

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2024 <Under Japanese GAAP>

August 3, 2023

These financial statements have been prepared for reference only in accordance with accounting principles and practices generally accepted in Japan.

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (Prime Market)

Code number: 8012 URL (<https://www.nagase.co.jp/english/>)

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Filing of quarterly report (scheduled): August 9, 2023

Start of distribution of dividends (scheduled): -

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: No

(Note: Amounts have been rounded down to the nearest million yen.)

1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2024

(April 1, 2023 to June 30, 2023)

(1) Consolidated Operating Results

(% = year-on-year change)

	Net sales		Gross profit		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended June 30, 2023	224,062	2.0	38,707	-3.0	6,955	-36.0	7,338	-36.4	4,367	-45.2
June 30, 2022	219,571	19.1	39,904	15.4	10,871	11.6	11,542	8.3	7,969	11.2

(Note) Comprehensive income

First quarter ended June 30, 2023: ¥14,866 million (12.8% decrease)

First quarter ended June 30, 2022: ¥17,047 million (57.6%)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the first quarter ended June 30, 2023	37.45		-	
June 30, 2022	66.69		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2023	774,807	385,268	48.3	3,232.75
March 31, 2023	762,688	378,388	48.2	3,139.26

(Reference) Equity capital

As of June 30, 2023: ¥ 374,134 million

As of March 31, 2023: ¥ 367,675 million

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen				
March 2023	-	30.00	-	40.00	70.00
March 2024	-	-	-	-	-
March 2024 (forecast)	-	40.00	-	40.00	80.00

(Note) Revisions to the latest dividends forecast: No

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2024

(April 1, 2023 to March 31, 2024)

(% = year-on-year change)

	Net sales		Gross profit		Operating income		Ordinary income		Profit attributable to owners of the parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	958,000	4.9	171,000	10.0	34,500	3.4	32,600	0.2	24,000	1.6	209.35

(Note) Revisions to the latest consolidated earnings forecast: No

* Notes

(1) Changes in major subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): No

New: — (Company name:) Excluded: — (Company name:)

(2) Application of special accounting methods to the preparation of quarterly financial statements: Yes

(Note) For details, please refer to 2. *Quarterly Consolidated Financial Statements and Notes*, (3) *Notes Related to Quarterly Consolidated Financial Statements (Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)*, on P.9 of this document

(3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

i. Changes in accordance with revisions to accounting and other standards: Yes

ii. Changes in items other than (i) above: No

iii. Changes in accounting estimates: No

iv. Restatement of prior period financial statements after error corrections: No

(Note) For details, please refer to 2. *Quarterly Consolidated Financial Statements and Notes*, (3) *Notes Related to Quarterly Consolidated Financial Statements (Change in Accounting Policy)*, on P.9 of this document

(4) Number of shares issued and outstanding (common stock)

i. Number of shares issued and outstanding as of the fiscal period end (including treasury stock)

June 30, 2023	117,908,285 shares	March 31, 2023	117,908,285 shares
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ii. Number of treasury stock as of the fiscal period end

June 30, 2023	2,175,451 shares	March 31, 2023	786,718 shares
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iii. Average number of shares during the period

June 30, 2023	116,646,422 shares	June 30, 2022	119,507,343 shares
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(Note) The number of treasury stock as of the fiscal period end includes Company shares held by the Stock-Granting Trust for Directors (292,200 shares as of June 30, 2023). Treasury stock deducted from the calculation of the average number of shares during the period includes Company shares held by the Stock-Granting Trust for Directors (292,200 shares as of June 30, 2023).

*** Quarterly financial statements are not subject to quarterly review.**

* Cautionary Statement with Respect to Forecasts of Consolidated Business Results

The earnings forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts.

For matters related to earnings forecasts, please refer to 1. *Qualitative Information*, (3) *Qualitative Information Related to Consolidated Earnings Forecasts*, on P.4 of this document.

Attachments

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1. Qualitative Information

(1) Review of Business Performance

a. General Summary of Results

The global economy continued to recover during the first quarter of the current consolidated fiscal year as economic and social activities normalized. However, concerns remained about a future economic slowdown due to soaring resource prices caused by the prolonged situation in Ukraine and the impact of monetary tightening policies, mainly in Europe and the United States.

As an overview of the regions in which our group does business, in Greater China, economic activity and the economy began to recover after the repeal of the Zero-COVID Policy. The pace of recovery is slowing now, however, due to sluggish exports caused by the global economic slowdown. In the Americas, employment growth and personal consumption have been resilient, but monetary tightening restrained demand and contributed to an economic slowdown. In ASEAN, the pace of growth in each country slowed due to sluggish growth in external demand as a result of the slowdown in the global economy. Pressure on household and domestic business demand due to high prices and rising interest rates also had a negative impact. In Japan, social activities are gradually recovering as measures against COVID-19 have been largely left to individual judgment. Personal consumption is increasing, particularly in the services sector, while inbound demand is also recovering in the wake of the elimination of border control measures and business sentiment is recovering gradually.

