



NOK CORPORATION and Consolidated Subsidiaries

Consolidated Financial Results for the Nine Months Ended December 31, 2018 (Japanese GAAP)

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Dividend payable date (as planned): –

Supplemental material of quarterly results: None

Convening briefing of quarterly results: None

(Fractions are rounded down to the nearest million yen.)

1. Consolidated Financial Results for the First Nine Months of Fiscal 2018 (April 1, 2018 to December 31, 2018)

(1) Consolidated operating results

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent	
	million yen	%	million yen	%	million yen	%	million yen	%
9 mos. ended Dec. 31, 2018	521,964	(6.7)	26,558	(28.4)	31,810	(33.7)	18,903	(36.9)
9 mos. ended Dec. 31, 2017	559,340	4.7	37,074	37.3	47,960	44.1	29,957	47.3

Note: Comprehensive income: 9,357 million yen, (85.3)% (as of December 31, 2018); 63,507 million yen, 71.5% (as of December 31, 2017)

	Net income per share	Diluted net income per share
	yen	yen
9 mos. ended Dec. 31, 2018	109.29	–
9 mos. ended Dec. 31, 2017	173.39	–

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio
	million yen	million yen	%
Dec. 31, 2018	803,640	499,847	57.1
March 31, 2018	793,314	499,894	57.9

Reference: Owner's equity: 458,748 million yen (as of December 31, 2018); 459,655 million yen (as of March 31, 2018)

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2017	–	25.00	–	25.00	50.00
FY 2018	–	25.00	–		
FY 2018 (Forecast)				25.00	50.00

Note: Correction of dividend forecast from the most recent dividend forecast: None

3. Consolidated Forecasts for Fiscal 2018 (April 1, 2018 to March 31, 2019)

(Percentage figures represent year-on-year changes.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Net income per share
	million yen	%	million yen	%	million yen	%	million yen	%	yen
Full year	677,200	(7.1)	26,600	(40.8)	32,300	(42.6)	17,000	(51.8)	98.28

Note: Correction of financial forecast from the most recent financial forecast: None

* Notes

- (1) Material changes in subsidiaries during this period (Changes in scope of consolidations resulting from change in subsidiaries): Yes

New: One company Company name: Mektec Manufacturing Corporation (Suzhou2)

Exclusion: One company Company name: Mektec Manufacturing Corporation (Suzhou2)

Note: For details, please refer to “2. Consolidated Quarterly Financial Statements and Principal Notes (3) Notes

Concerning Consolidated Quarterly Financial Statements (Material Changes in Subsidiaries during This Period)” on page 7 of the attached document.

- (2) Applying of specific accounting of the consolidated quarterly financial statements: Yes

Note: For details, please refer to “(3) Notes Concerning Consolidated Quarterly Financial Statements” on page 7 of the attached document.

- (3) Changes in accounting policies and accounting estimates, retrospective restatement

i) Changes in accounting policies based on revisions of accounting standard: None

ii) Changes in accounting policies other than ones based on revisions of accounting standard: None

iii) Changes in accounting estimates: None

iv) Retrospective restatement: None

- (4) Number of issued and outstanding shares (common stock)

i) Number of issued and outstanding shares at the end of each period (including treasury stock)	Dec. 31, 2018	173,138,537 shares	Mar. 31, 2018	173,138,537 shares
ii) Number of treasury stock at the end of each period	Dec. 31, 2018	166,845 shares	Mar. 31, 2018	195,825 shares
iii) Average number of shares (year to date)	9 mos. ended Dec. 31, 2018	172,967,742 shares	9 mos. ended Dec. 31, 2017	172,770,348 shares

(Note) The “Number of treasury stock at the end of each period” includes the Company’s stock owned by the Employee Stock Ownership Plan Trust (the “ESOP Trust”) account (0 shares as of December 31, 2018 and 29,200 shares as of March 31, 2018). In addition, the Company’s stock owned by the ESOP Trust account is included in the number of treasury stock deducted from the calculation of the “Average number of shares (year to date)” (4,070 shares for the nine months ended on December 31, 2018 and 194,871 shares for the nine months ended on December 31, 2017).

