Consolidated Financial Statements for the Year Ended March 31, 2014
<Under Japanese GAAP>

May 9, 2014

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 (http: //www.nagase.co.jp/english/)
Representative: Hiroshi Nagase, Representative Director and President
Contact: Akira Takami, General Manager, Corporate Accounting Division TEL: +81-3-3665-3103
Annual General Meeting of Stockholders (scheduled): June 25, 2014
Start of Distribution of Dividends (scheduled): June 26, 2014
Securities Report Filing (scheduled): June 26, 2014
Supplementary Documents: Yes
Investors' Meeting: Yes

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

1. Consolidated Results for the Year Ended March 31, 2014 (April 1, 2013 to March 31, 2014)

(1) Consolidated Operating Results (% = year-on-year change)

	Net sales		Operating profit		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
FYE March 2014	723,212	8.5	15,789	1.4	17,905	(0.1)	11,663	(17.8)
FYE March 2013	666,272	5.4	15,578	16.0	17,927	14.3	14,182	65.5

(Notes) Comprehensive income FYE March 2014: ¥24,035 million (11.7% decrease)
FYE March 2013: ¥27,222 million (273.8%)

	Earnings per share	Earnings per share (diluted)	Return on equity	Ordinary income/ total assets	Operating income/net sales
	Yen	Yen	%	%	%
FYE March 2014	91.86	–	4.9	3.6	2.2
FYE March 2013	111.31	–	6.5	3.8	2.3

(Reference) Equity in earnings of affiliates FYE March 2014: ¥654 million
FYE March 2013: ¥933 million

(2) Consolidated Financial Position

	Total assets	Net assets	Net worth ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
FYE March 2014	498,141	251,892	49.5	1,942.20
FYE March 2013	486,747	237,806	46.9	1,803.31

(Reference) Equity capital FYE March 2014: ¥246,723 million
FYE March 2013: ¥228,505 million

(3) Consolidated Cash Flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents, end of the year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
FYE March 2014	12,721	(14,171)	(11,833)	33,825
FYE March 2013	18,576	(9,529)	1,164	45,816

2. Dividends

	Annual Dividends per Share					Total dividends paid (full fiscal year)	Payout ratio (consolidated)	Dividends/ net assets (consolidated)
	1Q	2Q	3Q	Fiscal Year End	Annual			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
FYE March 2013	–	13.00	–	13.00	26.00	3,294	23.4	1.5
FYE March 2014	–	14.00	–	14.00	28.00	3,556	30.5	1.5
FYE March 2015 (estimate)	–	15.00	–	15.00	30.00		26.8	

3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2015 (April 1, 2014 to March 31, 2015)

(% = year-on-year change)

	Net sales		Operating profit		Ordinary income		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
2Q (cumulative)	–	–	–	–	–	–	–	–	–
Full fiscal year	783,000	8.3	19,000	20.3	21,500	20.1	14,200	21.8	111.78

(Note) As the Company only discloses full-year earnings targets, we have omitted presentation of interim consolidated results here.

* 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) Changes of Accounting Policies or Presentation Methods in the Consolidated Financial Statements

i. Changes in accordance with revisions to accounting and other standards: No

ii. Changes in items other than (i) above: Yes

iii. Changes in accounting estimates: No

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

(Note) For details, see page 21, “3. Consolidated Financial Statements (5) Notes related to Consolidated Financial Statements (Changes in Accounting Policies).”

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

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

March 31, 2014	138,408,285 shares	March 31, 2013	138,408,285 shares

ii. Number of treasury stock as of the fiscal period end

March 31, 2014	11,375,631 shares	March 31, 2013	11,693,809 shares

iii. Average number of shares during the period

March 31, 2014	126,971,429 shares	March 31, 2013	127,406,786 shares

*** Disclosure of Audit Procedure Progress**

This earnings report is exempt from audit procedures as provided by the Financial Instruments and Exchange Act. Consolidated financial statements were undergoing the audit process at the time of the release of this report.

*** 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. Business Performance” on pages 2 through 9 of this document for further information.

Attachments

1. Business Performance

(1) Analysis of Business Performance

(Performance for the Fiscal Year Ended March 2014)

a. General Summary of Results

Japanese government and central bank economic policies continued to drive the yen lower and stock prices higher during the consolidated fiscal year under review. At the same time, the economy experienced signs of a moderate recovery, with improvement in both capital investment and personal consumption. Globally, the economies of the United States and Europe also showed signs of gradual improvement. At the same time, China (which showed signs of economic decline) and the rest of the world's emerging economies experienced slowing growth.

In this environment, the Company recorded domestic sales of ¥372.93 billion (3.0% year-on-year increase) and overseas sales of ¥350.27 billion (15.1% increase), resulting in total net sales of ¥723.21 billion, representing an 8.5% increase year on year.

Strong performance in the automobile-related business and office equipment and appliances business and higher net sales in film used in LCDs led to gross profit of ¥88.93 billion (7.7% year-on-year increase). Operating profit amounted to ¥15.78 billion (1.4% increase), due in part to an increase in retirement benefit costs related to amortization of actuarial differences in retirement benefit obligations. The Company recorded ordinary income in the amount of ¥17.9 billion (0.1% year-on-year decrease), reflecting increased foreign exchange gains offset by a decrease in gain on investment in equity method affiliates. Net income amounted to ¥11.66 billion, representing a 17.8% year-on-year decline. This result was mainly due to gain on sale of non-current assets recorded in the prior consolidated fiscal year.

b. Segment Summary

The following discusses Company earnings by segment.

Beginning with the consolidated first quarter of this fiscal year, the Company has reorganized certain of its reportable segments. For presentation purposes, the Company has calculated consolidated figures and ratios for the prior consolidated fiscal year according to these reorganized classifications.

Functional Materials

Functional Materials saw overall gains in net sales. Net sales fell in Southeast Asia, while net sales in Japan and Northeast Asia performed well.

