

Financial Results for the 3rd Quarter of the Fiscal Year Ending March 31, 2019

February 7, 2019

Listed stock exchanges: Tokyo Stock Exchange

Company name: Unitika Ltd.

Code number: 3103

URL: <https://www.unitika.co.jp/e/home.htm>

Representative: Hiroyuki Shime, President and Chief Executive Officer

Contact: Masanori Onishi, General Manager of Accounting Department

TEL: +81-6-6281-5721

Expected submission of quarterly report: February 13, 2019

Expected commencement date for paying dividend: –

Preparation of supplementary explanation documents for quarterly financial results: No

Holding of an analyst meeting for quarterly financial results: No

(Figures rounded down to nearest million yen.)

1. Consolidated performance for 3rd quarter of fiscal year ending March 31, 2019 (April 1, 2018 to December 31, 2018)

(1) Consolidated performance (accumulation)

(Percentages represent changes from same period in previous year.)

	Net sales		Operating profit		Ordinary profit		Quarterly profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Q3 of FY ending March 31, 2019	95,694	0.5	6,393	(27.4)	5,507	(31.7)	4,574	(34.3)
Q3 of FY ended March 31, 2018	95,234	3.3	8,803	(4.5)	8,057	(3.9)	6,960	10.7

(Note) Comprehensive income Q3 of FY ending March 31, 2019: 3,973 million yen [(42.9%)]

Q3 of FY ended March 31, 2018: 6,964 million yen [33.4%]

	Quarterly net income per share	Diluted quarterly net income per share
	Yen	Yen
Q3 of FY ending March 31, 2019	74.14	46.12
Q3 of FY ended March 31, 2018	115.50	76.12

(Note) The Company implemented a 1-for-10 share consolidation effective as of October 1, 2017 by consolidating 10 common shares of the Company into one common share. *Quarterly net income per share* and *Diluted quarterly net income per share* were calculated on the assumption that the relevant share consolidation had been implemented at the beginning of the previous consolidated fiscal year.

(2) Consolidated financial situation

	Total assets	Net assets	Capital adequacy ratio
	Millions of yen	Millions of yen	%
Q3 of FY ending March 31, 2019	203,064	44,293	20.1
FY ended March 31, 2018	201,447	40,729	18.4

(Reference) Shareholders' equity 3rd quarter of fiscal year ending March 31, 2019: 40,782 million yen

Fiscal year ended March 31, 2018: 37,165 million yen

(Note) "Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) has been applied from the beginning of the first quarter of the current fiscal year. The change applies retroactively to the results for the previous fiscal year.

2. Dividend payment

	Dividends per share				
	End of Q1	End of Q2	End of Q3	Year end	Total
	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2018	—	0.00	—	0.00	0.00
FY ending March 31, 2019	—	0.00	—		
FY ending March 31, 2019 (forecast)				0.00	0.00

(Note) Revision of the latest dividend forecast: None

(Note) The above *Dividend payment* refers to dividends paid to the holders of common stock. For details of dividend payment to the holders of class shares (unlisted), the rights of which are different from those of common stock, please refer to *Dividend payment to the holders of class shares* mentioned below.

3. Forecast of consolidated performance for fiscal year ending March 31, 2019 (April 1, 2018 to March 31, 2019)

(Percentages represent changes from same period in previous year.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
FY ending March 31, 2019	131,500	2.4	10,500	(9.9)	9,000	(9.8)	6,500	(19.6)	107.15

