

Osaka Soda Co., Ltd.
CONSOLIDATED FINANCIAL RESULTS
For the quarterly period ended September 30, 2016
(Prepared under Japan GAAP, unaudited)

Company name: Osaka Soda Co.,Ltd. Stock Exchange Listing: Tokyo
Securities code: 4046 URL: <http://www.osaka-soda.co.jp>
Representative: Tamotsu Sato, Representative Director, Chief Executive Officer
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Scheduled date of filing of quarterly report: November 8, 2016
Scheduled date of commencement of dividend payment: December 6, 2016
Supplementary materials prepared for the quarterly financial results: Yes
Quarterly financial results briefings: Yes (for institutional investors and investment analysts)

1. Consolidated Financial Results

(Amounts are rounded down to the nearest million yen)

(1) Results of Operations

	Six Months Ended			
	September 30, 2016		September 30, 2015	
	Millions of yen	Change *	Millions of yen	Change *
Net sales	45,917	(8.8)%	50,347	2.9%
Operating income	3,248	5.5%	3,080	30.5%
Ordinary income	2,600	(20.1)%	3,255	23.1%
Net income	1,764	(10.8)%	1,977	25.6%
Comprehensive income	1,178	10.7%	1,064	(60.9)%

Note: Percent changes for six months are year-on-year comparisons.

Net income per share (Yen)	16.75	18.77
Diluted net income per share (Yen)	13.90	15.59

(2) Financial Condition

	September 30, 2016		March 31, 2016	
	Millions of yen	Ratio	Millions of yen	Ratio
Total assets	95,367	—	97,027	—
Net assets	48,946	—	48,296	—
Equity	48,946	—	48,296	—
Equity ratio	—	51.3%	—	49.8%

2. Dividends

	Year ending Mar. 31, 2017 (Forecast)	Year ending Mar. 31, 2017	Year ended Mar. 31, 2016
End of first quarter		—	—
End of second quarter		5.00	5.00
End of third quarter	—		—
End of fourth quarter	5.00		5.00
Full year	10.00		10.00

3. Earnings Forecast for the fiscal year ending March 31, 2017

	Full-year	
	Millions of yen	Change*
Net sales	103,000	0.9%
Operating income	6,500	0.9%
Ordinary income	6,800	5.6%
Net income	4,300	19.2%

Note: Percent changes are year-on-year comparisons.

Earnings per share (Yen)	40.82
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* Notes

- (1) Changes in significant subsidiaries during the period (Changes in specified subsidiaries resulting in the change in scope of consolidation): None
- (2) Application of accounting methods used specifically for the preparation of quarterly consolidated financial statements: None
- (3) Changes in accounting policies, accounting estimates and restatements of revisions
 - 1) Changes in accounting policies due to revisions of accounting standards, etc.: None
 - 2) Changes in accounting policies other than 1: None
 - 3) Changes in accounting estimates: None
 - 4) Restatement of revisions: None
- (4) Number of outstanding shares (common stock)
 - 1) Number of shares outstanding at the end of the period (including treasury shares)

As of September 30, 2016:	111,771,671	shares
As of March 31, 2016:	111,771,671	shares
 - 2) Number of treasury shares at the end of period

As of September 30, 2016:	6,422,875	shares
As of March 31, 2016:	6,419,632	shares
 - 3) Average number of shares outstanding in each period

Six months ended September 30, 2016:	105,350,785	shares
Six months ended September 30, 2015:	105,358,111	shares

* Status of quarterly review procedure:

This quarterly financial results are not subject to the quarterly review procedure in accordance with the Financial Instruments and Exchange Act. The quarterly review procedure of consolidated financial statements has not been completed at the time of disclosure.

*Appropriate use of financial forecasts, other special notes

This material contains forward-looking statements such as earnings forecast about Osaka Soda Co., Ltd. and its group companies ("Osaka Soda Group"). These forward-looking statements are based on the current assumptions and beliefs of Osaka Soda Group in light of the information currently available to it, and contain known and unknown risks, uncertainties and other factors. Osaka Soda Group therefore wishes to caution readers that actual results could be materially different from any future results.

DISCLAIMER:

This is an English translation of the original Japanese document and is prepared for reference. Should there be any inconsistency between the translation and the Japanese original, the latter shall prevail.

4. QUALITATIVE INFORMATION

(1) Results of Operations

During the six months ended September 30, 2016, Japan's economy has continued to recover moderately as a trend against the background of steady improvement in the employment and income situation, although the outlook has remained uncertain due to down side risks in corporate profits by rapid changes in foreign exchange and the effects of the slowdown in Asia's emerging countries including China and resource-rich countries.