The performance chemicals business recorded higher overall net sales compared to the prior fiscal year. While sales of basic chemicals in Southeast Asia and additives for the Middle East struggled, production recoveries among Japanese automobile manufacturers in China and strong demand for housing-related services in Japan drove performance growth in urethane materials and coating raw materials revenues.

In our specialty chemicals business, the group recorded lower comparative net sales. Despite solid results related to special epoxy resin exports, sales of raw materials for fluorochemical materials and electronics materials were weak.

As a result, net sales for the Functional Materials segment amounted to ¥169.97 billion, which was a ¥2.95 billion (1.8%) increase year on year. Operating profit for the segment came in at ¥4.32 billion, representing a ¥30 million (0.9%) year-on-year decline. This was due to increased gross profit in Japan and Northeast Asia offset by decreased gross profit of manufacturing subsidiaries.

Advanced Materials & Processing

Advanced Materials & Processing reported higher overall net sales for the period, driven by higher performance in Japan, Northeast Asia, Southeast Asia, Europe, and the United States.

The colors and imaging business experienced overall year-on-year growth for the year, with strong gains in sales of dyes/additives business and information printing materials.

Our office equipment and appliance business reported higher net sales on the whole. This result stems mainly form increased plastics sales in Japan, as well as in Northeast Asia and Southeast Asia.

Our business focusing on functional films and sheets and plastic molding products showed lower net sales overall, caused mainly by lower year-on-year performance in anti-reflective materials for LCD TVs and anti-reflective sheets for game devices, more than offsetting gains in sales of synthetic resins.

As a result, net sales for the Advanced Materials & Processing segment amounted to ¥239.22 billion, which was a ¥25 billion (11.7%) increase year on year. Operating profit increased ¥530 million (16.9%), reaching ¥3.7 billion, mainly due to higher gross profit from revenue gains and better profitability among manufacturing subsidiaries that operate in the colors and imaging business.

Electronics

The Electronics segment reported higher overall revenues, driven by growth in Japan, Northeast Asia, and Southeast Asia, which all outperformed lower results in the United States and Europe.

The electronic chemicals business experienced overall sales gains year. While formulated epoxy resin for the semiconductor industry showed lower net sales, the decrease was more than offset by higher sales in chemicals used in the manufacture of LCD panels.

Net sales in our electronic materials business were level with the prior fiscal year. Sales in film for LCDs were strong, while touch-panel materials experienced gains as well. However, these gains were offset by declines in the sales of LED-related materials.

As a result, we recorded total net sales of ¥137.02 billion in this segment, representing a ¥12.01 billion (9.6%) increase year on year. Operating profit amounted to ¥6.06 billion—a ¥350 million (5.5%) decrease compared to the prior consolidated fiscal year, mainly due to weak performance in thin-glass processing revenues in Northeast Asia that offset gross profit gains owing to higher touch panel materials sales.

Automotive & Energy

Automotive &Energy saw overall gains in net sales, with solid gains in automotive-related business revenues in Northeast Asia, the United States, Europe, and Japan, as well as growth in battery-related materials revenues.

Our automobile-related business recorded overall net sales improvements compared to the prior fiscal year. This result was mainly due to improved revenues from light/small automobiles in Japan, as well as significantly higher revenues related to resin sales to Japanese car manufacturers in China. The Company also recorded improved sales of products and services to North America.

In our energy business, higher year-on-year performance in solar power related products and products for lithium ion batteries lifted net sales higher for the business as a whole.

As a result, segment net sales for the fiscal year amounted to ¥99.44 billion, representing a ¥16.37 billion (19.7%) increase year on year. Operating profit increase ¥610 million (80.9%) compared to the prior fiscal year, reaching ¥1.38 billion for the segment.

Life & Healthcare

The Company's Life & Healthcare business experienced higher net sales as a whole, driving mainly by sales of functional saccharides to the food industry in Japan and overseas and revenues from sales of cosmetics and health foods in Japan.

Sales of trehalose and other functional saccharides to the food materials industry in Japan and overseas drove strong performance and higher revenues. Despite a contraction in Japan's whitening cosmetics market, the Company recorded year-on-year gains in sales of raw materials to the toiletries market in the skin care and toiletries business. However, sales of pharmaceutical raw materials, intermediates and reagents in the pharmaceuticals and medical fields were level with the prior year.

Our beauty care products business includes sales of cosmetics and health foods. Sales for this business grew overall, owing to strong performance of new products in whitening cosmetics and health foods, as well as increased purchasing demand in advance of Japan's increase in consumption tax rates.

As a result, segment net sales amounted to ¥76.81 billion for the fiscal year, which was a ¥690 million (0.9%) increase year on year. Operating profit fell to ¥4.0 billion, ¥90 million (2.3%) lower than the prior fiscal year. This decrease was mainly due to higher general and administrative expenses.

Other

No special matters to disclose.

(Forecast for the Fiscal Year Ending March 2015)

(Millions of yen)

	Net sales	Operating profit	Ordinary income	Net income
Year ending March 31, 2015	783,000	19,000	21,500	14,200
Year ended March 31, 2014	723,212	15,789	17,905	11,663
Change	+8.3%	+20.3%	+20.1%	+21.8%

a. Performance Forecast for the Fiscal Year Ending March 2015

We forecast the business conditions will continue to improve gradually over the next fiscal year, despite negative factors such as the demand in Japan early in the year to make purchased prior to the increase in the consumption tax which will likely lead to lower purchases of automobiles and fewer housing starts. Meanwhile, stability in North America and Southeast Asia contrast with slower growth and financial problems in China. Europe is showing signs of recovering from its fiscal crisis, but concerns remain as to how conditions in Ukraine will affect the regional economy.

