

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2019 <Under Japanese GAAP>

February 5, 2019

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 (First Section)

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

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Filing of quarterly report (scheduled): February 8, 2019

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 Third Quarter of the Fiscal Year Ending March 31, 2019

(April 1, 2018 to December 31, 2018)

(1) Consolidated Operating Results

(Percentages represent changes compared with same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the third quarter ended December 31, 2018	616,466	3.9	20,928	3.0	22,214	0.4	16,103	10.0
December 31, 2017	593,564	10.5	20,319	74.2	22,119	73.6	14,637	65.3

(Notes) Comprehensive income Third quarter ended December 31, 2018: ¥ 6,869 million (74.7% decrease)

Third quarter ended December 31, 2017: ¥ 27,104 million (39.5%)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
For the third quarter ended December 31, 2018	128.73	-
December 31, 2017	116.06	-

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2018	581,011	307,686	52.1	2,442.31
March 31, 2018	569,456	308,804	53.3	2,424.97

(Reference) Equity capital As of December 31, 2018: ¥ 302,875 million

As of March 31, 2018: ¥ 303,636 million

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen	Yen	Yen	Yen	Yen
March 2018	-	17.00	-	23.00	40.00
March 2019	-	18.00	-	-	-
March 2019 (estimate)	-	-	-	22.00	40.00

(Note) Revisions to the latest projected dividends: Yes

See Notice Concerning Revision of Dividend Forecast for the Fiscal Year Ending March 2019 announced today (February 5, 2019) for more about the revision to dividend forecasts.

**3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2019
(April 1, 2018 to March 31, 2019)**

(Percentages represent changes compared with the corresponding periods of the previous fiscal year.)

	Net sales		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	%	Yen
Full fiscal year	828,000	5.6	25,500	5.7	27,500	5.8	18,600	8.3	149.99

(Note) Revisions to the latest projected consolidated results: 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: No

(3) Changes of accounting principles, 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: No

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

(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)

December 31, 2018	127,408,285 shares	March 31, 2018	127,408,285 shares
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ii. Number of treasury stock as of the fiscal period end

December 31, 2018	3,396,314 shares	March 31, 2018	2,195,966 shares
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iii. Average number of shares during the period

December 31, 2018	125,092,087 shares	December 31, 2017	126,116,626 shares
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* 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.

Please refer to “1. Qualitative Information (3) Qualitative Information Related to Consolidated Earnings Forecasts” on page 4 of this document.

Attachments

1. Qualitative Information	2
(1) Business Performance	2
(2) Financial Position	4
(3) Qualitative Information Related to Consolidated Earnings Forecasts	4
2. Quarterly Consolidated Financial Statements and Notes	5
(1) Quarterly Consolidated Balance Sheets	5
(2) Quarterly Consolidated Statements of Income and Quarterly Consolidated Statements of Comprehensive Income	7
Quarterly Consolidated Statements of Income	
Nine-month periods ended December 31, 2018 and 2017	7
Quarterly Consolidated Statements of Comprehensive Income	
Nine-month periods ended December 31, 2018 and 2017	8
(3) Notes related to Quarterly Consolidated Financial Statements	9
(Assumption for Going Concern)	9
(Significant Fluctuations in Shareholders' Equity)	9
(Additional Information)	9
(Segment Information, etc.)	10
3. Supplementary Information	12
(1) Overseas Sales	12

1. Qualitative Information

(1) Business Performance

a. General Summary of Results

The Japanese economy remained strong throughout the cumulative consolidated third quarter, supported by corporate earnings. However, signs have indicated an impact of growing uncertainty on the global economy. Although corporate earnings in the United States and other indicators have underpinned a strong global economy, U.S.-China trade friction, national fiscal policies, exchange rate trends, and other emerging risk factors have given rise to concerns about the future direction of the world economy.

In this environment, the Company recorded domestic sales of ¥313.07 billion (+5.4% year on year) for the cumulative consolidated third quarter. Overseas sales amounted to ¥303.39 billion (+2.3%). In total, the Company recorded ¥616.46 billion (+3.9%) in net sales for the nine months ended December 2018.

