



NOK CORPORATION and Consolidated Subsidiaries

Consolidated Financial Results for the Six Months Ended September 30, 2019 (Japanese GAAP)

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Dividend payable date (as planned): December 4, 2019

Supplemental material of quarterly results: None

Convening briefing of quarterly results: Yes

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

1. Consolidated Financial Results for the First Six Months of Fiscal 2019 (April 1, 2019 to September 30, 2019)

(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	%
6 mos. ended Sep. 30, 2019	308,364	(9.8)	2,164	(84.6)	4,081	(77.4)	1,370	(85.8)
6 mos. ended Sep. 30, 2018	342,029	(4.3)	14,040	(30.1)	18,036	(32.2)	9,650	(40.6)

Note: Comprehensive income: (8,041) million yen, -% (as of September 30, 2019); 18,023 million yen, (48.0)% (as of September 30, 2018)

	Net income per share	Diluted net income per share
	yen	yen
6 mos. ended Sep. 30, 2019	7.92	-
6 mos. ended Sep. 30, 2018	55.79	-

(2) Consolidated financial position

	Total assets	Net assets	Capital adequacy ratio	Net assets per share
	million yen	million yen	%	yen
Sep. 30, 2019	780,678	472,606	55.4	2,500.74
March 31, 2019	785,133	485,498	56.6	2,567.92

Reference: Owner's equity: 432,556 million yen (as of September 30, 2019); 444,177 million yen (as of March 31, 2019)

2. Dividends

	Dividend per share				
	First quarter	Second quarter	Third quarter	Fiscal year end	Total
	yen	yen	yen	yen	yen
FY 2018	-	25.00	-	25.00	50.00
FY 2019	-	25.00	-	-	-
FY 2019 (Forecast)	-	-	-	-	-

Notes:

- Correction of dividend forecast from the most recent dividend forecast: Yes

- Although the Company's dividend record date is specified in the Articles of Incorporation as the fiscal year end date, the forecast dividend amount as of the said record date has not been determined at present.

3. Consolidated Forecasts for Fiscal 2019 (April 1, 2019 to March 31, 2020)

(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	619,600	(7.5)	9,500	(58.9)	14,000	(55.0)	3,000	(12.3)	17.34

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): None
- (2) Applying of specific accounting of the consolidated quarterly financial statements: Yes
 Note: For details, please refer to “2. Consolidated Quarterly Financial Statements and Principal Notes (3) Notes Concerning Consolidated Quarterly Financial Statements (Accounting Treatments Specific to the Preparation of 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: Yes
 - 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)	Sep. 30, 2019	173,138,537 shares	Mar. 31, 2019	173,138,537 shares
ii) Number of treasury stock at the end of each period	Sep. 30, 2019	167,037 shares	Mar. 31, 2019	166,905 shares
iii) Average number of shares (year to date)	6 mos. ended Sep. 30, 2019	172,971,600 shares	6 mos. ended Sep. 30, 2018	172,965,722 shares

Note: The Employee Stock Ownership Plan Trust (the “ESOP Trust”) account was abolished in April 2018. The Company’s stock owned by the ESOP Trust account is included in the number of shares of treasury stock deducted from the calculation of the “Average number of shares (year to date)” (– shares for the six months ended September 30, 2019 and 6,116 shares for the six months ended September 30, 2018).

* 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 Six Months Ended September 30, 2019

(1) Explanation of Operating Results

During the first six months of the current consolidated fiscal year, the Japanese economy became increasingly stagnant on the back of a drop in exports mainly to China, despite robustness in domestic demand. Overseas, the Chinese economy slowed down further, as the recovery of domestic demand was delayed and external demand remained weak due to the tariff hikes by the United States. The outlook for overseas economies remains unclear due to the continuing trade war between the United States and China.

In the automobile industry, demand remained strong in Japan, while demand in China and North America entered a stagnant phase.

In the electronic equipment industry, the smartphone market shrank due to the elongated upgrade cycle and was also affected by consumers refraining from purchasing ahead of full-scale introduction of 5G. Production for use in HDDs saw a mild drop for server applications but significantly decreased for mobile applications.

In the office machinery industry, production volume remained flat despite growth in demand for color printers and copiers.

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

In the seal business, sales for automobile applications decreased due to a delay in the recovery of demand in China, although demand in Japan remained robust. Sales to manufacturers of general industrial machinery decreased on the back of a drop in demand from manufacturers of construction machinery, machine tools, and robots.