In light of these conditions, we have set expectations for earnings at ¥783.0 billion in consolidated net sales (8.3% year-on-year growth), with gross profit at ¥94.7 billion (6.5% increase). At the same time we predict higher net sales and gross profit, we also expect lower retirement benefit costs associated with amortizing actuarial differences in retirement benefit obligations. Accordingly, we have set our projections for operating profit as ¥19 billion (20.3% year-on-year gain), with ordinary income projected to be ¥21.5 billion (20.1% increase), and net income to come in at ¥14.2 billion (21.8% increase).

The figures above have been calculated using a currency conversion rate of ¥103 to the US dollar.

b. Forecast by Business Segment

With stability in North America and other overseas markets, we expect to see continued strong growth in revenues from our office equipment and appliance business and film used in LCDs. Accordingly, we forecast net sales of ¥179.0 billion (5.3% year-on-year increase) in Functional Materials, ¥260.0 billion (8.7% increase) in Advanced Materials & Processing, ¥157.0 billion (14.6% increase) in Electronics, ¥104.7 billion (5.3% increase) in Automotive & Energy, and ¥81.6 billion (6.2% increase) in Life & Healthcare.

Next-period forecasts are based on information available at the time they were calculated. Actual future earnings may differ from forecast due to a variety of factors, including, but not limited to, overseas and domestic business conditions, foreign exchange rate fluctuations, etc.

(Millions of yen)

	FYE March 2014 Actual	FYE March 2015 Forecast	Change
Functional Materials	169,973	179,000	+5.3%
Advanced Materials & Processing	239,224	260,000	+8.7%
Electronics	137,026	157,000	+14.6%
Automotive & Energy	99,441	104,700	+5.3%
Life & Healthcare	76,810	81,600	+6.2%
Other	737	700	(5.0%)
Total Sales	723,212	783,000	+8.3%

(2) Analysis of Financial Position

a. Summary of Consolidated Balance Sheets

As of the end of the fiscal period, current assets amounted to ¥306.36 billion. This represents an increase of ¥610 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to a decrease in cash and time deposits associated with repayments of loans, offset by increases in accounts receivable and inventories. Non-current assets increased ¥10.78 billion compared to the end of the prior fiscal year, reaching ¥191.77 billion. This increase was mainly due to gains in investments in securities, due to market price improvements. As a result, total assets at the end of the fiscal year amounted to ¥498.14 billion, which was an increase of ¥11.39 billion compared to the end of the prior fiscal year.

The Company recorded liabilities in the amount of ¥246.24 billion, representing a ¥2.69 billion decrease compared to the end of the prior fiscal year. This decrease was mainly due to increased accounts payable and loans outpacing the increase in deferred tax liabilities due to unrealized holding gains on securities.

Net assets amounted to ¥251.89 billion at the end of the consolidated fiscal year, representing an increase of ¥14.08 billion compared to the end of the prior year. This increase was mainly due to net income of ¥11.66 billion, an increase in unrealized holding gain on securities, and improvements in foreign currency translation adjustments.

As a result, the Company experienced a 2.6-point increase in shareholders' equity ratio, up to 49.5% as of the end of the consolidated fiscal year.

b. Summary of Consolidated Cash Flows

Cash and cash equivalents (Cash) decreased by ¥11.99 billion (26.2%) compared to the prior fiscal year, amounting to ¥33.82 billion. Cash from operating activities amounted to ¥12.72 billion, while cash used in investing activities amounted to a net outflow of ¥14.17 billion, and cash used in financing activities amounted to ¥11.83 billion. The Company saw additional cash flow of ¥1.17 billion stemming from translation differences and another ¥110 million in cash from newly consolidated companies.

(Cash Flows from Operating Activities)

Cash flows from operating activities for the consolidated fiscal year amounted to ¥12.72 billion. This increase was mainly due to net income before income taxes and minority interests of ¥18.35 billion, offsetting ¥6.31 billion in income tax payments. In addition, the Company recorded ¥8.63 billion in depreciation and amortization, which has no effect on cash flows.

(Cash Flows from Investing Activities)

Cash used in investing activities during the consolidated fiscal year amounted to ¥14.17 billion. This was mainly due to payments of ¥11.8 billion for the acquisition of tangible and intangible fixed assets and ¥3.36 billion in purchases of investment securities, offsetting ¥1.83 billion in cash from the sale of investment securities.

(Cash Flows from Financing Activities)

Cash used in financing activities for the consolidated fiscal year amounted to ¥11.83 billion. This result was mainly due to cash outlays of ¥10.48 billion in repayments of long-term debt and ¥3.42 billion in cash dividends paid.

	FYE March 2010	FYE March 2011	FYE March 2012	FYE March 2013	FYE March 2014
Net worth ratio	53.1%	53.7%	45.4%	46.9%	49.5%
Net worth ratio based on market value	40.8%	33.9%	29.2%	29.9%	32.5%
Interest-bearing debt to cash flow ratio	0.8 years	2.5 years	15.6 years	5.3 years	7.3 years
Interest coverage ratio	44.7	19.5	8.9	17.7	11.3

Net worth ratio: Equity capital/total assets
Net worth ratio based on market value: Market capitalization/total assets
Interest-bearing debt to cash flow ratio: Interest-bearing debt/operating cash flow
Interest coverage ratio: Operating cash flow/interest payments

(Note1) Indicators are calculated based on consolidated figures.
(Note2) Market capitalization is calculated using the closing price at the end of the year multiplied by the number of outstanding shares at the end of the year (less treasury stock at cost).
(Note3) Operating cash flow is net cash provided by operating activities as shown in the consolidated statements of cash flows. Interest-bearing debt is all liabilities for which interest is payable as presented in the consolidated balance sheets. Interest payments are the amount of interest paid as presented in the consolidated statements of cash flows.

(3) Dividend Policy and Dividends for the Fiscal Years Ended March 2014 and March 2015

Our basic policy is to continue paying a stable dividend to our shareholders in line with our consolidated results as we improve our earnings power and management structure. We look to improve per-share dividends based on considerations of consolidated payout ratio and consolidated dividend to equity ratio. We also plan to use funds from internal reserves effectively in our business activities and to build a stronger management foundation.