Under the circumstance, net sales were ¥45,917 million, affecting by foreign exchange fluctuations, a decrease of 8.8% compared to the same period of fiscal 2015.

Operating income was ¥3,248 million, reflecting business expansion of Functional Chemical Products, an increase of 5.5% compared to the same period of fiscal 2015.

Ordinary income was ¥2,600 million, due to the impact of foreign currency translation loss, a decrease of 20.1% compared to the same period of fiscal 2015.

Net income attributable to owners of parent was ¥1,764 million, a decrease of 10.8% compared to the same period of fiscal 2015.

Osaka Soda Group has been built the profitable structure that cannot be easily affected by global environmental changes, expanding high value added business centering on Functional Chemical Products such as health-care related business, synthetic resin and synthetic rubber, increasing competitiveness by cost down in Chlor-Alkali, Allyl Chloride and Epichlorohydrin. As a result, Operating income increased in comparison with the same period of fiscal 2015. Significantly, profitability in Functional Chemical Products has been strengthened, net sales increased 0.2% compared to the same period of fiscal 2015, operating income increased 10.7% compared to the same period of fiscal 2015, responding to changes of business environment.

Basic Chemical Products

In *Chlor-Alkali*, net sales decreased due to the effect of weak market conditions.

In *Epichlorohydrin*, net sales decreased due to foreign exchange fluctuations despite continued steady export sales.

As a result, net sales in Basic Chemical Products were ¥19,902 million, a decrease of 9.2% compared to the same period of fiscal 2015.

Functional Chemical Products

In *Separation Media in Pharmaceutical Industry (Silica Gel for Liquid Chromatography)*, net sales increased due to continued steady sales to China and domestic market as well as an increase of sales to Europe in peptide drugs purification.

In *Active Pharmaceutical Ingredients and their Intermediates*, net sales increased due to continued steady sales in "Active pharmaceutical ingredients for drugs to improve blood circulation" and "Intermediates for anti-viral drugs" as well as pharmaceutical contract manufacturing.

In *Diallyl Phthalate Resin*, net sales increased due to continued steady sales to Europe and domestic market in printing inks.

In *Allyl Ethers*, net sales increased due to continued steady export sales to China and Europe.

In *Epichlorohydrin Rubber*, net sales decreased unit sales price down by foreign exchange fluctuations despite sales volume increase due to steady export sales to Asian countries including China.

As a result, net sales in Functional Chemical Products were ¥18,313 million, an increase of 0.2% compared to the same period of fiscal 2015.

Housing Facilities and Others

Net sales in housing facilities and others were ¥7,700 million, a decrease of 24.1% compared to the same period of fiscal 2015 due to sluggish in *DAP Decorative Laminate* and *Household Materials and Components*.

(2) Financial Condition

Assets

Current assets were ¥56,283 million, a decrease of 1.5% since March 31, 2016. The decrease was due primarily to a decrease of ¥971 million in *notes and accounts receivable-trade*, a decrease of ¥809 million in *merchandise and finished goods*, an increase of ¥500 million in *short term investment securities* and an increase of ¥375 million in *cash and deposits*.

Noncurrent assets were ¥39,083 million, a decrease of 2.0% since March 31, 2016. The decrease was due primarily to a decrease of ¥621 million in *investment securities*.

As a result, **Total assets** were ¥95,367 million as of September 30, 2016, a decrease of 1.7% since March 31, 2016.

Liabilities

Current liabilities were ¥29,995 million, a decrease of 2.2% since March 31, 2016. The decrease was due primarily to a decrease of ¥602 million in *income taxes payable*.

Noncurrent liabilities were ¥16,425 million, a decrease of 9.1% since March 31, 2016. The decrease was due primarily to a decrease of ¥1,200 million in *long term loans payable*.

As a result, **Total liabilities** were ¥46,421 million as of September 30, 2016, a decrease of 4.7% since March 31, 2016.

Net assets

Net assets were ¥48,946 million as of September 30, 2016, an increase of 1.3% since March 31, 2016.

(3) Cash Flows

As of September 30, 2016, cash and cash equivalents were ¥19,912 million, an increase of ¥876 million compared with those as of March 31, 2016.

Cash flows from operating activities

Net cash provided by operating activities totaled ¥5,138 million, due primarily to ¥2,338 million in *income before income taxes* and ¥1,440 million in *depreciation*, a decrease of ¥934 million in *notes and accounts receivable-trade*.

Cash flows from investing activities

Net cash used in investing activities totaled ¥1,769 million, due primarily to payments of ¥1,175 million for purchase of *property, plant, and equipment*.