In this environment, earnings for the cumulative consolidated first quarter of the current fiscal year are as follows.

(Millions of yen)				
	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	219,571	224,062	4,491	2.0
Gross profit	39,904	38,707	(1,197)	(3.0)
Operating income	10,871	6,955	(3,915)	(36.0)
Ordinary income	11,542	7,338	(4,203)	(36.4)
Profit before income taxes	11,438	6,412	(5,025)	(43.9)
Profit attributable to owners of the parent	7,969	4,367	(3,601)	(45.2)

- Although net sales for the first quarter of the current consolidated fiscal year increased due in part to the weakening yen, gross profit margin declined due to lower profitability among certain manufacturing subsidiaries, etc., resulting in lower gross profit.
- Operating income declined due to a decrease in gross profit and an increase in selling, general and administrative expenses. For details, see *b. Segment Summary*.
- Profit attributable to owners of the parent decreased ¥3.6 billion to ¥4.3 billion, mainly due to the increase in interest expenses and loss on valuation of investment securities as well as the decrease in operating income.

b. Segment Summary

The following describes performance by segment.

Functional Materials

(Millions of yen)				
	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	28,654	26,026	(2,628)	(9.2)
Gross profit	5,816	5,137	(678)	(11.7)
Operating income	2,388	1,620	(767)	(32.1)

- Sales decreased for coating materials.
- Sales decreased for raw materials for industrial oil solutions and resins
- Sales decreased for raw materials for the electronics industry, including semiconductor-related products
- Operating income decreased due to a decrease in gross profit

Advanced Materials & Processing

(Millions of yen)

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	65,131	58,974	(6,157)	(9.5)
Gross profit	8,161	6,746	(1,414)	(17.3)
Operating income	2,599	1,247	(1,351)	(52.0)

- Resin sales declined due to lower demand in the office equipment, appliance, and video game device market and the impact of inventory adjustments by customers
- Sales of pigments and additives remained sluggish
- Sales of digital print processing materials were lower, as was profitability in the manufacturing business
- Operating income decreased due to a decrease in gross profit

Electronics & Energy

(Millions of yen)

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	33,933	35,538	1,605	4.7
Gross profit	7,893	7,720	(172)	(2.2)
Operating income	2,617	2,320	(296)	(11.3)

- Despite weakening semiconductor market conditions, sales of materials to the semiconductor industry increased due to product line expansion
- While demand for formulated epoxy resins increased for server applications, performance was lower overall due to a decline in semiconductor-related and electronics-related products for mobile device applications
- Sales related to photolithography materials for display applications are recovering but remained sluggish
- Operating income decreased due to a decrease in gross profit

Mobility

(Millions of yen)

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	27,018	31,136	4,118	15.2
Gross profit	3,215	3,414	198	6.2
Operating income	932	947	14	1.5

- Sales increased for resins due to the boosted automobile production.
- Sales increased for functional materials and functional components for interior and exterior fittings and electrification
- Operating income increased due to an increase in gross profit

Life & Healthcare

(Millions of yen)

	Three-month period ended June 30, 2022	Three-month period ended June 30, 2023	Change	Change (%)
Net sales	64,814	72,386	7,571	11.7
Gross profit	14,796	15,636	840	5.7
Operating income	4,144	3,254	(890)	(21.5)

- Prinova Group profitability and sales declined due to a drop in the market for food ingredients
- Sales of Hayashibara's AA2G™ and other cosmetics materials increased in response to higher demand
- Sales increased for pharmaceutical raw materials and intermediates
- Operating income decreased, despite higher gross profit, as food ingredient sales profitability declined at the Prinova Group where personnel expense and other selling, general and administrative expenses increased and profit contribution from the new Utah plant was delayed

Others

No special matters to disclose.