The Nagase Group declared a year-end dividend of ¥14 per share based on this policy, resulting in a scheduled full-year cash dividend of ¥28 per share.

We forecast a full-year dividend of ¥30 per share for the next fiscal year, consisting of a ¥15 per share interim dividend and a ¥15 per share year-end dividend.

(4) Operating and Other Risks

The Nagase Group is engaged in trading, marketing, research and development, manufacturing and processing in six business segments across the world: Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, Life & Healthcare, and Other. The nature of these businesses entails various risks that may have a material effect on investment decisions. We provide a discussion of the major risks below.

Any forward-looking statements are based on management decisions as of the end of fiscal year under review.

a. Overall Operating Risk

The Nagase Group is engaged in activities that rely on the use of chemicals across a wide spectrum of products and services through our Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy and Life & Healthcare business. These products and services include dyes/pigments, coating materials/inks, surfactants, OA, electrical equipment, home electronics, automobiles, LCDs, semiconductors, and pharmaceutical/medical applications. Accordingly, significant changes in domestic and international commercial chemicals industry could affect the Nagase Group's earnings and financial condition.

b. Product Market Conditions

The Nagase Group relies heavily on petrochemicals manufactured from naphtha in our Functional Materials, Advanced Materials & Processing, and Automotive & Energy segments. Raw materials markets and demand-supply balance are two factors that result in unique market circumstances for each of our products. Fluctuations in these factors could affect our revenues and profits in related product lines. Some products manufactured by the Group use raw materials derived from grains. Raw materials costs fluctuate widely due to changes in grain market prices; we may not be able to pass on increased raw materials costs through higher sales prices, which could affect our profits in related product lined.

c. Impact of Fluctuations in Foreign Currency Exchange Rates

The Nagase Group conducts import/export as well as non-trade business transactions denominated in foreign currencies. Fluctuations in currency markets have a significant impact when prices are converted to yen. While the Group executes exchange contract hedges for these transactions to minimize exchange rate risk to the greatest extent possible, currency exchange rate fluctuations could have a significant impact on Group earnings and financial conditions. The Nagase Group owns foreign-domiciled corporations whose financial statements are prepared using local currencies. The conversion of these currencies to Japanese yen for consolidated reporting purposes entails currency conversion risk due to fluctuating exchange rates.

d. Impact of Fluctuations in Interest Rates

The Nagase Group obtains funds for operating and financing activities through loans from financial institutions; some of these loans are interest-bearing debt including variable interest terms. The Group reduces interest rate fluctuation risk related to variable interest loans by utilizing interest-rate swap contracts. Group earnings and financial conditions may be affected by future interest rate trends.

e. Risks Involved in Operating Overseas

A significant and increasing percentage of Nagase Group sales and manufacturing are conducted overseas in locations such as China, Southeast Asia, Europe, and the United States. While Group management keeps a close eye on local trends and conditions in order to respond appropriately, unforeseen events stemming from local government regulations, business customs, or other influences could have a significant impact on Group business performance and financial conditions.

f. Impact of Changes in Stock Prices

The Nagase Group maintains a portfolio of marketable securities, primarily equity shares of companies doing business with the Group. These equity investments are subject to share price fluctuation risks. As a matter of policy, the Nagase Group reduces risk by continuously reviewing and reorganizing its shareholdings. However, changes in share prices could impact Group earnings and financial condition. A decline in share prices could damage the value of pension plan assets managed by the Group, increasing retirement benefit costs and thereby reducing Group profits.

g. Counterparty Credit Risk

The Nagase Group extends credit to domestic and overseas purchasers in connection with various transactions. As a matter of policy, the Nagase Group reduces credit risk by obtaining guarantees and collateral according to the financial condition of the purchaser. Although the Nagase Group strives to ensure stable, uninterrupted product procurement, financial weakness or bankruptcies among suppliers or others could damage the Group's ability to procure goods. Such circumstances could have a significant impact on the Group’s earnings and financial condition.

h. Risk of Investments

The Nagase Group business is based on brokered transactions. At the same time, the Group continues to look for new high-value business opportunities. Accordingly, we support the Nagase R&D Center and domestic manufacturing subsidiaries in their pursuit of new business through proactive investment and strategic mergers and acquisitions, using advanced technologies and information-gathering capabilities as leverage.

As a result of pursuing new business, the Group will be exposed to greater risk than were we to follow a conventional brokered business model. The book value of business assets and intangible fixed assets (goodwill, etc.) when acquiring other companies becomes an important management topic. If future cash flows from new businesses underperform projections, and the Group records correlating impairment losses, such losses may have a significant impact on Group earnings and financial condition.

i. Product Quality Risk

The Nagase Group operates the Nagase R&D Center and domestic manufacturing subsidiaries to offer high-value-added products to our customers. We pay detailed attention to the quality of the technologies and products that bear the name of Nagase and our affiliates. We also bear manufacturers' liability for products that we handle as an importer, and accordingly treat these products with the same attention to detail and quality as if they were made in our own facilities. However, product defects could result in cessation of sales and/or product recalls, exposing the Nagase Group to liability for damages, which could have a significant impact on Group earnings and financial conditions.

j. Risks related to Product Laws

The Nagase Group imports, exports, and sells domestically a wide variety of chemicals and other products for a broad range of uses. To maintain international peace and safety, the chemicals and other items we export are subject to different laws, including the Foreign Exchange and Foreign Trade Control Law and the Export Trade Control Order. Imports and domestic sales are subject to the Chemical Substances Control Law and other related statutes, as well as similar regulations in foreign jurisdictions. To ensure compliance, the Group has established internal Security Trade Control Regulations and Chemical/Product Control Regulations. However, a violation of such laws and statutes could result in restrictions on Group business activities, having a significant impact on Group earnings and financial condition.

k. Risks of Natural Disasters

The Nagase Group has put emergency response systems in place, including the creation of a business contingency plan, the adoption of safety confirmation systems, the creation of a disaster-response manual, earthquake-response measures, disaster-response training, and other measures to deal with natural disasters. However, as we conduct business across a great number of countries and regions, we are exposed to the risk of major natural disasters, H1N1 influenza and other communicable diseases, and other emergencies that could disrupt our supply chain. Such disruptions could prevent us from selling our products or damage the manufacturing capabilities of important Group facilities. Such interruptions would result in opportunity loss, and could have a significant impact on Group earnings and financial condition.

