

DISCLAIMER: This translation may be used for reference purposes only. This English version is not an official translation of the original Japanese document. In cases where any differences occur between the English version and the original Japanese version, the Japanese version shall prevail. This translation is subject to change without notice.

Consolidated Financial Results for the First Nine Months of the Fiscal Year Ending March 31, 2020 <under Japanese GAAP>

February 6, 2020

Company name: ORGANO CORPORATION
 Listing: Tokyo Stock Exchange
 Securities code: 6368
 URL: <https://www.organo.co.jp/english/>
 Representative: Masaki Uchikura, Representative Director and President
 Inquiries: Minoru Ando, General Manager of Accounting Dept., Corporate Management and Planning
 TEL: +81-3-5635-5111
 Scheduled date to file quarterly securities report: February 13, 2020
 Scheduled date to commence dividend payments: –
 Preparation of supplementary material on quarterly financial results: None
 Holding of quarterly financial results presentation meeting: None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the first nine months of the fiscal year ending March 31, 2020 (from April 1, 2019 to December 31, 2019)

(1) Consolidated operating results (cumulative) (Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Nine months ended								
December 31, 2019	67,352	9.5	7,475	160.2	7,419	155.3	5,151	198.9
December 31, 2018	61,528	22.7	2,872	352.9	2,906	296.3	1,723	435.0

Note: Comprehensive income: Nine months ended December 31, 2019 ¥5,029 million [208.8%]
 Nine months ended December 31, 2018 ¥1,628 million [156.4%]

	Basic earnings per share	Diluted earnings per share
	Yen	Yen
Nine months ended		
December 31, 2019	450.41	–
December 31, 2018	150.19	–

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio
	Millions of yen	Millions of yen	%
As of			
December 31, 2019	103,389	58,861	56.8
March 31, 2019	101,257	54,795	54.0

(Reference) Equity: As of December 31, 2019 ¥58,742 million As of March 31, 2019 ¥54,657 million

2. Cash dividends

	Annual dividends per share				
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total
	Yen	Yen	Yen	Yen	Yen
Fiscal year ended March 31, 2019	–	29.00	–	44.00	73.00
Fiscal year ending March 31, 2020	–	47.00	–		
Fiscal year ending March 31, 2020 (Forecast)				47.00	94.00

Note: Revisions to the forecast of cash dividends most recently announced: None

3. Consolidated earnings forecasts for the fiscal year ending March 31, 2020 (from April 1, 2019 to March 31, 2020)

(Percentages indicate year-on-year changes.)

	Net sales		Operating profit		Ordinary profit		Profit attributable to owners of parent		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending March 31, 2020	97,500	5.7	9,500	44.8	9,350	43.0	6,200	39.2	542.13

Note: Revisions to the earnings forecasts most recently announced: Yes

*** 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 specific accounting for preparing the quarterly consolidated financial statements: Yes

Note: For more details, please refer to “Application of special accounting for preparing the quarterly consolidated financial statements” on page 8 of the attached material.

(3) Changes in accounting policies, changes in accounting estimates, and restatement

a. Changes in accounting policies due to revisions to accounting standards and other regulations: None

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

(4) Number of issued shares (common shares)

a. Total number of issued shares at the end of the period (including treasury shares)

As of December 31, 2019	11,589,925 shares
As of March 31, 2019	11,589,925 shares

b. Number of treasury shares at the end of the period

As of December 31, 2019	136,054 shares
As of March 31, 2019	166,788 shares

c. Average number of shares during the period (cumulative from the beginning of the fiscal year)

For the nine months ended December 31, 2019	11,436,336 shares
For the nine months ended December 31, 2018	11,473,155 shares

The Company has introduced an Officer Share Delivery Trust, and shares of the Company held by the Trust have been included in treasury shares excluded from the calculation of the number of treasury shares at the end of the period and the average number of shares during the period (cumulative from the beginning of the fiscal year).

* Quarterly financial results reports are exempt from quarterly review conducted by certified public accountants or an audit corporation.

* Proper use of earnings forecasts, and other special matters

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, any statements herein do not constitute assurances regarding actual results by the Company. Actual business and other results may differ substantially due to various factors. Please refer to “Explanation regarding consolidated earnings forecasts and other forward-looking statements” on page 3 of the attached material for the suppositions that form the assumptions for earnings forecasts and cautions concerning the use thereof.