The Company recorded gross profit of ¥80.89 billion (+3.8%) in conjunction with higher global sales and improved profitability among manufacturing subsidiaries. Operating income amounted to ¥20.92 billion (+3.0%), while ordinary income amounted to ¥22.21 billion (+0.4%) and profit attributable to owners of the parent amounted to ¥16.1 billion (+10.0%).

b. Segment Summary

The following section describes segment earnings for the period.

The Company reclassified certain reportable segments in the first quarter of the current consolidated fiscal year. The Company has reclassified reportable segment classifications for the cumulative consolidated third quarter of the prior fiscal year for comparative purposes.

Functional Materials

The Functional Materials segment recorded higher sales in both domestic and overseas markets.

The Performance Chemicals business recorded higher sales year on year, mainly due to improved sales of coating raw materials and urethane materials, spurred by strong automotive production in Japan and overseas, as well as naphtha price increases. Another contributing factor was the additional sales of the U.S. distributor acquired in the second quarter of the prior fiscal year, reflected for an entire cumulative consolidated third quarter in the current fiscal year.

The Specialty Chemicals business recorded higher sales overall. Despite a slight decline in sales overseas, sales of electronics chemicals and plastic materials/plastic additives for the semiconductor and other related electronics industries in Japan.

As a result, the Functional Materials segment recorded sales of ¥136.44 billion for the first nine months of the fiscal year, a ¥6.93 billion (+5.4%) increase year on year. Operating income for the segment was ¥4.22 billion, an increase of ¥240 million (+6.2%).

Advanced Materials & Processing

The Advanced Materials & Processing segment recorded higher sales in both domestic and overseas markets.

The Colors & Advanced Processing business recorded higher sales as a whole, driven by growth in Japan for plastic resins for industrial and packaging applications and dyes/additives, as well as growth in digital print processing materials in both Japan and overseas.

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. The sales of those business were higher overall, driven by growth in Japan, Greater China, and ASEAN.

As a result, the Advanced Materials & Processing segment recorded sales of ¥211.63 billion for the cumulative consolidated third quarter, a ¥10.42 billion (+5.2%) increase year on year. Operating income grew ¥1.22 billion (+21.8%), reaching ¥6.8 billion. This increase was mainly due to profitability improvements at domestic and overseas manufacturing subsidiaries.

Electronics

The Electronics segment recorded lower sales in both domestic and overseas markets.

Despite ongoing strength in formulated epoxy resins sales to the semiconductor industry, lower photolithography material and equipment-related sales resulted in a decline in sales for the Electronic Chemicals business.

The Electronic Materials business recorded lower sales due to decreases in display-related products, despite strong performance in our business for abrasives used in interim processing in semiconductors.

As a result, sales for the segment amounted to ¥94.68 billion, which was a ¥6.04 billion (-6.0%) decrease. Segment operating income fell ¥1.08 billion (-14.9%) to ¥6.19 billion for the cumulative consolidated third quarter.

Automotive & Energy

The Automotive Solutions business recorded higher sales, driven by strong performance in our resins business in Japan, Greater China, and ASEAN. Sales growth for car electronics-related products was another positive factor.

As a result, sales for the segment amounted to ¥105.5 billion, which was a ¥9.02 billion (+9.4%) increase year on year. Segment operating income grew ¥340 million (+16.4%), reaching ¥2.46 billion for the cumulative consolidated third quarter.

Life & Healthcare

The Life & Healthcare segment recorded higher sales in both domestic and overseas markets.

Sales of TREHA™ and other products in the food ingredients field in the Life & Healthcare Products business rose overseas and were slightly higher in Japan. Sales of AA2G™ to customers in the skin care and toiletries sectors were higher both in Japan and overseas. In the medical and pharmaceutical fields, sales of pharmaceutical raw materials and intermediates and medical materials were higher. As a result, the business recorded higher sales compared to the prior year.