2. Management Policies

(1) Basic Management Policy

<Management Philosophy>

The Nagase Group is a member of the world society. As such, it is our duty to maintain good and fair business practices and, through continued growth and development, provide society with the goods and services needed while improving the welfare of our employees.

Consistent with this management philosophy, we believe our most important goal is to contribute to society, including efforts to maintain good and fair business practices, while ensuring continued growth and development.

Guided by our Group slogan to be a "technology- and intelligence-oriented company that turns wisdom into business," we strive to become a unique company that combines the functions of a trading company with that of manufacturing, taking advantage of technologies and wisdom, tempered by experience. We will continue to create stronger functions and offer better business solutions as we become our customers' partner of choice in business.

(2) Management Objectives and Medium-Term Strategies

Based on this management philosophy, we created the following objectives and strategies as we work toward our vision for the future.

- Allow stakeholders to realize their dreams and ideals through our business
- Continue to grow and increase value, using our strengths in technology
- Anticipate changes in the market structure and environment, growing together with our customers as we offer unique solutions
- Contribute to making a better society and global environment

The Nagase Group believes that we must further accelerate the organizational and operational changes we pursued to date under our *"CHANGE" 11* medium-term business plan. This is the only way that we can reach our vision for Nagase in a business environment where structural and qualitative changes are happening faster every day. Based on the recognition, the Company launched our Change-S2014 three-year medium-term business plan in April 2012 and we have positioned the business plan as to promote Acceleration of Change.

Under Change-S2014, our basic strategic goals are to accelerate the improving quality of our business and operations (Speed up), to bring e total strength of the Nagase Group to bear throughout the value chain in our strategic markets (Step up), and to expand our unique solutions globally, creating sustained growth (Sustainable growth). Executing on these basic strategies, the Company reorganized four business segments away from product categories, reflecting the respective positions of each business in the value chain, as well as with the most closely aligned industries. This realignment has resulted in five segment categories: Functional Materials (located at the top of the value chain), Advanced materials & Processing (located in the next stage of the value chain), Electronics, Automotive & Energy, and Life & Healthcare (these last three segments functioning across all industries). The Company is working to accelerate "CHANGE", guided by a goal to promote globalization and create high-value-added businesses. We plan to take maximum advantage of our Group strengths, improving existing businesses and creating new ones in the Bio, Environment and Energy, and Electronics fields. We will combine segment functions with our Group-wide foundation of technologies as one means to put our comprehensive capabilities to best use.

Another task for the Group is to improve our management foundation in order to respond to the changing external environment and evolution of the Group's business structure.

We have set performance indicators to achieve in the final year (fiscal year ending in March, 2015) of our Change-S2014 plan, targeting consolidated net sales of ¥800 billion, consolidated operating profits of ¥30 billion and a return on equity of 8.0%. However, as of this time, we have determined that accomplishing these targets may be difficult. Moving forward, we intend to identify issues and revise our action plans in each business.

(3) Issues to be Addressed by the Company

We began executing on our new Change-S2014 three-year plan in April 2012. Under this plan, we have defined Group-wide initiatives to address issues of creating stronger capabilities in core businesses and a stronger management foundation, based on the strategies outlined above.

[Stronger Capabilities in Core Businesses]

a. Fields Utilizing Bioscience Technologies

Working from the Hayashibara business, we create a quicker feedback loop from the market through the integration of the Nagase Group research and development and sales functions. Our goal is to create highly original bio-related products, expanding sales of the same throughout the world, which will lead to stronger competitive position and higher growth in the medical, food, health and beauty markets within our Life & Healthcare business.

We have also identified potential applications of bio-related technologies for general commercial use and uses in long-term renewable resources.

The Company experienced strong sales of core Hayashibara products in the food industry, as well as the development and launch of new products. We have also worked to build a more robust sales structure overseas for Hayashibara products and to revise our sales agent policies for building a larger customer base. Local entities are improving their own marketing and sales activities to help accelerate our global growth.

One area of bio-related technologies we are working on relates to the development of bio-derived chemicals that do not rely on petroleum resources. The Nagase R&D Center has been working together with Kobe University and other labs in a next-generation agri-industrial bio production project. This project was adopted by the Ministry of Education, Culture, Sports, Science and Technology as a continuing program. At the same time, the Center is developing next-generation chemical production technologies, focusing on improving microbe activity utilizing metabolic engineering technologies.

b. Fields Utilizing Environment/Energy-Related Technologies

The Nagase Group is creating a new business model anticipating global technological innovations in green energy, bringing our entire force to bear in businesses focused on friendly manufacturing (using electricity generated from PV, wind power, and other renewable sources), smart grids, and energy conservation systems, as well as next-generation automobiles that make smart use of resources.

We are also advancing research into reducing the environmental burden of business, such as chemical recycling and creating lighter components for automobiles.

While competition in the market for industrial solar power systems has intensified, overall market growth has led to higher sales for the Company. CAPTEX, which manufactures and sells rechargeable battery systems equipped with lithium-ion rechargeable batteries, focuses on needs that lead to higher value, customizing products for market needs and pursuing development working closely with customers.
The rechargeable battery market is becoming more competitive due to new market entrants and price reductions. In this environment, CAPTEX is accelerating development focused on niche areas.

c. Fields Utilizing Electronics-Related Technologies

The electronics field is one of rapid technological innovation and structural change. Here, our goal is to expand our business by offering highly innovative technologies, products, and services that meet the needs of our customers.