Index

- 1. Qualitative information regarding financial results for the first nine months2
 - (1) Explanation regarding operating results2
 - (2) Explanation regarding financial position3
 - (3) Explanation regarding consolidated earnings forecasts and other forward-looking statements3
- 2. Quarterly consolidated financial statements and significant notes thereto4
 - (1) Consolidated balance sheet4
 - (2) Consolidated statement of income and consolidated statement of comprehensive income.....6
 - Consolidated statement of income (cumulative)6
 - Consolidated statement of comprehensive income (cumulative).....7
 - (3) Notes to quarterly consolidated financial statements8
 - Notes on premise of going concern.....8
 - Notes on substantial changes in the amount of shareholders' equity8
 - Application of special accounting for preparing the quarterly consolidated financial statements ...8
 - Segment information, etc.9

1. Qualitative information regarding financial results for the first nine months

(1) Explanation regarding operating results

In the Japanese economy during the nine months ended December 31, 2019, despite maintaining a moderate recovery trend against the backdrop of a firm underlying trend for internal demand, uncertainty over the future continued as Japan's 2019 exports declined for the first time in three years, mainly due to a decline in global trade sparked by trade friction between the US and China and the slowdown in the Chinese economy, while the IMF also made a further downward revision to its projection for the global economy in 2020.

Looking at production and capital investment trends in Organo Group's key market, the electronics field, differences in activity appeared in each field. For example, capital investment in memory semiconductors stalled due to a decrease in investment in data centers and other factors, while aggressive capital investment was seen in fields such as logic semiconductors for calculation and semiconductors for image processing.

Amid these conditions, the Organo Group aims to enhance cost competitiveness, improve productivity and profitability, and create products and technologies differentiated from competitors. To this end, we are pursuing various efforts around the key issues of "expanding the electronics field," "strengthening the performance products business" and "creating new businesses."

Consequently, the financial results for the nine months ended December 31, 2019 are as follows. Orders received increased by 4.6% year on year to ¥81,178 million, net sales increased by 9.5% year on year to ¥67,352 million, operating profit increased by 160.2% year on year to ¥7,475 million, ordinary profit increased by 155.3% year on year to ¥7,419 million, and profit attributable to owners of parent increased by 198.9% year on year to ¥5,151 million.

Results by segment are as follows.

Starting from the first quarter ended June 30, 2019, we have changed the classification method, etc. of our reportable segments, and the comparisons and analysis of the nine months ended December 31, 2019 are made based on the classifications following the changes.

[Water Treatment Engineering Business Unit]

Orders received increased by 5.9% year on year to ¥67,364 million. This mainly reflected firm orders for general industrial field in Japan, while in the electronics field there was a recovery in large-scale investment in Taiwan, primarily for foundries, and the Company won an order for a large semiconductor project in Japan.

Meanwhile, net sales increased by 12.0% year on year to ¥53,425 million due to a rise in net sales of the Plant Division, mainly due to a large project in Japan in the electronics field, in addition to strong performance in the Service Solutions Division, including maintenance and renovation of facilities for each field, particularly the electronics field.

On the profit side, in addition to the effect of increased sales, improvement in the profitability of the Plant Division due to various profit-improvement and cost-cutting initiatives, sales expansion in the Service Solutions Division, which has comparatively high profit margins, and other factors led to improvement in the profit ratio. Consequently, operating profit increased by 259.6% year on year to ¥6,458 million.

[Performance Products Business Unit]

There were signs of a slowdown in sales growth, which had been trending strongly, as corporate production activities weakened, mainly due to a decline in exports. However, reflecting solid sales of standard equipment and filters, as well as various types of water treatment chemicals, orders received

decreased by 1.4% year on year to ¥13,813 million and net sales increased by 0.8% to ¥13,926 million, the same level year on year.

Meanwhile, on the profit side, development investment in new products and technologies increased, as did business strengthening costs for the future such as expansion of our production and sales system aimed at expanding overseas development. Consequently, operating profit decreased by 5.6% year on year to ¥1,017 million.

(2) Explanation regarding financial position

Assets, liabilities and net assets

Assets

Assets as of December 31, 2019 amounted to ¥103,389 million, an increase of ¥2,131 million from the previous fiscal year end. This was due mainly to an increase of ¥3,432 million in inventories mainly in work in process, despite a decline of ¥1,459 million in cash and deposits.

Liabilities

Liabilities as of December 31, 2019 amounted to ¥44,527 million, a decrease of ¥1,934 million from the previous fiscal year end. This was due mainly to a decline of ¥3,573 million in notes and accounts payable - trade, despite an increase of ¥1,944 million in long-term borrowings.