(Note) Revision of the latest forecasts of operational results: None

* Notes

- (1) Changes in significant subsidiaries during the period (changes in specified subsidiaries accompanying change of scope of consolidation): Yes
New companies: — (company name)
Excluded companies: 2; (company name): UNITIKA EMBLEM CHINA LTD., UNITIKA NARIWA CO., LTD.
- (2) Adoption of special accounting methods for preparing quarterly consolidated financial statements: No
- (3) Changes in accounting policies, changes in accounting estimates and retrospective restatement
- ① Changes in accounting policies due to revisions of accounting standards: No
 - ② Changes of accounting policies other than the above: No
 - ③ Changes in accounting estimates: No
 - ④ Retrospective restatement: No
- (4) Number of shares outstanding (Common stock)
- ① Number of shares outstanding at end of term (including treasury stock):
3rd quarter of the fiscal year ending March 31, 2019: 57,752,343 shares
Fiscal year ended March 31, 2018: 57,752,343 shares
 - ② Number of treasury stocks at end of term
3rd quarter of the fiscal year ending March 31, 2019: 93,370 shares
Fiscal year ended March 31, 2018: 91,653 shares
 - ③ Average number of shares outstanding during the term (quarterly consolidated accumulated period)
3rd quarter of the fiscal year ending March 31, 2019: 57,659,543 shares
3rd quarter of the fiscal year ended March 31, 2018: 57,669,782 shares
(Note) The Company implemented a 1-for-10 share consolidation effective as of October 1, 2017 by consolidating 10 common shares of the Company into one common share. The *Average number of shares outstanding during the term* was calculated on the assumption that the relevant share consolidation had been implemented at the beginning of the previous consolidated fiscal year.

* This brief report of quarterly financial statements is not subject to audit procedures by a certified public accountant or an independent auditor.

* Explanation on appropriate use of forecasts of performance and other special items

The forward-looking statements in this document concerning forecasting of performance etc. are based on currently available information and assumptions considered by the company to be reasonable. Such statements are neither promises nor guarantees of future performance. The actual performance may be significantly different from forecasts due to various factors. Concerning assumptions used as a basis for forecasting business performance and precautionary statements when using the forecast of performance, please refer to 1. *Qualitative Information on Quarterly Results* (3) *Explanation of future forecast information including forecast of consolidated performance* on page 3 of the attachment.

Dividend payment to the holders of class shares

The breakdown of dividends per share related to class shares, the rights of which are different from those of common stock, is as follows:

	Annual dividends				
	End of Q1	End of Q2	End of Q3	Year end	Total
Class A share	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2018	—	0.00	—	12,000.00	12,000.00
FY ending March 31, 2019	—	0.00	—		
FY ending March 31, 2019 (forecast)				12,000.00	12,000.00
Class B share	Yen	Yen	Yen	Yen	Yen
FY ended March 31, 2018	—	0.00	—	23,740.00	23,740.00
FY ending March 31, 2019	—	0.00	—		
FY ending March 31, 2019 (forecast)				23,740.00	23,740.00

○ Table of contents for the attachment

1. Qualitative Information on Quarterly Results	2
(1) Explanation of operational results.....	2
(2) Explanation of financial situation	3
(3) Explanation of future forecast information including forecast of consolidated performance.....	3
2. Quarterly Consolidated Financial Statements and Major Notes to Consolidated Financial Statements.....	4
(1) Consolidated quarterly balance sheets	4
(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income	6
Consolidated quarterly statements of income Nine-month period ended December 31, 2018.....	6
Consolidated quarterly statements of comprehensive income Nine-month period ended December 31, 2018.....	7
(3) Notes on quarterly consolidated financial statements	8
(Notes on going concern assumption)	8
(Notes on significant changes in shareholders' equity)	8
(Additional information).....	8
(Segment information).....	9
(Significant subsequent events)	10

1. Qualitative Information on Quarterly Results

(1) Explanation of operational results

During the nine-month period of the consolidated accounting year under review, the Japanese economy continued to grow steadily against the backdrop of strong corporate earnings and an improvement in the employment environment. Looking overseas, the global economy as a whole remained solid, supported by the strong U.S. economy. However, the outlook for the global economy continued to be unclear, as concerns rose that economic activity in China and Europe would slow down, affecting the Japanese economy, while intensifying trade friction between the U.S. and China, growing geopolitical risks, and fluctuating natural resource prices led to a more unstable global situation.