To accelerate the pace of growth in the global market, we will create more nimble manufacturing and development capabilities overseas.

During the fiscal year, Nagase ChemteX (Wuxi) Corp. of China began operations at its research and development facility to expand its ability to develop products that meet the needs of the local market. The company proposes proprietary solutions to local firms, and then engages in product development. In the smartphone and tablet business, the company takes products from development to market, keeping an eye on changes in this increasingly competitive market.

[Stronger Management Foundation]

Where the Japanese market has slowed compared to the growing markets in emerging countries, the Nagase Group has chosen to focus expanding business in emerging and other international markets, establishing high-value-added businesses using our manufacturing and processing functions. Through investments in manufacturing, we have increased Group-wide manufacturing and processing bases in Japan and around the world, changing the fundamental shape of internal risk in the Group's manufacturing businesses.

To respond to these internal and external changes, we are engaged in creating a stronger consolidated management structure, building more mature risk management policies, and developing higher-caliber human resources.

With respect to stronger consolidated management structure, we continue build a more efficient Group management structure, encourage personnel interchange within the Group, and improve our IT infrastructure. To ensure a sound financial foundation, we are working to balance liabilities and equity at prudent levels, while keeping an eye open for any changes in our credit rating. At the same time, we are improving our ability to forecast present and future operating cash flows to balance investment (risk assets) and operating cash flows properly. From a perspective of efficient asset utilization, we are replacing older assets with newer, more profitable assets.

In terms of risk management, we are in the process of putting stronger systems into place for internal controls, risk management, and transaction risk control (as a manufacturer) across the Group's companies.

We are also in the process of establishing a stronger Group management foundation through hiring, training, and utilizing a talented workforce that can respond to the diverse demands of our businesses.

During the fiscal year, the Company bolstered our consolidated operations structure, following internal Investment Guidelines to improve the quality of investments and withdraw from unprofitable businesses. Further, we are continuing to improve our IT infrastructure both in Japan and overseas.

With respect to ongoing risk management, the Company is implementing activities to strengthen our Group-wide quality assurance structure and workplace safety management.

In terms of human resources development, Nagase is actively promoting a program of staff sharing among related firms, affiliates, and local overseas entities, while also improving existing Group-wide staff programs.

3. Consolidated Financial Statements

(1) Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2013)	Current Consolidated Fiscal Year (March 31, 2014)
ASSETS		
Current assets		
Cash and time deposits	46,693	34,980
Notes and accounts receivable	196,001	202,996
Merchandise and finished goods	47,104	53,075
Work in process	1,554	1,344
Raw materials and supplies	3,204	3,039
Deferred tax assets	4,282	4,537
Other	7,967	7,324
Less allowance for doubtful accounts	(1,057)	(936)
Total current assets	305,751	306,362
Non-current assets		
Property, plant and equipment		
Buildings and structures	50,057	51,526
Accumulated depreciation	(26,156)	(27,174)
Buildings and structures (net)	23,900	24,352
Machinery, equipment and vehicles	57,047	58,939
Accumulated depreciation	(45,688)	(47,349)
Machinery, equipment and vehicles (net)	11,358	11,590
Land	19,441	19,171
Others	22,676	25,381
Accumulated depreciation	(16,409)	(16,581)
Other(net)	6,266	8,800
Total property, plant and equipment	60,967	63,914
Intangible fixed assets		
Goodwill	30,726	29,780
Technology-based assets	20,093	18,517
Other	4,475	4,731
Total intangible fixed assets	55,295	53,030
Investments and other assets		
Investments in securities	56,870	66,275
Long-term loans receivable	837	1,168
Net defined benefit assets	–	113
Deferred tax assets	2,249	2,702
Other	5,067	4,792
Less allowance for doubtful accounts	(289)	(218)
Total investments and other assets	64,734	74,832
Total non-current assets	180,996	191,778
Total assets	486,747	498,141

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2013)	Current Consolidated Fiscal Year (March 31, 2014)
LIABILITIES		
Current liabilities		
Notes and accounts payable	107,941	105,014
Short-term loans	25,061	28,818
Current portion of long-term debt	10,408	6,596
Accrued income taxes	2,947	3,720
Deferred tax liabilities	21	24
Accrued bonuses for employees	3,968	4,045
Accrued bonuses for directors	219	232
Other	15,244	15,195
Total current liabilities	165,812	163,646
Long-term liabilities		
Bonds	30,000	30,000
Long-term debt	32,614	27,140
Deferred tax liabilities	9,251	12,506
Accrued retirement benefits for employees	10,283	–
Net defined benefit liability	–	11,875
Other	980	1,080
Total long-term liabilities	83,129	82,603
Total liabilities	248,941	246,249
Net Assets		
Shareholders’ equity		
Common stock	9,699	9,699
Capital surplus	10,041	10,242
Retained earnings	199,160	206,351
Less treasury stock, at cost	(7,109)	(6,916)
Total shareholders’ equity	211,792	219,377
Accumulated other comprehensive income (loss)		
Unrealized holding gain on securities	17,943	24,725
Deferred (loss) gain on hedges	(6)	0
Translation adjustments	(1,223)	2,239
Remeasurements of defined benefit plans	–	380
Total accumulated other comprehensive income	16,712	27,346
Stock acquisition rights	50	–
Minority interests	9,250	5,168
Total net assets	237,806	251,892
Total liabilities and net assets	486,747	498,141

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

(Consolidated Statements of Income)

(Millions of yen)

