


(Note 1) Other than the above, the Company holds 920 thousand shares as treasury stock.

(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.

Share Price and Turnover (April 2017- March 2018)



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.	Ibasen Bldg., 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 Yusen Suitengumae 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 INDUSTRIES. 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.	2F Advantec Nihonbashi Bldg., 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, 068898, Singapore 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, 068898, Singapore 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 215635, China 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 200031, China 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.	8F Taeyoung Bldg.,144, Mapo-daero, Mapo-gu, Seoul 04212, Korea TEL +82-2-704-9113 FAX +82-2-704-9114 Principle Business: Marketing service of E&I materials and chemical products

Directory

Management

Member of the Board, President

Yujiro Goto *

Member of the Board, Senior Managing Executive Officer

Masao Yamamoto *
Yojiro Takahashi

Member of the Board, Managing Executive Officer

Koichiro Yamada
Jiro Iriguchi

Member of the Board, Executive Officer

Yukihiro Matsumoto

Member of the Board

Kozo Arao
Shinji Hasebe
Tetsuo Setoguchi

Statutory Corporate Auditor

Taizo Maruo
Yoshihiro Arita
Yoichiro Komatsu
Satoshi Taguchi

Managing Executive Officer

Kin-ya Nagasuna
Masaya Yoshida
Teruo Kamei

Executive Officer

Kazukiyo Arakawa
Ren Hasebe
Gun Saito
Katsunori Kajii
Masahiro Watanabe
Kazuhiro Noda
Takashi Kobayashi

* Representative

Company Outline

Business establishments

• Osaka Office

Kogin Bldg., 4-1-1 Koraibashi, Chuo-ku, Osaka 541-0043 Japan
TEL +81-6-6223-9111
FAX +81-6-6201-3716

• Tokyo Office

Hibiya Dai Bldg., 1-2-2 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011 Japan
TEL +81-3-3506-7475
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
TEL +81-79-273-1131 (Plant)
+81-79-273-1145
(Research Center)

• Suita Research Center

5-8 Nishi Otabi-cho, Suita, Osaka 564-0034 Japan
TEL +81-6-6317-2202

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)



NIPPON SHOKUBAI CO.,LTD.

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Tokyo 100-0011, Japan
Telephone +81-3-3506-7475
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Securities Code 4114

URL <http://www.shokubai.co.jp>