(2) Review of Financial Position

a. Assets, Liabilities and Net Assets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2023)	First Quarter, Current Consolidated Fiscal Year (June 30, 2023)	Change	Change (%)
Current assets	530,132	533,659	3,526	0.7
Non-current assets	232,556	241,148	8,592	3.7
Net assets	762,688	774,807	12,119	1.6
Liabilities	384,300	389,539	5,238	1.4
Net assets	378,388	385,268	6,880	1.8
Shareholders' equity ratio (%)	48.2	48.3	+ 0.1 p	—

- Current assets slightly increased mainly due to an increase in accounts receivable, despite a decrease in inventories, etc.
- Non-current assets increased due to an increase in property, plant and equipment and the fair values of investments in securities
- Liabilities increased mainly due to an increase in commercial paper and accounts payable, despite a decrease in short-term loans
- Net assets increased mainly due to an increase in net unrealized holding gain on securities and translation adjustments, despite decreases from purchases of treasury stock
- As a result, the Company recorded a shareholders' equity ratio of 48.3%, up 0.1 points compared to 48.2% from the end of the prior consolidated fiscal year

(3) Qualitative Information Related to Consolidated Earnings Forecasts

We made no changes to the consolidated earnings forecast for the current fiscal year (April 1, 2023 to March 31, 2024) from the figures announced on May 9, 2023.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2023)	First Quarter, Current Consolidated Fiscal Year (June 30, 2023)
ASSETS		
Current assets		
Cash and time deposits	40,897	42,450
Notes and accounts receivable and contract assets	302,105	306,224
Merchandise and finished goods	152,504	145,515
Work in process	2,446	2,814
Raw materials and supplies	14,770	13,865
Other	18,429	23,656
Less allowance for doubtful accounts	(1,021)	(867)
Total current assets	530,132	533,659
Non-current assets		
Property, plant and equipment	82,064	83,199
Intangible fixed assets		
Goodwill	29,004	28,960
Technology-based assets	4,337	3,943
Other	35,587	36,586
Total intangible fixed assets	68,928	69,489
Investments and other assets		
Investments in securities	69,743	76,783
Long-term loans receivable	17	29
Retirement benefit asset	2,645	2,699
Deferred tax assets	3,857	3,678
Other	5,475	5,446
Less allowance for doubtful accounts	(176)	(176)
Total investments and other assets	81,562	88,459
Total non-current assets	232,556	241,148
Total assets	762,688	774,807

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2023)	First Quarter, Current Consolidated Fiscal Year (June 30, 2023)
LIABILITIES		
Current liabilities		
Notes and accounts payable	140,438	146,527
Short-term loans	66,117	60,085
Current portion of long-term loans	1,056	2,962
Commercial paper	38,000	43,000
Accrued income taxes	2,913	2,956
Accrued bonuses for employees	6,985	3,534
Accrued bonuses for directors	371	78
Other	30,321	31,069
Total current liabilities	286,203	290,214
Long-term liabilities		
Bonds	30,000	30,000
Long-term loans	32,697	31,285
Lease liabilities	9,763	10,995
Deferred tax liabilities	10,360	11,536
Retirement benefit liability	13,197	13,081
Provision for directors' stock benefit	65	73
Other	2,012	2,351
Total long-term liabilities	98,097	99,324
Total liabilities	384,300	389,539
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	10,636	10,635
Retained earnings	290,279	289,951
Less treasury stock, at cost	(1,550)	(4,840)
Total shareholders' equity	309,064	305,446
Accumulated other comprehensive income		
Net unrealized holding gain on securities	28,928	34,262
Deferred (loss) gain on hedges	(7)	296
Translation adjustments	30,414	34,692
Remeasurements of defined benefit plans	(726)	(562)
Total accumulated other comprehensive income	58,610	68,688
Non-controlling interests	10,713	11,133
Total net assets	378,388	385,268
Total liabilities and net assets	762,688	774,807

(2) Quarterly Consolidated Statements of Income and Consolidated Statements of Comprehensive Income

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2023 and 2022

(Millions of yen)

	Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)	Three-month period ended June 30, 2023 (April 1, 2023 - June 30, 2023)
Net sales	219,571	224,062
Cost of sales	179,666	185,355
Gross profit	39,904	38,707
Selling, general and administrative expenses	29,033	31,751
Operating income	10,871	6,955
Non-operating income		
Interest income	18	49
Dividend income	672	689
Rent income	62	60
Equity in earnings of affiliates	83	79
Foreign exchange gains	328	450
Other	186	127
Total non-operating income	1,352	1,456
Non-operating expenses		
Interest expenses	490	961
Other	191	112
Total non-operating expenses	681	1,074
Ordinary income	11,542	7,338
Extraordinary gains		
Gain on sales of non-current assets	123	38
Gain on sales of investment securities	43	129
Subsidy income	—	228
Other	—	47
Total extraordinary gains	166	444
Extraordinary losses		
Loss on sales of non-current assets	3	0
Loss on disposal of non-current assets	179	451
Loss on sales of investment securities	7	21
Loss on valuation of investments securities	79	864
Other	—	31
Total extraordinary losses	270	1,369
Income before income taxes	11,438	6,412
Income taxes	3,194	1,870
Profit for the period	8,244	4,541
Profit attributable to non-controlling interests	275	174
Profit attributable to owners of the parent	7,969	4,367

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2023 and 2022

(Millions of yen)

	Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)	Three-month period ended June 30, 2023 (April 1, 2023 - June 30, 2023)
Profit for the period	8,244	4,541
Other comprehensive income		
Net unrealized holding (loss) gain on securities	(1,582)	5,331
Deferred gain on hedges	333	303
Translation adjustments	9,542	4,216
Remeasurements of defined benefit plans	43	163
Share of other comprehensive gain of affiliates accounted for by the equity method	466	309
Total other comprehensive income	8,802	10,324
Comprehensive income	17,047	14,866
Comprehensive income attributable to:		
Shareholders of the parent	16,112	14,446
Non-controlling interests	934	420

(3) Notes Related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Change in Accounting Policy)

(Adoption of U.S. FASB Accounting Standards Codification (ASC) No. 326, *Financial Instruments-Credit Losses*)

Certain foreign consolidated subsidiaries that adopted U.S. GAAP apply ASC No. 326, *Financial Instruments-Credit Losses*, beginning with the current consolidated first quarter. As a result, the subsidiaries in question are required to revise the methods used to measure financial instruments and recognize impairment of financial assets using the expected credit loss model.

In applying this accounting standard, the subsidiary recognized the cumulative effect as of the date of adoption, which is permitted under the transitional provisions.

The impact of this accounting treatment on the quarterly consolidated statements of income is immaterial.

(Significant Fluctuations in Shareholders' Equity)

Following a resolution by the Company's board of directors at a meeting held May 9, 2023, the Company acquired 1,388,600 shares of treasury stock in the cumulative first quarter of the current consolidated fiscal year. As a result, treasury stock increased by ¥3,289 million, with treasury stock holdings of ¥4,840 million as of the end of the consolidated first quarter.

(Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by rationally estimating an effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the current first quarter, and multiplying profit before income taxes for the first quarter by the estimated effective tax rate.

In the event that the calculated tax expenses using this estimated effective tax rate lead to significantly unreasonable results, this shall be calculated by multiplying the statutory effective tax rate after adjusting significant non-temporary differences by the profit before income taxes.

Deferred income taxes are included in income tax.

(Additional Information)

(Stock-Based Compensation Plan)

Effective as of the previous consolidated fiscal year, the Company has adopted a stock-based compensation plan ("Plan") for directors (excluding outside directors) and executive officers (collectively, "Eligible Individuals"). The purpose of the Plan is to establish a clear link between compensation for Eligible Individuals and Company performance and share value, as well as for Eligible Individuals to share the benefits and risks associated with fluctuations in NAGASE share price with shareholders. In this way, the NAGASE Group intends to raise awareness about contributing to improved business performance and increased corporate value over the medium to long term.

(1) Overview

The Plan is a stock-based compensation plan under which a trust ("Trust") established by monetary contribution from the Company acquires Company shares. The Company grants points to each Eligible Individual, and the Trust delivers the number of Company shares equivalent to the points earned by each Eligible Individual. In principle, said delivery is made at the time of the retirement the Eligible Individual.

(2) Company shares remaining in the Trust

Company shares remaining in the Trust are recorded as treasury stock under net assets in the balance sheet based on the carrying value in the Trust (excluding incidental expenses). The carrying value of said treasury stock as of the end of the consolidated first quarter was ¥619 million and the treasury stock in question amounted to 292,200 shares.

(Segment Information, etc.)

Segment Information

I Three-month period ended June 30, 2022 (consolidated)

1. Information related to net sales and income (loss) by reportable segment

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total					
Net sales											
Sales to customers	28,654	65,131	33,933	27,018	64,814	219,553	18	219,571	—	—	219,571
Intersegment sales/transfers	283	198	284	386	128	1,282	1,372	2,654	—	(2,654)	—
Total	28,937	65,329	34,218	27,405	64,943	220,835	1,391	222,226	—	(2,654)	219,571
Segment income (loss)	2,388	2,599	2,617	932	4,144	12,682	(13)	12,668	(1,982)	185	10,871

(Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services and professional services.

2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
3. Adjustments are eliminations of intersegment transactions.
4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.

II Three-month period ended June 30, 2023 (consolidated)

1. Information related to net sales and income (loss) by reportable segment

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total					
Net sales											
Sales to customers	26,026	58,974	35,538	31,136	72,386	224,062	0	224,062	—	—	224,062
Intersegment sales/transfers	188	164	922	852	197	2,326	1,837	4,163	—	(4,163)	—
Total	26,214	59,138	36,461	31,989	72,548	226,388	1,837	228,226	—	(4,163)	224,062
Segment income (loss)	1,620	1,247	2,320	947	3,254	9,390	92	9,482	(2,644)	117	6,955

(Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services and professional services.

2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
3. Adjustments are eliminations of intersegment transactions.
4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.