Under these circumstances, the Unitika Group endeavored to realize the three *Gs* (*Growth, Global, and Governance*) promoted under the “*G*” round 20—to *The Next Stage*, its medium-term management plan. Consequently, the Group reported net sales of 95,694 million yen (up 0.5% year on year), operating profit of 6,393 million yen (down 27.4% year on year), ordinary profit of 5,507 million yen (down 31.7% year on year), and profit attributable to owners of parent of 4,574 million yen (down 34.3% year on year) in the nine-month period of the consolidated accounting year under review.

Here is an overview of the business results by segment.

[Polymers]

In the Films business, sales in the packaging sector continued to grow steadily, supported by an increase in demand, mainly for winter goods, owing to the robust domestic economy. Sales of high value-added products, such as *EMBLEM HG*, a barrier nylon film, also grew vigorously. Overseas, P.T.EMBLEM ASIA, a subsidiary, saw sales in Indonesia and exports grow strongly. In the industrial sector, demand was steady in the area of electric and electronics applications. Furthermore, sales of high value-added products such as *Uni-peel*, a silicon-free mold release PET film, were also robust.

In the Plastics business, demand for *elitel*, a thermoplastic saturated copolymeric polyester resin, and *ARROWBASE*, a range of environmentally friendly water-based polyolefin cationic emulsions, decreased for solar cell applications. The sales volume of *U-Polymer*, the Company’s original polyarylate resin, declined for information terminal applications due to the impact of inventory adjustment. Meanwhile, sales of nylon resins were steady for automobile applications.

In the Non-woven Fabrics business, demand for polyester spunbond fabrics, in general, continued to grow steadily in each application, including building materials, agriculture, and exports. THAI UNITIKA SPUNBOND CO., LTD. (TUSCO), a subsidiary in Thailand, saw sales of products manufactured by its existing machinery increase solidly, while it had consistently encouraged customers to adopt products manufactured by its new machinery at the stage of design. Sales of cotton spunlace grew strongly, supported by steady demand for skin care goods.

Accordingly, earnings in the Polymers business, as a whole, decreased mainly due to the unfavorable impact of rising costs, including soaring raw material and fuel prices.

Consequently, the Polymers business posted operating profit of 5,897 million yen (down 18.8% year on year) on net sales of 47,153 million yen (up 8.0% year on year).

[Advanced Materials]

In the Glass Fibers business, the industrial materials sector saw sales of products for building applications, such as incombustible sheets, grow steadily, but sales for environment and civil engineering applications were sluggish. In the electronic materials sector, sales of general-use IC cloth were weak since the slowing down of information terminal production became apparent, but high value-added products, such as super thin products, increased robustly.

In the Glass Beads business, sales for road marking applications were robust compared to an average year and sales for special applications among industrial applications grew steadily. Meanwhile, we had a tough sales environment for reflective material applications.

In the Activated Carbon Fibers business, sales for our mainstay water purifier applications and VOC removal applications continued to grow steadily, although sales for industrial filter applications remained sluggish.

Consequently, the Advanced Materials business posted operating profit of 891 million yen (down 4.7% year on year) on net sales of 9,526 million yen (up 1.7% year on year).

[Fibers and Textiles]

In the Industrial Materials business, sales of staple fibers were sluggish for daily product applications and exports, but sales of high value-added products, such as composite fibers, remained robust. Furthermore, sales of ultra-high-strength polyester filament yarns continued growing steadily, supported by strong demand for civil engineering and building applications. Meanwhile, soaring raw material and fuel prices weighed on the business, leading to a fall in profit.

In the Garments, Lifestyle Materials and Bedding business, sales in the uniform sector for corporate customers, a mainstay of this business, remained steady and sales of raw fibers for high-functional materials

also grew strongly. However, sales continued to be sluggish in the sports clothing sector. Furthermore, in the Overseas business, sales of denim remained weak.

Consequently, the Fibers and Textiles business posted an operating loss of 121 million yen (operating profit of 836 million yen in the previous year) on net sales of 37,841 million yen (down 3.6% year on year).