- * This summary of quarterly financial results is not subject to quarterly review procedures of a certified public accountant or audit firm.

- * Proper use of the projections for financial results, and other important matters:

Forward-looking statements such as projections of future financial results and other descriptions concerning our future business included in this document are based on currently available information and certain assumptions that we consider to be reasonable, and no representation or warranty is given with regard to the realization of such projections, etc. Actual financial results may differ significantly due to various factors.

For assumptions, etc., used as the basis for the projections for financial results, please see “Explanation of Consolidated Financial Projections and Other Prospects for the Future” on page 2 of the attached document.

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1. Qualitative Information on the Consolidated Operating Results for the Nine Months Ended December 31, 2018

(1) Explanation of Operating Results

During the first nine months of the current consolidated fiscal year, the Japanese economy remained on a moderate recovery track due to stable capital expenditures and the winding down of the effects of natural disasters such as the floods in West Japan. Looking overseas, the U.S. economy remained robust, whereas in China, signs of an economic slowdown started to be seen as a result of the effects of the trade dispute with the U.S.

In the automobile industry, domestic demand for light vehicles remained favorable while vehicle demand due to the launch of new models had run its full course. In overseas markets, while demand in North America was robust, demand in China started to decelerate. Meanwhile, demand remained brisk in Thailand reflecting the rebound of the economy.

In the electronic equipment industry, the production volume of smartphones declined. Overall HDD production volume decreased reflecting declined HDD demand for PC applications despite a favorable demand for use in data centers.

In the office machinery industry, production volume remained flat as a result of a mature market.

Under these circumstances, the operating results of the Group by business segment were as follows:

In the seal business, sales for automobile applications grew as demand for light vehicles in Japan and demand in Southeast Asia remained resilient. Sales to manufacturers of general industrial machinery increased on the back of stable demand from manufacturers of construction machinery, machine tools, and robots.

As a result, net sales increased to 259,831 million yen (up 3.2% year on year). Operating income totaled 28,594 million yen (down 7.0% year on year) due to an increase in personnel and other costs and a steep rise in raw material costs.

In the electronic product business, sales for high-performance smartphone applications decreased as demand dropped significantly. Overall sales declined although demand from automobile manufacturers remained robust and sales for HDD applications grew on the back of increased demand for use in data centers.

As a result, net sales stood at 238,371 million yen (down 16.0% year on year). Operating loss totaled 3,214 million yen (compared to an operating income of 5,352 million yen in the same period of the previous fiscal year), due to a decline in demand from manufacturers of high-performance smartphones.

In the roll business, sales declined due to the effects of foreign exchange fluctuations, although demand from manufacturers of office machinery remained flat. Meanwhile, although demand from manufacturers of financial and textile machinery increased, overall sales diminished.

As a result, net sales ended at 15,558 million yen (down 1.1% year on year). Operating income came to 94 million yen (compared to an operating loss of 13 million yen in the same period of the previous fiscal year) due in part to the reduction of expenses.

In other businesses including special lubricants, net sales increased to 8,202 million yen (up 2.7% year on year). Operating income ended at 1,083 million yen (up 18.3% year on year) driven by increased sales.

In summary, the Group posted the following results for the first nine months of the current consolidated fiscal year: Net sales totaled 521,964 million yen (down 6.7% year on year); operating income was 26,558 million yen (down 28.4% year on year); and ordinary income amounted to 31,810 million yen (down 33.7% year on year), resulting in 18,903 million yen in profit attributable to owners of parent (down 36.9% year on year).

(2) Explanation of Financial Position

Total assets as of December 31, 2018 stood at 803,640 million yen, an increase of 10,326 million yen from March 31, 2018. This was mainly attributable to increases in notes and accounts receivable-trade and property, plant and equipment despite a decrease in investment securities following decreases in cash and deposits and a fall in share prices.