The Beauty Care Products business, which includes sales of cosmetics and health foods, recorded lower sales, driven down due to weak performance across all product categories.

As a result, sales for the segment amounted to ¥67.74 billion, which was a 2.55 billion (+3.9%) increase year on year. Operating income rose ¥160 million (+4.8%) to ¥3.7 billion for the period.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated third quarter, current assets amounted to ¥377.08 billion. This represents an increase of ¥23.76 billion compared to the end of the prior consolidated fiscal year, mainly due to an increase in accounts receivable and inventories. Non-current assets amounted to ¥203.92 billion, down ¥12.2 billion. This decrease was mainly due to decreases in the fair value of shares retained. As a result, total assets increased ¥11.55 billion to ¥581.01 billion as of the end of the consolidated third quarter.

Liabilities amounted to ¥273.32 billion, a ¥12.67 billion increase compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in accounts payable and loans.

Net assets amounted to ¥307.68 billion, down ¥1.11 billion. While the Company recorded ¥16.1 billion in profit attributable to owners of the parent, a decrease in net unrealized holding gain on securities contributed to this result.

As a result, the Company recorded a shareholders' equity ratio of 52.1%, down 1.2 points compared to the end of the prior consolidated fiscal year.

(3) Qualitative Information Related to Consolidated Earnings Forecasts

The Company has made no changes to the full-year consolidated earnings forecasts announced on May 7, 2018.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2018)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2018)
ASSETS		
Current assets		
Cash and time deposits	43,303	43,037
Notes and accounts receivable	225,999	240,614
Merchandise and finished goods	67,681	75,101
Work in process	1,883	2,393
Raw materials and supplies	4,106	5,041
Other	10,953	11,260
Less allowance for doubtful accounts	(602)	(359)
Total current assets	353,325	377,089
Non-current assets		
Property, plant and equipment	67,225	68,936
Intangible fixed assets		
Goodwill	25,478	24,323
Technology-based assets	12,215	11,033
Other	3,396	2,877
Total intangible fixed assets	41,090	38,233
Investments and other assets		
Investments in securities	100,403	89,643
Long-term loans receivable	109	256
Deferred tax assets	2,409	2,133
Other	4,992	4,808
Less allowance for doubtful accounts	(101)	(89)
Total investments and other assets	107,813	96,751
Total non-current assets	216,130	203,921
Total assets	569,456	581,011

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2018)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable	118,028	123,784
Short-term loans	31,934	40,215
Current portion of long-term loans	11,067	10,187
Commercial paper	5,000	10,000
Current portion of bonds	-	10,000
Accrued income taxes	1,738	1,976
Accrued bonuses for employees	5,451	3,180
Accrued bonuses for directors	274	212
Other	19,500	19,393
Total current liabilities	192,996	218,949
Long-term liabilities		
Bonds	20,000	10,000
Long-term loans	17,906	18,409
Deferred tax liabilities	14,420	11,676
Net defined benefit liability	14,518	13,482
Other	809	807
Total long-term liabilities	67,655	54,375
Total liabilities	260,651	273,325
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,158	10,658
Retained earnings	232,534	243,504
Less treasury stock, at cost	(3,114)	(5,070)
Total shareholders' equity	250,278	258,791
Accumulated other comprehensive income		
Net unrealized holding gain on securities	50,773	41,368
Deferred (loss) gain on hedges	(15)	2
Translation adjustments	2,917	2,855
Remeasurements of defined benefit plans	(317)	(142)
Total accumulated other comprehensive income	53,358	44,084
Non-controlling interests	5,168	4,810
Total net assets	308,804	307,686
Total liabilities and net assets	569,456	581,011

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

(Quarterly Consolidated Statements of Income)

Nine-month periods ended December 31, 2018 and 2017

(Millions of yen)