[Others]

The Others category posted an operating loss of 237 million yen (operating loss of 244 million yen in the same period of the previous consolidated fiscal year) on net sales of 1,173 million yen (down 59.9% year on year).

(2) Explanation of financial situation

Total assets increased by 1,617 million yen from the end of the previous consolidated year to 203,064 million yen, mainly due to an increase in property, plant and equipment. Liabilities fell by 1,946 million yen from the end of the previous consolidated year to 158,770 million yen, mainly due to a decrease in long-term loans payable. Net assets grew by 3,563 million yen from the end of the previous consolidated year to 44,293 million yen. This was mainly due to a rise in retained earnings caused by the posting of profit attributable to owners of parent.

(3) Explanation of future forecast information including forecast of consolidated performance

The Unitika Group did not revise its full-year forecast of consolidated performance for the fiscal year ending March 31, 2019 announced on November 8, 2018.

2. Quarterly Consolidated Financial Statements and Major Notes to Consolidated Financial Statements

(1) Consolidated quarterly balance sheets

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2018)	Q3 of FY ending March 2019 (December 31, 2018)
Assets		
Current assets		
Cash and deposits	26,395	25,156
Notes and accounts receivable-trade	36,552	35,523
Inventories	27,202	30,726
Other	2,899	2,567
Allowance for doubtful accounts	(84)	(63)
Total current assets	92,965	93,910
Non-current assets		
Property, plant and equipment		
Machinery, equipment and vehicles, net	23,081	22,810
Land	65,071	65,648
Other, net	13,502	14,483
Total property, plant and equipment	101,654	102,942
Intangible assets		
Other	2,139	1,967
Total intangible assets	2,139	1,967
Investments and other assets		
Other	4,707	4,282
Allowance for doubtful accounts	(20)	(38)
Total investments and other assets	4,686	4,244
Total non-current assets	108,481	109,154
Total assets	201,447	203,064

(Unit: Millions of yen)

	Previous consolidated fiscal year (March 31, 2018)	Q3 of FY ending March 2019 (December 31, 2018)
Liabilities		
Current liabilities		
Notes and accounts payable-trade	18,968	19,116
Short-term loans payable	2,450	2,440
Current portion of long-term loans payable	2,720	2,703
Income taxes payable	676	176
Provision for bonuses	1,576	895
A product repair reserve fund	704	265
Provision for business structure improvement	20	—
Other	8,567	9,561
Total current liabilities	35,685	35,158
Non-current liabilities		
Long-term loans payable	100,081	98,106
Provision for directors' retirement benefits	4	4
Net defined benefit liability	12,218	12,804
Other	12,727	12,696
Total non-current liabilities	125,031	123,611
Total liabilities	160,717	158,770
Net assets		
Shareholders' equity		
Capital stock	100	100
Capital surplus	16,451	16,487
Retained earnings	19,201	23,378
Treasury shares	(55)	(56)
Total shareholders' equity	35,698	39,910
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	491	310
Deferred gains or losses on hedges	(2)	(29)
Revaluation reserve for land	6,415	6,415
Foreign currency translation adjustment	(2,793)	(3,449)
Remeasurements of defined benefit plans	(2,644)	(2,376)
Total accumulated other comprehensive income	1,467	871
Non-controlling interests	3,564	3,511
Total net assets	40,729	44,293
Total liabilities and net assets	201,447	203,064

(2) Consolidated quarterly statements of income and consolidated quarterly statements of comprehensive income
 (Consolidated quarterly statements of income)
 (Nine-month period ended December 31, 2018)

(Unit: Millions of yen)