Total liabilities as of December 31, 2018 amounted to 303,793 million yen, an increase of 10,373 million yen from March 31, 2018, mostly reflecting an increase in short-term loans payable despite decreases in provision for bonuses and deferred tax liabilities.

Net assets totaled 499,847 million yen, a decrease of 47 million yen from March 31, 2018, reflecting a decrease in valuation difference on available-for-sale securities despite an increase in retained earnings due to the posting of net income. Consequently, the ratio of shareholders' equity to total assets stood at 57.1%.

(3) Explanation of Consolidated Financial Projections and Other Prospects for the Future

The Company announced on January 23, 2019 that it had revised its projections for consolidated financial results for the full fiscal year 2018 ending on March 31, 2019. Along with this revision, it is currently studying the possibility of future recovery of fixed assets owned by the electronic product business pursuant to the Accounting Standard for Impairment of Fixed Assets, which may affect the Company's projections for consolidated financial results for full fiscal year 2018 in the future. The financial impact will be promptly announced as soon as it becomes available.

2. Consolidated Quarterly Financial Statements and Principal Notes**(1) Consolidated Quarterly Balance Sheet**

(million yen)

	FY 2017 (as of March 31, 2018)	3Q FY 2018 (as of December 31, 2018)
Assets		
Current assets		
Cash and deposits	89,457	78,057
Notes and accounts receivable-trade	149,422	163,526
Inventories	88,770	89,981
Other	14,968	16,439
Allowance for doubtful accounts	(236)	(172)
Total current assets	342,382	347,831
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	86,318	89,958
Machinery, equipment and vehicles, net	109,905	117,100
Other, net	61,124	62,468
Total property, plant and equipment	257,348	269,527
Intangible assets	4,061	5,105
Investments and other assets		
Investment securities	154,774	145,489
Other	34,917	35,856
Allowance for doubtful accounts	(169)	(169)
Total investments and other assets	189,522	181,176
Total noncurrent assets	450,931	455,808
Total assets	793,314	803,640

(million yen)

	FY 2017 (as of March 31, 2018)	3Q FY 2018 (as of December 31, 2018)
Liabilities		
Current liabilities		
Accounts payable-trade	57,571	55,738
Short-term loans payable	58,398	82,144
Income taxes payable	5,084	2,716
Provision for bonuses	9,712	5,512
Provision for loss on guarantees	668	—
Other	54,201	55,360
Total current liabilities	185,636	201,472
Noncurrent liabilities		
Long-term loans payable	9,931	8,985
Deferred tax liabilities	11,707	7,983
Net defined benefit liabilities	82,302	81,573
Other	3,841	3,778
Total noncurrent liabilities	107,783	102,321
Total liabilities	293,419	303,793
Net assets		
Shareholders' equity		
Capital stock	23,335	23,335
Capital surplus	22,837	23,303
Retained earnings	367,822	378,089
Treasury stock	(323)	(225)
Total shareholders' equity	413,672	424,502
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	57,490	45,128
Foreign currency translation adjustment	11,909	10,250
Remeasurements of defined benefit plans	(23,416)	(21,133)
Total accumulated other comprehensive income	45,983	34,245
Non-controlling interests	40,238	41,098
Total net assets	499,894	499,847
Total liabilities and net assets	793,314	803,640

(2) Consolidated Quarterly Income Statement and Consolidated Quarterly Comprehensive Income Statement
 (Consolidated Quarterly Income Statement)
 (Nine Months Ended December 31, 2018)

(million yen)

	9 months ended December 31, 2017	9 months ended December 31, 2018
Net sales	559,340	521,964
Cost of sales	459,071	430,794
Gross profit	100,268	91,170
Selling, general and administrative expenses	63,194	64,611
Operating income	37,074	26,558
Non-operating income		
Dividend income	2,060	2,293
Share of profit of entities accounted for using equity method	5,246	3,221
Foreign exchange gains	3,072	—
Other	2,882	2,595
Total non-operating income	13,262	8,110
Non-operating expenses		
Interest expenses	1,776	2,098
Foreign exchange losses	—	401
Other	599	358
Total non-operating expenses	2,375	2,858
Ordinary income	47,960	31,810
Extraordinary income		
Gain on sales of noncurrent assets	304	139
Other	13	47
Total extraordinary income	317	186
Extraordinary loss		
Loss on retirement of noncurrent assets	2,212	2,268
Other	748	447
Total extraordinary loss	2,961	2,716
Income before income taxes	45,317	29,279
Income taxes	12,185	7,527
Net income	33,131	21,751
Profit attributable to non-controlling interests	3,174	2,848
Profit attributable to owners of parent	29,957	18,903