	Nine-month period ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine-month period ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Net sales	593,564	616,466
Cost of sales	515,654	535,568
Gross profit	77,909	80,898
Selling, general and administrative expenses	57,590	59,970
Operating income	20,319	20,928
Non-operating income		
Interest income	152	145
Dividend income	1,479	1,624
Rent income	203	199
Equity in earnings of affiliates	690	618
Foreign exchange gain	114	-
Other	311	475
Total non-operating income	2,951	3,063
Non-operating expenses		
Interest expenses	900	1,249
Foreign exchange losses	-	235
Other	250	291
Total non-operating expenses	1,151	1,777
Ordinary income	22,119	22,214
Extraordinary gains		
Gain on sales of non-current assets	28	136
Gain on sales of investment securities	8	321
Gain on sales of shares of subsidiaries and affiliates	-	6
Gain on negative goodwill	229	-
Total extraordinary gains	267	464
Extraordinary losses		
Loss on sales of non-current assets	24	70
Loss on disposal of non-current assets	66	155
Impairment loss	259	17
Loss on sales of investments securities	-	2
Loss on valuation of investments securities	3	202
Loss on sales of shares of subsidiaries and affiliates	0	-
Loss on business withdrawal	457	187
Loss on step acquisitions	294	-
Total extraordinary losses	1,105	635
Income before income taxes and non-controlling interests	21,280	22,043
Income taxes - current	4,748	4,321
Income taxes - deferred	1,588	1,402
Total income taxes	6,336	5,723
Profit for the period	14,944	16,319
Profit attributable to non-controlling interests	307	215
Profit attributable to owners of the parent	14,637	16,103

(Quarterly Consolidated Statements of Comprehensive Income)

Nine-month periods ended December 31, 2018 and 2017

(Millions of yen)

	Nine-month period ended December 31, 2017 (April 1, 2017 - December 31, 2017)	Nine-month period ended December 31, 2018 (April 1, 2018 - December 31, 2018)
Profit for the period	14,944	16,319
Other comprehensive income		
Net unrealized holding gain (loss) on securities	9,333	(9,394)
Deferred (loss) gain on hedges	(8)	18
Translation adjustments	2,494	(179)
Remeasurements of defined benefit plans	162	172
Share of other comprehensive income of affiliates accounted for by the equity method	177	(66)
Total other comprehensive income	12,160	(9,449)
Comprehensive income	27,104	6,869
Comprehensive income attributable to:		
Shareholders of the parent	26,531	6,829
Non-controlling interests	572	39

(3) Notes Related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Significant Fluctuations in Shareholders' Equity)

At a meeting held November 28, 2018, the Company's board of directors resolved to purchase outstanding Company shares according to Article 156 of the Companies Act applied mutatis mutandis from the provisions of Article 165.3 of the same act. Pursuant to this resolution, the Company acquired 1,200,000 shares of outstanding Company stock.

As a result, treasury stock increased ¥1,956 million during the cumulative consolidated third quarter, amounting to ¥5,070 million as of the end of the consolidated third quarter.

The Company concluded purchases of treasury stock pursuant to this resolution on November 29, 2018.

(Additional Information)

At the beginning of the consolidated first quarter, the Company adopted the *Partial Amendment to the Accounting Standard for Tax Effect Accounting* (ASBJ Statement No.28, February 16, 2018). Under this standard, the Company now classifies deferred tax assets under investments and other assets, while deferred tax liabilities are classified under long-term liabilities for presentation.

(Segment Information, etc.)

Segment Information

I Nine-month period ended December 31, 2017 (consolidated)

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

(Millions of yen)

	Reportable Segments						Other (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	To Quarterly Consolidated Financial Statements (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	129,506	201,210	100,732	96,479	65,193	593,121	442	593,564	-	-	593,564
Intersegment sales/transfers	1,819	1,698	1,557	2,094	360	7,530	3,512	11,043	-	(11,043)	-
Total	131,326	202,909	102,289	98,573	65,554	600,652	3,954	604,607	-	(11,043)	593,564
Segment income (loss)	3,978	5,587	7,283	2,122	3,538	22,510	255	22,766	(2,775)	328	20,319

(Note) 1. Other is a business segment consisting of businesses not included in reportable segments, and includes logistics services, information processing services, and professional services.