Net Assets

Net assets as of December 31, 2019 amounted to ¥58,861 million, an increase of ¥4,065 million from the previous fiscal year end. This was mainly due to an increase of ¥4,103 million in retained earnings resulting from the recording of profit attributable to owners of parent.

(3) Explanation regarding consolidated earnings forecasts and other forward-looking statements

Regarding our forecasts for orders received and net sales for the fiscal year ending March 31, 2020, we now expect orders received of ¥107,000 million (up 7.0% from the previous forecast) and net sales of ¥97,500 million (up 0.5%), exceeding the forecast announced on October 24, 2019. The revised forecast reflects capital investment trends in the electronics field in the Water Treatment Engineering Business Unit, construction progress on projects that have been ordered, and the status of sales in the Service Solutions Division, such as maintenance and proposals for renovation of facilities.

As for profit, we are expecting improvement in our profit ratio in the Water Treatment Engineering Business Unit due to a reduction in finished costs, mainly in the Plant Division, through various profit-improvement and cost-cutting initiatives. We are also expecting to expand sales in the Service Solutions Division, which has comparatively high profit margins. Consequently, we expect operating profit of ¥9,500 million (up 11.8%), ordinary profit of ¥9,350 million (up 12.0%), and profit attributable to owners of parent of ¥6,200 million (up 10.7%).

2. Quarterly consolidated financial statements and significant notes thereto

(1) Consolidated balance sheet

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Assets		
Current assets		
Cash and deposits	11,276	9,817
Notes and accounts receivable - trade	40,256	41,584
Investments in leases	13,574	12,148
Merchandise and finished goods	4,717	5,318
Work in process	2,717	5,532
Raw materials and supplies	1,426	1,443
Other	2,206	2,563
Allowance for doubtful accounts	(139)	(139)
Total current assets	76,037	78,268
Non-current assets		
Property, plant and equipment		
Buildings and structures	17,850	17,832
Accumulated depreciation	(12,339)	(12,520)
Buildings and structures, net	5,511	5,311
Machinery, equipment and vehicles	5,576	5,729
Accumulated depreciation	(4,879)	(4,989)
Machinery, equipment and vehicles, net	696	740
Land	12,288	12,281
Construction in progress	45	107
Other	4,968	5,002
Accumulated depreciation	(4,236)	(4,246)
Other, net	731	756
Total property, plant and equipment	19,272	19,196
Intangible assets	1,209	1,081
Investments and other assets		
Investment securities	1,621	1,799
Deferred tax assets	2,628	2,670
Other	767	657
Allowance for doubtful accounts	(278)	(284)
Total investments and other assets	4,739	4,842
Total non-current assets	25,220	25,121
Total assets	101,257	103,389

(Millions of yen)

	As of March 31, 2019	As of December 31, 2019
Liabilities		
Current liabilities		
Notes and accounts payable - trade	18,516	14,943
Short-term borrowings	13,458	13,871
Income taxes payable	1,546	1,386
Advances received	1,499	2,069
Provision for bonuses	1,165	601
Provision for product warranties	321	247
Provision for loss on construction contracts	84	77
Provision for share-based remuneration for directors (and other officers)	95	77
Other provisions	–	12
Other	3,242	2,932
Total current liabilities	39,930	36,219
Non-current liabilities		
Long-term borrowings	200	2,145
Deferred tax liabilities	8	9
Retirement benefit liability	6,209	6,076
Other	111	76
Total non-current liabilities	6,531	8,308
Total liabilities	46,462	44,527
Net assets		
Shareholders' equity		
Share capital	8,225	8,225
Capital surplus	7,508	7,508
Retained earnings	39,967	44,070
Treasury shares	(629)	(534)
Total shareholders' equity	55,071	59,270
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	273	293
Deferred gains or losses on hedges	(0)	(0)
Foreign currency translation adjustment	(193)	(392)
Remeasurements of defined benefit plans	(494)	(428)
Total accumulated other comprehensive income	(414)	(527)
Non-controlling interests	138	119
Total net assets	54,795	58,861
Total liabilities and net assets	101,257	103,389

(2) Consolidated statement of income and consolidated statement of comprehensive income**Consolidated statement of income (cumulative)**

(Millions of yen)

