

Report of Operations

Consolidated results of operations Progress and outcomes of operations

We are pleased to report results of the operations for the 48th term (the period from April 1st in 2017 to March 31st in 2018)

In the beginning of the fiscal year, although outlook of global economies was unpredictable, overall these continued to regain momentum during the period. The US economic recovery continued based on improvement in employment environment and growth in personal consumption and capital investment, which were accelerated by tax reduction stimulus. Europe remained in a mild economic recovery driven by solid domestic demand, improvement in employment and export growth. China grew its GDP as planned as 6.9% by both firm domestic demand and growth in export by in virtue of government policies. ASEAN 5's GDP grew by 5.7% based on economy recoveries across the region. As to developing countries, the economies were in a good shape although the growth rates declined slightly, where India kept a GDP growth of 6% range for instance.

As for Japan the economies recovered during this period, which was driven by growth in export, capital investment and industrial production, and robust personal consumption, in fact Nikkei stock average reached once JPY24,000 range. Favorable financial results gained by many Japanese companies and shortage of workers are driving gradual wage increases.

Under such a circumstance, a new 5-year plan towards 2021 was put in place and executed as a part of the medium-term management program "CREATE NEXT ARB2026". In February, ARBROWN INDIA TRADING Pvt. Ltd. was established with the aim to make a step change to become real "Asia AR Brown".

AR Brown's FY2017 financials were JPY10,236 million in sales, JPY428 million in operating income and JPY456 million in ordinary income, which were 1.2% increase thanks to Electronics Materials business growth, 12.7% decline due to people addition and HQs' relocation cost, 8.4% increase thanks to foreign exchange gain etc. compared to the previous fiscal year respectively.

Including AR BROWN (Shanghai) Co., Ltd., AR BROWN (THAILAND) Co., Ltd. and Brown Technologies Co., Ltd., the consolidated financials were JPY11,278 million in sales, which were a growth of 5.2% compared to the previous fiscal year. This was brought by a huge growth of 52.7% and 48.0% in sales delivered by the China and Thailand legal entities. As a result, the consolidated operating income and ordinary income resulted in JPY778 million and JPY724 million respectively, which delivered a growth of 9.3% and 35.1% versus the previous fiscal year respectively.

The upcoming 49th term should be the period to get the India legal entity on track so that the group can become real "Asia AR Brown" making it possible for all the legal entities to increase intercompany trades where key success factor should be to take challenges ourselves keeping "Adventurer spirit" in mind.

Overview of each of the businesses in this period

—— Consolidated basis ——

Electronics Materials Business

All the legal entities (AR Brown, AR Brown(Shanghai) and AR Brown(Thailand))' sales and profits grew where consolidated sales and profit resulted in a growth of 16.3% and 19.2% respectively. As for Automotive Electronics segment, Japan and Korea kept growing. In China in addition to business with Japanese and Korean customers, an European customer started to be served. As to Home Appliance & IT segment, China and Thailand grew significantly based on a substantial volume increase in Home Appliance sector. In Japan a server application lifted its segment sales. Regarding Electronics Chemical segment, thermally conductive fillers, that had started to be dealt in from the previous year, were qualified by a few Japanese plastics manufacturers, which made it clear that the fillers should have a strong fit to the market. NECSIM Co., Ltd., which AR Brown had invested and gained 50% of the equity in the previous year, did not deliver a big success but several big projects with several Korean customers and a Japanese customer are running.

Performance Chemical Business

Both sales and profit were almost even to the previous year with a negative growth of 2.1% and 0.5%. Paint & Ink segment struggled due to JPY depreciation and price increases for some of the main products, which lasted until the calendar year end. Adhesive segment was steady through the period, in the 2nd half Tire segment and Chemical Intermediate segment recovered significantly. Personal care & Household care segment contributed based on several new customers gained with new products that started to be dealt in in this period. As for Thailand, both Tire and Biocide businesses grew nicely.

Fine Chemical Business

Sales and profit declined by 2.3% and 8.5% respectively. New Medicine sector grew based on a success in Bio-medicine intermediate CNI business while Generic Medicine sector showed steady progress represented by a success in Anticancer agent. Livestock food inspection segment grew nicely and at the fiscal year end, next generation of Milk-checker and SCC DUNK which is milking cow's mastitis medical treatment agent were finally launched. Aerospace & Aviation segment resulted in a negative growth.

Life Science Business

Sales grew by 4.3% while profit declined by 8.2%. As for Bioresearch segment, a product family experienced a quality problem which prevented its sales promotion activities from being active while Sterilization segment grew by a double digit through business with pharmaceutical customers serving their QC processes professionally. Livestock Breeding and IVF (In Vitro Fertilization) segment grew significantly. In December 2017 an IVF seminar & workshop was organized by Brown Technologies having several experts presented where many participants showed great interests. Nano-membrane segment struggled due to difficulties in new membrane development at a key customer.

Test & Measurement Business

Consolidated sales and profit resulted in decline of 13.8% and 19.1% respectively. Having said this, ADAS (Advanced Driver Assistance System) related business in Automotive segment took a good shape although it did not exceed the previous period's outstanding result. The China ADAS related business, which had started from middle of the previous period, took off delivering its system and dummies to a few customers where the business has become ready to deliver a further success next year. As for Tire sector in Automotive segment increased product offerings. Aerospace & Aviation segment was steady driven by acceleration sensor business. In Electronics segment, Power Semiconductor sockets were delivered newly to Power Electronics customer while development of Thermo-Streamer delayed significantly although it finally completed just before the year end.

Sales Development Business

ESA (Combustion Efficiency Improvement Equipment for Gasses and Oils) conducted series of field tests to see how each of parameters would impact on the efficiency improvement. As a result, firmer promotion basis was built from technical stand point and with a new business model, more aggressive promotion is expected to start from the new year.