2. Corporate segment income (loss) represents expenses not allocated to reportable segments or Other.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of Segment income (loss), Corporate, and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

II Nine-month period ended December 31, 2018 (consolidated)

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

(Millions of yen)

	Reportable Segments						Other (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	To Quarterly Consolidated Financial Statements (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	136,441	211,638	94,686	105,507	67,747	616,022	444	616,466	-	-	616,466
Intersegment sales/transfers	2,329	1,843	1,269	2,118	301	7,863	4,118	11,982	-	(11,982)	-
Total	138,770	213,482	95,956	107,626	68,048	623,885	4,563	628,448	-	(11,982)	616,466
Segment income (loss)	4,224	6,807	6,198	2,469	3,707	23,407	286	23,694	(3,151)	385	20,928

(Note) 1. Other is a business segment consisting of businesses not included in reportable segments, and includes logistics services, information processing services, and professional services.

2. Corporate segment income (loss) represents expenses not allocated to reportable segments or Other.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of Segment income (loss), Corporate, and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

2. Changes in Reportable Segments

(Changes in Business Classifications)

Beginning in the consolidated first quarter, the Company reclassified Fitz Chem LLC under the Functional Materials and the Life & Healthcare segments. In the prior consolidated fiscal year, Fitz Chem LLC was classified under the Functional Materials segment. This change is in response to a change in business unit management.

Segment information for the prior cumulative consolidated third quarter has been prepared under this new classification method, reported under *1. Information related to net sales and income (loss) by reportable segment*.

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, urethane materials, auxiliaries, plastic materials, plastic additives, industrial oil solutions, surfactants, fluorochemicals, encapsulant materials, silicone materials, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, and semiconductor industries.

The Advanced Materials & Processing segment is engaged in sales of dyestuffs, dyes, functional dyes, digital print processing materials, thermoplastic resins, thermosetting resins, automobile refinish paints, conductive coatings, synthetic rubber, inorganic materials, plastics products, and resins molding tools/dies for the dye/additive, digital print processing material, fiber processing, raw resin material, resin molding, functional film and sheet, construction, and other industries.

The Electronics segment is engaged in the sales of pre-processing materials and devices for LCD/semiconductors, materials for display panels, materials and devices for semiconductor assembly, low-temperature/vacuum equipment, high-function epoxy resins, precision electronics abrasives, and more for the display, touch panel, semiconductor, hard disk drive, electronic components, and heavy electrical industries.

The Automotive & Energy segment is engaged in the sales of plastic products, thermoplastic resins, thermosetting resins, silicone products, resin molding tools/dies, high-function car electronics materials and components, battery materials, solar cell/secondary battery materials and more for the automotive, automotive component, and energy industries.

The Life & Healthcare segment is engaged in the sales of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, additives for cosmetics, feeds, and surfactants for the pharmaceutical, food, and cosmetics industries. The segment offers radiation measurement as one of its main services. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

3. Supplementary Information

(1) Overseas Sales

I Nine-month period ended December 31, 2017 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	160,727	81,901	26,820	10,967	16,086	296,503
II Consolidated sales (Millions of yen)						593,564
III Ratio of overseas sales to consolidated sales (%)	27.2	13.8	4.5	1.8	2.7	50.0

II Nine-month period ended December 31, 2018 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	160,734	89,637	28,660	11,404	12,953	303,391
II Consolidated sales (Millions of yen)						616,466
III Ratio of overseas sales to consolidated sales (%)	26.1	14.5	4.6	1.9	2.1	49.2

(Note)

1. Overseas sales consist of net sales of the Company and consolidated subsidiaries in other countries or regions.
2. Countries/regions are determined by geographical proximity.
3. Major countries in each region
 - (1) Greater China.....China, Hong Kong, Taiwan
 - (2) ASEAN.....Thailand, Singapore
 - (3) Americas.....U.S., Mexico
 - (4) Europe.....Germany
 - (5) Other.....Korea