	Nine-month period ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine-month period ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Net sales	95,234	95,694
Cost of sales	71,318	73,387
Gross profit	23,916	22,307
Selling, general and administrative expenses	15,112	15,913
Operating profit	8,803	6,393
Non-operating income		
Interest income	47	31
Dividend income	72	70
Foreign exchange gains	249	55
Share of profit of entities accounted for using equity method	—	27
Rent income	109	97
Other	360	191
Total non-operating income	838	474
Non-operating expenses		
Interest expenses	1,021	920
Share of loss of entities accounted for using equity method	31	—
Other	530	440
Total non-operating expenses	1,584	1,361
Ordinary profit	8,057	5,507
Extraordinary income		
Gain on sales of non-current assets	759	19
Gain on liquidation of subsidiaries and associates	—	398
Total extraordinary income	759	418
Extraordinary losses		
Loss on disposal of non-current assets	265	460
Business structure improvement expenses	73	—
Other	1	—
Total extraordinary losses	340	460
Profit before income taxes	8,476	5,465
Income taxes-current	755	601
Income taxes-deferred	715	281
Total income taxes	1,470	883
Profit	7,005	4,582
Profit attributable to non-controlling interests	45	7
Profit attributable to owners of parent	6,960	4,574

(Consolidated quarterly statements of comprehensive income)

(Nine-month period ended December 31, 2018)

(Unit: Millions of yen)

	Nine-month period ended December 31, 2017 (April 1, 2017 to December 31, 2017)	Nine-month period ended December 31, 2018 (April 1, 2018 to December 31, 2018)
Profit	7,005	4,582
Other comprehensive income		
Valuation difference on available-for-sale securities	70	(180)
Deferred gains or losses on hedges	(5)	(32)
Foreign currency translation adjustment	(363)	(663)
Remeasurements of defined benefit plans, net of tax	256	267
Total other comprehensive income	(41)	(608)
Comprehensive income	6,964	3,973
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	6,981	3,978
Comprehensive income attributable to non-controlling interests	(17)	(4)

(3) Notes on quarterly consolidated financial statements

(Notes on going concern assumption)

Not applicable

(Notes on significant changes in shareholders' equity)

Not applicable

(Additional information)

(Application of "Partial Amendments to Accounting Standard for Tax Effect Accounting")

"Partial Amendments to Accounting Standard for Tax Effect Accounting" (Accounting Standards Board of Japan (ASBJ) Statement No. 28, February 16, 2018) has been applied from the beginning of the first quarter of the current fiscal year. Accordingly, deferred tax assets have been classified as investments and other assets, and deferred tax liabilities have been classified as non-current liabilities.

(Partial acquisition and retirement of Class B shares)

UNITIKA LTD. resolved at the meeting of the Board of Directors held on November 8, 2018 to acquire part of the Class B shares issued by the Company (worth 3,200 million yen) in exchange for cash payment in accordance with the provision of Article 13-3, Item 6 of the Company's Articles of Incorporation (Call Options, the Consideration for Which Is Money) and to retire the same in accordance with the provision of Article 178 of the Companies Act subject to the said acquisition.

(1) Reasons for the acquisition

Considering the consolidated performance for the fiscal year ended March 31, 2018 and the progress of consolidated performance for the fiscal year ending March 31, 2019, the Board of Directors has judged it appropriate for the Company to begin redeeming Class B shares by using current net assets and cash and deposits as soon as possible. Therefore, the Company has decided to acquire and retire part of Class B shares. The action is designed to eliminate potential medium-and long-term financial problems, such as the burden of future dividend payments for Class B shares, dilution of common shares, and outflow of large sums at an unexpected time.

(2) Details of acquisition of Class B shares

(i) Class of shares to be acquired: Class B shares

(ii) Counterparties in the acquisition (shareholders): Mizuho Bank, Ltd., Mitsubishi UFJ Trust and Banking Corporation

(iii) Total number of shares to be acquired: 3,200 shares

(Note) Regarding the above 3,200 shares, the number of shares to be acquired from each shareholder shall be proportionally calculated in accordance with the Company's Articles of Incorporation. Accordingly, the Company will acquire 2,020 shares from Mizuho Bank, Ltd. and 1,180 shares from Mitsubishi UFJ Trust and Banking Corporation.

(iv) Share acquisition value: 1,021,723.7 yen per share

(Note) The above share acquisition value is calculated by adding the unpaid preferred dividend on a per diem basis (21,723.7 yen) to the amount to be paid per Class B share (1,000,000 yen).