As a result, net sales decreased to 161,885 million yen (down 5.8% year on year). Operating income totaled 11,572 million yen (down 37.0% year on year) mainly due to the drop in sales and increases in personnel and other costs.

In the electronic product business, sales decreased due to the impact of sluggish markets for smartphone, HDD and automobile applications, and, for smartphone applications in particular, to weak demand for FPCs and intensified competition.

As a result, net sales stood at 132,332 million yen (down 14.2% year on year). Operating loss totaled 9,779 million yen (compared to an operating loss of 5,088 million yen in the same period of the previous fiscal year) due to the significant decline in net sales, despite a decrease in depreciation and amortization costs.

In the roll business, sales declined due to a drop in demand for printer applications.

As a result, net sales ended at 9,538 million yen (down 8.3% year on year). Operating loss amounted to 134 million yen (compared to an operating income of 52 million yen in the same period of the previous fiscal year), as the effect of a decline in sales outweighed efforts to reduce costs.

In other businesses including special lubricants, net sales stood at 4,608 million yen (down 15.8% year on year). Operating income ended at 473 million yen (down 33.1% year on year).

In summary, the Group posted the following results for the first six months of the current consolidated fiscal year: Net sales totaled 308,364 million yen (down 9.8% year on year); operating income was 2,164 million yen (down 84.6% year on year); and ordinary income amounted to 4,081 million yen (down 77.4% year on year), resulting in 1,370 million yen in profit attributable to owners of parent (down 85.8% year on year).

(2) Explanation of Financial Position

Total assets as of September 30, 2019 stood at 780,678 million yen, a decrease of 4,454 million yen from March 31, 2019. This was mainly attributable to decreases in cash and deposits, as well as a decrease in investment securities due in part to a decline in share prices, despite an increase in notes and accounts receivable-trade. Total liabilities as of September 30, 2019 amounted to 308,072 million yen, an increase of 8,438 million yen from March 31, 2019, mostly reflecting an increase in accounts payable, despite decreases in short-term and long-term loans payable. Net assets totaled 472,606 million yen, a decrease of 12,892 million yen from March 31, 2019, and the ratio of shareholders' equity to total assets stood at 55.4%. This was mainly due to decreases in foreign currency translation adjustment on the back of fluctuations of the currency market and in retained earnings due to dividend payment.

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

There have been no changes to the financial projections that were announced on October 24, 2019.

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

(million yen)

	FY 2018 (as of March 31, 2019)	2Q FY 2019 (as of September 30, 2019)
Assets		
Current assets		
Cash and deposits	80,798	74,269
Notes and accounts receivable-trade	129,464	143,361
Electronically recorded monetary claims	15,704	13,487
Inventories	86,715	85,397
Other	15,303	15,741
Allowance for doubtful accounts	(157)	(128)
Total current assets	327,828	332,128
Noncurrent assets		
Property, plant and equipment		
Buildings and structures, net	89,695	93,519
Machinery, equipment and vehicles, net	110,968	112,732
Other, net	61,831	56,938
Total property, plant and equipment	262,496	263,190
Intangible assets	4,760	4,349
Investments and other assets		
Investment securities	150,066	142,865
Other	40,155	38,322
Allowance for doubtful accounts	(174)	(177)
Total investments and other assets	190,047	181,010
Total noncurrent assets	457,304	448,550
Total assets	785,133	780,678

(million yen)

	FY 2018 (as of March 31, 2019)	2Q FY 2019 (as of September 30, 2019)
Liabilities		
Current liabilities		
Accounts payable-trade	44,557	57,846
Short-term loans payable	66,972	63,952
Income taxes payable	3,549	2,872
Provision for bonuses	10,125	13,171
Other	55,856	55,628
Total current liabilities	181,061	193,470
Noncurrent liabilities		
Long-term loans payable	19,563	17,284
Deferred tax liabilities	7,133	6,166
Net defined benefit liabilities	87,842	86,665
Other	4,033	4,486
Total noncurrent liabilities	118,572	114,602
Total liabilities	299,634	308,072
Net assets		
Shareholders' equity		
Capital stock	23,335	23,335
Capital surplus	23,244	23,288
Retained earnings	362,604	359,553
Treasury stock	(226)	(226)
Total shareholders' equity	408,959	405,951
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	47,694	45,286
Foreign currency translation adjustment	12,157	4,058
Remeasurements of defined benefit plans	(24,633)	(22,740)
Total accumulated other comprehensive income	35,218	26,604
Non-controlling interests	41,321	40,049
Total net assets	485,498	472,606
Total liabilities and net assets	785,133	780,678