(Consolidated Quarterly Comprehensive Income Statement)
(Nine Months Ended December 31, 2018)

(million yen)

	9 months ended December 31, 2017	9 months ended December 31, 2018
Net income	33,131	21,751
Other comprehensive income		
Valuation difference on available-for-sale securities	16,515	(12,324)
Foreign currency translation adjustment	9,124	(1,596)
Remeasurements of defined benefit plans, net of tax	2,322	2,052
Share of other comprehensive income of entities accounted for using equity method	2,412	(524)
Total other comprehensive income	30,375	(12,393)
Comprehensive income	63,507	9,357
(Detail)		
Comprehensive income attributable to owners of parent	58,936	7,165
Comprehensive income attributable to non-controlling interests	4,570	2,192

(3) Notes Concerning Consolidated Quarterly Financial Statements
(Notes Concerning the Going Concern Assumption)
None.

(Notes on Significant Changes in the Amount of Shareholders' Equity)
None.

(Material Changes in Subsidiaries during This Period)

Nitto Denko (Suzhou) Co., Ltd. was included in the scope of consolidation due to the acquisition of its equity interest during the first quarter of the current consolidated fiscal year. Nitto Denko (Suzhou) Co., Ltd. was renamed Mektec Manufacturing Corporation (Suzhou2) as a result of the acquisition. Mektec Manufacturing Corporation (Suzhou2) fell under specified subsidiary. At the Board of Directors meeting held on July 12, 2018, it was decided that Mektec Manufacturing Corp. (Suzhou), Ltd., a specified subsidiary of the Company, merge with Mektec Manufacturing Corporation (Suzhou2) by way of an absorption-type merger. The two companies merged as of October 1, 2018.

(Accounting Treatments Specific to the Preparation of Consolidated Quarterly Financial Statements)

As for tax expenses, some consolidated subsidiaries calculate the amount by reasonably estimating an effective tax rate after applying tax effect accounting to income e before income taxes for the consolidated fiscal year including the current third-quarter period, and multiplying income before income taxes for the current third-quarter period by the estimated effective tax rate.

(Segment Information)

[Segment Information]

I Nine Months Ended December 31, 2017

1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	251,688	283,938	15,728	7,985	559,340	–	559,340
Inter-segment sales/transfers	1,867	12	4	327	2,212	[2,212]	–
Total	253,555	283,951	15,733	8,312	561,553	[2,212]	559,340
Segment income (loss)	30,750	5,352	(13)	915	37,005	68	37,074

Notes: 1. The amount of 68 million yen in Adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.

2. Segment income (loss) is adjusted for operating income stated in the consolidated quarterly income statement.

II Nine Months Ended December 31, 2018

1. Information regarding net sales and income (loss) by reportable segment

(million yen)

	Reportable segments				Total	Adjustments (Note 1)	Amount included in the consolidated quarterly income statement (Note 2)
	Seal	Electronic product	Roll	Other			
Net sales							
Net sales to external customers	259,831	238,371	15,558	8,202	521,964	–	521,964
Inter-segment sales/transfers	1,532	40	1	329	1,902	[1,902]	–
Total	261,363	238,411	15,559	8,531	523,867	[1,902]	521,964
Segment income (loss)	28,594	(3,214)	94	1,083	26,558	0	26,558

Notes: 1. The amount of 0 yen in Adjustments of segment income (loss) represents the result of the elimination of inter-segment transactions.

2. Segment income (loss) is adjusted for operating income stated in the consolidated quarterly income statement.