	Prior Consolidated Fiscal Year (April 1, 2012 - March 31, 2013)	Current Consolidated Fiscal Year (April 1, 2013 - March 31, 2014)
Net sales	666,272	723,212
Cost of sales	583,689	634,276
Gross profit	82,583	88,936
Selling, general and administrative expenses		
Selling expenses	10,013	10,719
Employee salaries	19,637	21,335
Provision for accrued bonuses for employees	2,530	2,373
Provision for accrued bonuses for directors	225	202
Depreciation and amortization	3,971	4,230
Retirement benefit expenses	1,992	2,938
Provision for retirement benefits for directors	51	50
Allowance for doubtful accounts	(36)	(106)
Amortization of goodwill	1,612	1,685
Other	27,005	29,716
Total selling, general and administrative expenses	67,004	73,146
Operating profit	15,578	15,789
Non-operating income		
Interest income	203	188
Dividend income	1,212	1,115
Rent income	292	277
Investment profit on equity method	933	654
Foreign exchange gain	548	786
Other	630	668
Total non-operating income	3,822	3,691
Non-operating expenses		
Interest expenses	1,099	1,082
Other	373	493
Total non-operating expenses	1,472	1,576
Ordinary income	17,927	17,905
Extraordinary gains		
Gain on sale of non-current assets	3,358	519
Gain on sale of investment securities	801	867
Other receivables	–	118
Gain on negative goodwill	–	528
Other	305	11
Total extraordinary gains	4,464	2,045
Extraordinary losses		
Loss on sale of non-current assets	98	45
Loss on disposal of non-current assets	196	154
Impairment loss	1,896	1,314
Loss on sale of investments securities	0	27
Loss on valuation of investments securities	45	3
Other	695	51
Total extraordinary losses	2,934	1,596
Net income before income taxes	19,458	18,353
Income taxes	6,417	7,128
Deferred taxes	(2,004)	(906)
Total income taxes	4,413	6,222
Net income before minority interests	15,044	12,131
Minority interests	862	468
Net income	14,182	11,663

(Consolidated Statement of Comprehensive Income)

(Millions of yen)

	Prior Consolidated Fiscal Year (April 1, 2012 - March 31, 2013)	Current Consolidated Fiscal Year (April 1, 2013 - March 31, 2014)
Net income before minority interests	15,044	12,131
Other comprehensive income		
Unrealized holding gain on securities	5,212	6,780
Deferred (loss) gain on hedges	15	6
Translation adjustments	6,181	3,549
Remeasurements of defined benefit plans	–	1,368
Share of other comprehensive income of associates accounted for using equity method	768	198
Total other comprehensive income	12,178	11,903
Comprehensive income	27,222	24,035
Comprehensive income attributable to:		
Comprehensive income, parent company	25,674	23,163
Comprehensive income, minority interests	1,548	871

(3) Consolidated Statement of Change in Shareholders' Equity

Prior Consolidated Fiscal Year (April 1, 2012 - March 31, 2013)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
Balance, beginning of period	9,699	10,041	186,907	(5,460)	201,188
Cumulative effects of changes in accounting policies			–		–
Restated balance	9,699	10,041	186,907	(5,460)	201,188
Changes					
Cash dividends			(3,189)		(3,189)
Net income			14,182		14,182
Purchases of treasury stock				(1,649)	(1,649)
Disposal of treasury stock		0		0	0
Changes in scope of consolidation			(66)		(66)
Changes in scope of equity affiliates			717		717
Changes accompanying changes in fiscal years of consolidated subsidiaries			609		609
Changes other than shareholders' equity accounts (net)					
Total changes	–	0	12,253	(1,649)	10,604
Balance, end of period	9,699	10,041	199,160	(7,109)	211,792

	Accumulated other comprehensive income (loss)					Stock acquisition rights	Minority interests	Total net assets
	Unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance, beginning of period	12,731	(21)	(9,191)	–	3,518	110	7,927	212,744
Cumulative effects of changes in accounting policies				–	–		–	–
Restated balance	12,731	(21)	(9,191)	–	3,518	110	7,927	212,744
Changes								
Cash dividends								(3,189)
Net income								14,182
Purchases of treasury stock								(1,649)
Disposal of treasury stock								0
Changes in scope of consolidation								(66)
Changes in scope of equity affiliates								717
Changes accompanying changes in fiscal years of consolidated subsidiaries								609
Changes other than shareholders' equity accounts (net)	5,211	15	7,967	–	13,194	(60)	1,322	14,457
Total changes	5,211	15	7,967	–	13,194	(60)	1,322	25,061
Balance, end of period	17,943	(6)	(1,223)	–	16,712	50	9,250	237,806

Current Consolidated Fiscal Year (April 1, 2013 - March 31, 2014)

(Millions of yen)

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
Balance, beginning of period	9,699	10,041	199,160	(7,109)	211,792
Cumulative effects of changes in accounting policies			(671)		(671)
Restated balance	9,699	10,041	198,489	(7,109)	211,120
Changes					
Cash dividends			(3,425)		(3,425)
Net income			11,663		11,663
Purchases of treasury stock				(1)	(1)
Disposal of treasury stock		201		194	395
Changes in scope of consolidation			(220)		(220)
Changes in scope of equity affiliates			(154)		(154)
Changes accompanying changes in fiscal years of consolidated subsidiaries					–
Changes other than shareholders' equity accounts (net)					
Total changes	–	201	7,862	192	8,256
Balance, end of period	9,699	10,242	206,351	(6,916)	219,377

	Accumulated other comprehensive income (loss)					Stock acquisition rights	Minority interests	Total net assets
	Unrealized holding gain on securities	Deferred (loss) gain on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance, beginning of period	17,943	(6)	(1,223)	–	16,712	50	9,250	237,806
Cumulative effects of changes in accounting policies				(982)	(982)		(5)	(1,659)
Restated balance	17,943	(6)	(1,223)	(982)	15,730	50	9,244	236,146
Changes								
Cash dividends								(3,425)
Net income								11,663
Purchases of treasury stock								(1)
Disposal of treasury stock								395
Changes in scope of consolidation								(220)
Changes in scope of equity affiliates								(154)
Changes accompanying changes in fiscal years of consolidated subsidiaries								–
Changes other than shareholders' equity accounts (net)	6,782	6	3,463	1,362	11,615	(50)	(4,075)	7,488
Total changes	6,782	6	3,463	1,362	11,615	(50)	(4,075)	15,745
Balance, end of period	24,725	0	2,239	380	27,346	–	5,168	251,892