(2) Consolidated Quarterly Income Statement and Consolidated Quarterly Comprehensive Income Statement
 (Consolidated Quarterly Income Statement)
 (Six Months Ended September 30, 2019)

(million yen)

	6 months ended September 30, 2018	6 months ended September 30, 2019
Net sales	342,029	308,364
Cost of sales	284,656	263,409
Gross profit	57,373	44,954
Selling, general and administrative expenses	43,332	42,790
Operating income	14,040	2,164
Non-operating income		
Dividend income	1,272	1,322
Share of profit of entities accounted for using equity method	2,320	2,290
Foreign exchange gains	222	—
Other	1,758	2,858
Total non-operating income	5,573	6,471
Non-operating expenses		
Interest expenses	1,380	1,485
Foreign exchange losses	—	2,582
Other	197	486
Total non-operating expenses	1,577	4,554
Ordinary income	18,036	4,081
Extraordinary income		
Gain on sales of noncurrent assets	115	131
Gain on sales of investment securities	32	376
Other	14	—
Total extraordinary income	162	508
Extraordinary loss		
Loss on retirement of noncurrent assets	1,943	468
Other	66	17
Total extraordinary loss	2,009	486
Income before income taxes	16,189	4,104
Income taxes	4,879	2,512
Net income	11,309	1,591
Profit attributable to non-controlling interests	1,659	221
Profit attributable to owners of parent	9,650	1,370

(Consolidated Quarterly Comprehensive Income Statement)
 (Six Months Ended September 30, 2019)

(million yen)

	6 months ended September 30, 2018	6 months ended September 30, 2019
Net income	11,309	1,591
Other comprehensive income		
Valuation difference on available-for-sale securities	1,629	(2,385)
Foreign currency translation adjustment	3,054	(7,236)
Remeasurements of defined benefit plans, net of tax	1,747	1,809
Share of other comprehensive income of entities accounted for using equity method	282	(1,820)
Total other comprehensive income	6,713	(9,633)
Comprehensive income	18,023	(8,041)
(Detail)		
Comprehensive income attributable to owners of parent	16,425	(7,242)
Comprehensive income attributable to non-controlling interests	1,598	(798)

(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.

(Change in Accounting Policy)

(Adoption of IFRS 16 "Leases")

Some of the consolidated subsidiaries that adopt IFRS have adopted IFRS 16 since the beginning of the first quarter of the current consolidated fiscal year. Due to this, the borrower has booked all leases under assets and liabilities on the consolidated quarterly balance sheet, as a rule. The impact of the adoption of said accounting standards on consolidated quarterly financial statements is minor.

(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 before income taxes for the consolidated fiscal year including the current second-quarter period, and multiplying income before income taxes for the current second-quarter period by the estimated effective tax rate.

(Segment Information)

[Segment Information]

I Six Months Ended September 30, 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	171,873	154,283	10,398	5,474	342,029	–	342,029
Inter-segment sales/transfers	989	24	0	219	1,234	[1,234]	–
Total	172,863	154,307	10,398	5,694	343,263	[1,234]	342,029
Segment income (loss)	18,363	(5,088)	52	708	14,036	4	14,040

Notes: 1. The amount of 4 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.

2. Information regarding impairment losses of noncurrent assets or goodwill, etc. by reportable segment

(Significant changes in the amount of goodwill)

While the Company had adopted a provisional accounting treatment for the business combination with Nitto Denko (Suzhou) Co., Ltd. on May 9, 2018 in the three-month period ended June 30, 2018, the accounting treatment was finalized in the six-month period ended September 30, 2018. As a result, the amount of goodwill increased by 1,338 million yen in the electronic product business segment.

II Six Months Ended September 30, 2019

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	161,885	132,332	9,538	4,608	308,364	–	308,364
Inter-segment sales/transfers	846	11	–	233	1,091	[1,091]	–
Total	162,731	132,344	9,538	4,841	309,455	[1,091]	308,364
Segment income (loss)	11,572	(9,779)	(134)	473	2,131	33	2,164

Notes: 1. The amount of 33 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.