Cash flows from financing activities

Net cash used in financing activities amounted to ¥1,747 million, due primarily to repayments of ¥1,220 million of *long term loans payable*.

(4) Earnings Forecast

There are no revisions to the earnings forecast from the previous forecast announced in the "Consolidated financial results for the year ended March 31, 2016" dated May 10, 2016.

5. OTHER INFORMATION

Additional information

Effective from the three months ended June 30, 2016, Osaka Soda Group adopted the "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (Accounting Standards Board of Japan Implementation Guidance No.26, issued on March 28, 2016).

6. CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED BALANCE SHEETS

(Millions of yen)

	March 31, 2016	September 30, 2016
	<u> </u>	<u> </u>
Assets		
Current assets		
Cash and deposits	12,037	12,412
Notes and accounts receivable-trade	27,730	26,759
Short term investment securities	6,999	7,499
Merchandise and finished goods	6,163	5,353
Work in process	1,107	1,291
Raw materials and supplies	1,847	1,913
Other current assets	1,252	1,055
Less: Allowance for doubtful accounts	(1)	(2)
Total current assets	<u>57,137</u>	<u>56,283</u>
Noncurrent assets		
Property, plant, and equipment		
Property, plant, and equipment - Net	11,098	11,016
Other - Net	9,259	9,261
Total property, plant and equipment	<u>20,357</u>	<u>20,277</u>
Intangible assets		
Goodwill	923	846
Other	269	325
Total intangible assets	<u>1,192</u>	<u>1,171</u>
Investments and other assets		
Investment securities	17,154	16,532
Other	1,764	1,665
Less: Allowance for doubtful accounts	(578)	(563)
Total investment and other assets	<u>18,339</u>	<u>17,634</u>
Total noncurrent assets	<u>39,890</u>	<u>39,083</u>
Total assets	<u>97,027</u>	<u>95,367</u>

CONSOLIDATED BALANCE SHEETS *(Continued)*
(Millions of yen)

	March 31, 2016	September 30, 2016
Liabilities		
<i>Current liabilities</i>		
Notes and accounts payable- trade	12,993	13,061
Short term loans payable	8,880	8,880
Current portion of long term loans payable	2,440	2,420
Income taxes payable	1,338	736
Provision for bonuses	709	724
Other current liabilities	4,307	4,173
Total current liabilities	<u>30,669</u>	<u>29,995</u>
<i>Noncurrent liabilities</i>		
Bonds with subscription rights to shares	10,000	10,000
Long term loans payable	2,960	1,760
Provision for directors retirement benefits	533	529
Net defined benefit liability	3,063	3,064
Other noncurrent liabilities	1,505	1,071
Total noncurrent liabilities	<u>18,062</u>	<u>16,425</u>
Total liabilities	<u>48,731</u>	<u>46,421</u>
Net assets		
<i>Shareholders' equity</i>		
Capital stock	10,882	10,882
Capital surplus	9,399	9,399
Retained earnings	24,697	25,934
Treasury stock	(1,666)	(1,668)
Total shareholders' equity	<u>43,312</u>	<u>44,548</u>
<i>Accumulated other comprehensive income</i>		
Unrealized gain on available-for-sale securities	5,500	4,895
Deferred gains or losses on hedges	(82)	(41)
Foreign currency translation adjustments	45	(6)
Re-measurements of defined benefit plans	(479)	(449)
Total accumulated other comprehensive income	<u>4,983</u>	<u>4,397</u>
Total net assets	<u>48,296</u>	<u>48,946</u>
Total net assets and liabilities	<u>97,027</u>	<u>95,367</u>

CONSOLIDATED STATEMENTS OF INCOME

(Millions of yen)

	Six Months Ended	
	September 30, 2015	September 30, 2016
Net sales	50,347	45,917
Cost of sales	41,859	36,837
Gross profit	8,488	9,079
Selling, general, and administrative expenses	5,408	5,831
Operating income	3,080	3,248
<i>Non-operating income</i>		
Interest income	17	15
Dividend income	179	193
Foreign exchange gain	5	—
Other	29	41
Total non-operating income	232	250
<i>Non-operating expenses</i>		
Interest expenses	49	34
Foreign exchange loss	—	845
Other	7	18
Total non-operating expenses	56	898
Ordinary income	3,255	2,600
<i>Extraordinary income</i>		
Gain on sales of investment securities	18	—
Total extraordinary income	18	—
<i>Extraordinary loss</i>		
Loss on retirement of noncurrent assets	172	262
Commemorative activities expense	149	—
Total extraordinary loss	322	262
Income before income taxes	2,952	2,338
Income taxes - current	904	673
Income taxes - deferred	70	(100)
Total income taxes	974	573
Net income	1,977	1,764
Net income attributable to non-controlling interests	—	—
Net income attributable to owners of parent	1,977	1,764