(v) Total share acquisition value: 3,269,515,840 yen

(vi) Acquisition date: February 28, 2019

(3) Details of retirement of Class B shares

(i) Class of shares to be retired: Class B shares

(ii) Total number of shares to be retired: 3,200 shares

(iii) Effective date of retirement: February 28, 2019

The retirement of Class B shares is subject to the acquisition of the shares by the Company as mentioned in (2) above.

(Segment information)

[Segment Information]

I. Nine-month period ended December 31, 2017 (April 1, 2017 to December 31, 2017)

1. Information on net sales, income or loss by reportable segment

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount posted in Consolidated quarterly statements of income (Note 3)
	Polymers	Advanced Materials	Fibers & Textiles	Total				
Net sales								
Net sales to outside customers	43,672	9,367	39,270	92,310	2,924	95,234	—	95,234
Inter-segment sales or transfers	7,096	691	605	8,393	883	9,276	(9,276)	—
Total	50,769	10,058	39,875	100,703	3,807	104,511	(9,276)	95,234
Segment income (loss)	7,262	935	836	9,033	(244)	8,789	13	8,803

(Notes) 1. The *Other* segment includes business segments that are not included in the reporting segments, such as the design, construction, and maintenance businesses of plant projects.

2. Adjustment of *Segment income (loss)* is attributable to the elimination of inter-segment transactions.

3. *Segment income (loss)* is adjusted with operating profit in quarterly consolidated statements of income.

II. Nine-month period ended December 31, 2018 (April 1, 2018 to December 31, 2018)

1. Information on net sales, income or loss by reportable segment

(Unit: Millions of yen)

	Reportable segment				Other (Note 1)	Total	Adjustment (Note 2)	Amount posted in Consolidated quarterly statements of income (Note 3)
	Polymers	Advanced Materials	Fibers & Textiles	Total				
Net sales								
Net sales to outside customers	47,153	9,526	37,841	94,521	1,173	95,694	—	95,694
Inter-segment sales or transfers	7,000	643	387	8,031	914	8,946	(8,946)	—
Total	54,154	10,170	38,228	102,553	2,087	104,641	(8,946)	95,694
Segment income (loss)	5,897	891	(121)	6,666	(237)	6,429	(35)	6,393

(Notes) 1. The *Other* segment includes business segments that are not included in the reporting segments, such as the design, construction, and maintenance businesses of plant projects.

2. Adjustment of *Segment income (loss)* is attributable to the elimination of inter-segment transactions.

3. *Segment income (loss)* is adjusted with operating profit in consolidated statements of income.

(Significant subsequent events)

(Occurrence of fire at the Uji Plant)

On January 8, 2019, a fire broke out at the Uji Plant, burning 450 square meters, part of the polymerization facilities. As a result, the operation of the nylon polymerization facilities has been suspended. The Company has been investigating to discover the cause of the fire and has been repairing the facilities to resume production at an early stage.

Although inventory and noncurrent assets of the Uji Plant are covered by fire insurance policies, the Company has difficulty in reasonably estimating the impact on its consolidated earnings for the fiscal year ending March 31, 2019, since it will take a considerable time for the Company to determine the amount of loss and the insurance money to be received.

(Production shutdown at a consolidated overseas subsidiary)

In accordance with a resolution made at a meeting of the Board of Directors of the Company held on November 26, 2018, UNITIKA DO BRASIL INDUSTRIA TEXTIL LIMITADA (“Unitika Brazil”), a consolidated overseas subsidiary of the Company, shut down the production of cotton and synthetic fiber spun yarns on December 29, 2018. The Company estimates that the cost for the production shut down will be around 300 million yen.

Furthermore, the book closing date of Unitika Brazil is different from the consolidated book closing date of the Company. For the nine-month period of the consolidated accounting year under review, the financial statements of Unitika Brazil for the period ended on September 30, 2018 have been consolidated. Therefore, such matter is noted as a significant subsequent event.