	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Net sales	61,528	67,352
Cost of sales	46,788	47,490
Gross profit	14,739	19,861
Selling, general and administrative expenses	11,866	12,386
Operating profit	2,872	7,475
Non-operating income		
Interest income	12	30
Dividend income	26	26
Share of profit of entities accounted for using equity method	106	150
Other	70	70
Total non-operating income	214	278
Non-operating expenses		
Interest expenses	56	104
Foreign exchange losses	11	94
Provision of allowance for doubtful accounts	93	78
Other	19	56
Total non-operating expenses	181	334
Ordinary profit	2,906	7,419
Extraordinary income		
Gain on sales of non-current assets	3	0
Gain on sales of investment securities	–	4
Gain on sales of right of using facilities	–	0
Total extraordinary income	3	5
Extraordinary losses		
Loss on sales of non-current assets	0	–
Loss on abandonment of non-current assets	6	10
Loss on valuation of investment securities	161	–
Total extraordinary losses	168	10
Profit before income taxes	2,742	7,414
Income taxes	1,032	2,270
Profit	1,709	5,143
Loss attributable to non-controlling interests	(13)	(7)
Profit attributable to owners of parent	1,723	5,151

Consolidated statement of comprehensive income (cumulative)

(Millions of yen)

	Nine months ended December 31, 2018 (From April 1, 2018 to December 31, 2018)	Nine months ended December 31, 2019 (From April 1, 2019 to December 31, 2019)
Profit	1,709	5,143
Other comprehensive income		
Valuation difference on available-for-sale securities	(44)	18
Deferred gains or losses on hedges	0	0
Foreign currency translation adjustment	(125)	(198)
Remeasurements of defined benefit plans, net of tax	91	65
Share of other comprehensive income of entities accounted for using equity method	(2)	1
Total other comprehensive income	(80)	(113)
Comprehensive income	1,628	5,029
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	1,654	5,037
Comprehensive income attributable to non- controlling interests	(25)	(7)

(3) Notes to quarterly consolidated financial statements

Notes on premise of going concern

No items to report

Notes on substantial changes in the amount of shareholders' equity

No items to report

Application of special accounting for preparing the quarterly consolidated financial statements

Calculation of tax expenses

Tax expenses are calculated by multiplying the profit before income taxes by the reasonably estimated effective tax rates after the application of tax effect accounting to the profit before income taxes for the fiscal year including the third quarter ended December 31, 2019. However, in cases where the calculation of tax expenses using such estimated effective tax rate yields a result that is not reasonable to a significant extent, the amount of significant difference other than temporary differences, etc. is added to or deducted from the profit before income taxes, and the result is multiplied by the statutory income tax rate.

Segment information, etc.

[Segment information]

I Nine months ended December 31, 2018 (from April 1, 2018 to December 31, 2018)

1. Information relating to net sales and profit by each reportable segment

(Millions of yen)

	Reportable Segment			Adjustment	Amount recorded in the consolidated statement of income (Note)
	Water Treatment Engineering Business Unit	Performance Products Business Unit	Total		
Net sales					
Sales to external customers	47,717	13,811	61,528	–	61,528
Intersegment sales or transfers	0	237	238	(238)	–
Total	47,717	14,049	61,766	(238)	61,528
Segment profit	1,795	1,077	2,872	–	2,872

Note: The figures for segment profit are based on operating profit, and there are no discrepancies with the operating profit shown in the consolidated statement of income.

II Nine months ended December 31, 2019 (from April 1, 2019 to December 31, 2019)

1. Information relating to net sales and profit by each reportable segment

(Millions of yen)

	Reportable Segment			Adjustment	Amount recorded in the consolidated statement of income (Note)
	Water Treatment Engineering Business Unit	Performance Products Business Unit	Total		
Net sales					
Sales to external customers	53,425	13,926	67,352	–	67,352
Intersegment sales or transfers	0	249	250	(250)	–
Total	53,426	14,176	67,602	(250)	67,352
Segment profit	6,458	1,017	7,475	–	7,475

Note: The figures for segment profit are based on operating profit, and there are no discrepancies with the operating profit shown in the consolidated statement of income.

2. Matters relating to changes, etc. in reportable segments

The Organo Group has positioned the Performance Products Business Unit as one of its key business fields in its Medium-term Management Plan and is carrying out initiatives to develop new products and establish a production and sales system for the overseas market. Starting from the first quarter ended June 30, 2019, we revised our financial results management classifications as part of strengthening the Performance Products Business Unit. As a result of these revisions, we changed the classification of the equipment and chemical business of overseas businesses from inclusion in the “Water Treatment Engineering Business Unit” to inclusion in the “Performance Products Business Unit.” Furthermore, to more appropriately evaluate the financial results of the Performance Products Business Unit, our key business field, on a consolidated basis, we have changed the measurement method of intersegment sales or transfers.

Moreover, segment information for the nine months ended December 31, 2018 has been prepared according to the classification method after the changes.