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Millions of yen)

	<u>Six Months Ended</u>	
	September 30, 2015	September 30, 2016
Net income	1,977	1,764
Other comprehensive income		
Unrealized gain on available-for-sale securities	(908)	(605)
Deferred gains or losses on hedges	(22)	40
Foreign currency translation adjustments	6	(51)
Re-measurements of defined benefit plans	11	29
Total	(913)	(586)
Comprehensive income	1,064	1,178
Comprehensive income attributable to:		
Owners of parent	1,064	1,178
Minority interests	—	—

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Millions of yen)

	<u>Six Months Ended</u>	
	<u>September 30,</u> 2015	<u>September 30,</u> 2016
Cash flows from operating activities		
Income (loss) before income taxes	2,952	2,338
Depreciation	1,438	1,440
Amortization of goodwill	66	77
Increase (decrease) in allowance for doubtful accounts	(3)	(13)
Increase (decrease) in provision for bonuses	(22)	15
Increase (decrease) in provision for directors' retirement benefits	(101)	(3)
Increase (decrease) in allowance for retirement benefits for employees	5	1
Interest and dividend income	(196)	(208)
Interest expenses	49	34
Foreign exchange losses (gains)	(13)	678
Loss on retirement of non-current assets	172	262
Decrease (increase) in notes and accounts receivable-trade	(193)	934
Decrease (increase) in inventories	(948)	552
Increase (decrease) in notes and accounts payable-trade	(1,220)	210
Other, net	(201)	(98)
Subtotal	<u>1,782</u>	<u>6,220</u>
Interest and dividend income received	196	208
Interest expenses paid	(49)	(35)
Income taxes paid	(860)	(1,254)
Net cash provided by (used in) operating activities	<u>1,068</u>	<u>5,138</u>

CONSOLIDATED STATEMENTS OF CASH FLOWS *(Continued)*

(Millions of yen)

	<u>Six Months Ended</u>	
	<u>September 30,</u> <u>2015</u>	<u>September 30,</u> <u>2016</u>
Cash flows from investing activities		
Purchase of property, plant and equipment	(620)	(1,175)
Purchase of intangible assets	(36)	(97)
Purchase of investment securities	(8)	(252)
Other, net	(126)	(244)
Net cash provided by (used in) investing activities	<u>(791)</u>	<u>(1,769)</u>
Cash flows from financing activities		
Repayments of long-term loans payable	(1,240)	(1,220)
Cash dividends paid	(421)	(525)
Other, net	(2)	(1)
Net cash provided by (used in) financing activities	<u>(1,663)</u>	<u>(1,747)</u>
Effect of exchange rate change on cash and cash equivalents	15	(745)
Net increase (decrease) in cash and cash equivalents	<u>(1,371)</u>	<u>876</u>
Cash and cash equivalents	20,095	19,036
Increase in cash and cash equivalents from newly consolidated subsidiary	301	—
Cash and cash equivalents	<u>19,025</u>	<u>19,912</u>

7. Notes to the Consolidated Financial Statements

(1) Notes regarding the going concern assumption

None

(2) Notes regarding significant changes in the amount of shareholders' equity

None

(3) Segment information

Six months ended September 30, 2015

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	21,923	12	21,935	607
Functional Chemical Products	18,282	1	18,283	2,856
Housing Facilities and Others	10,142	218	10,360	131
Total	50,347	232	50,579	3,595
Adjustments *1	—	(232)	(232)	(515)
Consolidated operating income *2	50,347	—	50,347	3,080

Notes 1: Adjustments of segment income of ¥(515) million are corporate expenses not allocated to reportable segments. Corporate expenses are mainly expenses not attributable to a reporting segment and related to fundamental research and development as well as administrative departments.

Notes 2: Segment Income is reconciled with consolidated operating income.

Six months ended September 30, 2016

(Millions of yen)

	Net sales			Segment income
	External sales	Intersegment sales or reclassifications	Total	
Basic Chemical Products	19,902	9	19,912	498
Functional Chemical Products	18,313	0	18,314	3,163
Housing Facilities and Others	7,700	694	8,395	55
Total	45,917	704	46,622	3,717
Adjustments *1	—	(704)	(704)	(468)
Consolidated operating income *2	45,917	—	45,917	3,248

Notes 1: Adjustments of segment income of ¥(468) million are corporate expenses not allocated to reportable segments. Corporate expenses are mainly expenses not attributable to a reporting segment and related to fundamental research and development as well as administrative departments.

Notes 2: Segment Income is reconciled with consolidated operating income.