(4) Consolidated Statements of Cash Flows

(Millions of yen)

	Prior Consolidated Fiscal Year (April 1, 2012 - March 31, 2013)	Current Consolidated Fiscal Year (April 1, 2013 - March 31, 2014)
Cash flows from operating activities		
Net income before income taxes	19,458	18,353
Depreciation and amortization	7,445	8,634
Amortization of goodwill	1,612	1,685
Impairment loss	1,896	1,314
Provision for accrued retirement benefits for employees	205	–
Increase (decrease) in net defined benefit liability	–	1,128
Interest income and dividend income	(1,416)	(1,304)
Interest expenses	1,099	1,082
Foreign exchange gain (loss)	(1,032)	296
Loss (gain) on sale of non-current assets	(3,259)	(473)
Loss (gain) on sale of investments securities	(800)	(840)
(Increase) decrease in notes and accounts receivable	10,357	(1,983)
(Increase) decrease in inventories	(1,490)	(3,274)
Increase (decrease) in notes and accounts payable	(8,771)	(6,488)
Other	(1,015)	281
Sub total	24,289	18,412
Interest and dividends received	1,724	1,750
Interest paid	(1,050)	(1,122)
Taxes paid	(6,387)	(6,319)
Cash flows from operating activities	18,576	12,721
Cash flows from investing activities		
Purchases of property, plant and equipment	(10,551)	(10,131)
Cash from sale of property, plant and equipment	3,235	812
Payment for acquisition of intangible fixed assets	(1,709)	(1,669)
Purchases of investments securities	(214)	(3,360)
Cash from sale of investments in securities	1,200	1,832
Cash used for purchase of investments	(646)	(1,143)
Change in short-term loans (increase)	(380)	(542)
Other	(464)	31
Cash flows from investing activities	(9,529)	(14,171)

(Millions of yen)

	Prior Consolidated Fiscal Year (April 1, 2012 - March 31, 2013)	Current Consolidated Fiscal Year (April 1, 2013 - March 31, 2014)
Cash flows from financing activities		
Increase (decrease) in short-term loans, net	(16,273)	1,337
Proceeds from long-term loans	4,665	999
Repayment of long-term debt	(11,564)	(10,484)
Proceeds from issuance of bond	29,855	–
Purchase of treasury stock	(1,649)	(1)
Cash dividends paid	(3,189)	(3,425)
Cash dividends paid to minority shareholders	(540)	(545)
Other	(139)	286
Cash flows from financing activities	1,164	(11,833)
Effects of exchange rate changes on cash and cash equivalents	2,451	1,179
Net increase (decrease) in cash and cash equivalents	12,662	(12,103)
Cash and cash equivalents at beginning of the year	28,517	45,816
Increase in cash and cash equivalents accompanying consolidation	915	113
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	–	(1)
Increase (decrease) in cash and cash equivalents accompanying changes in fiscal years of consolidated subsidiaries	3,721	–
Cash and cash equivalents, at end of the period	45,816	33,825

(5) Notes related to Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Changes in Accounting Policies)

Effective consolidated fiscal years beginning April 1, 2013 and after, companies are allowed to apply Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan Statement No. 26, issued May 17, 2012) and Implementation Guidance on Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan Statement No. 25, issued May 17, 2012). Accordingly, the Company has adopted these accounting standards effective the first day of consolidated fiscal year under review. In doing so, the Company now deducts pension assets from retirement benefit obligations, recording the amount as liabilities for retirement benefits. Unrecognized actuarial differences and unrecognized prior service costs are likewise recorded as liabilities for retirement benefits. Further, the Company has revised its calculation method for retirement benefit obligations and service costs, changing the method of period attribution of the expected retirement benefit amount from a straight-line basis to a benefit formula basis. Further, the Company has changed the calculation method for the discount rate.

In accordance with Paragraph 37 of the Accounting Standard for Retirement Benefits, the Company has recorded effect of the amount of plan assets deducted from retirement benefit obligations and recorded to liabilities for retirement benefits as an increase or decrease to cumulative adjustment for retirement benefits within accumulated other comprehensive income (loss). Further, the effect of the change in calculation method of retirement benefit obligations and service costs is added or subtracted from retained earnings as of the start of the consolidated fiscal year under review.

As a result, the Company recorded ¥2,562 million in net defined benefit liability as of the beginning of the consolidated fiscal year under review, as well as ¥982 million in accumulated other comprehensive income (loss) and a decrease of ¥671 million in retained earnings.

Retirement benefit costs (service costs, interest costs) for the consolidated fiscal year under review are lower when compared to the former method of calculation. However, the effect of this difference on operating profit, ordinary income and net income before income taxes is minimal.

(Segment Information, etc.)

a. Segment Information

1. Reportable Segments

The Company's reportable segments are those units comprising the Nagase Group for which separate financial information is available and for which the board of directors make regular decisions regarding resource allocation and operating performance.

The Company classifies reportable segments according to the location of the business in the value chain and the market(s) targeted. Accordingly, the company has defined five segment categories: Functional Materials (located at the top of the value chain), Advanced Materials & Processing (located in the next stage of the value chain), Electronics, Automotive & Energy, and Life & Healthcare (these last three segments functioning across all industries).

Beginning with the consolidated fiscal year under review, the Company has moved its abrasives business for semiconductor and HDD industries from the Functional Materials segment to the Electronics segment in order to develop new markets and expand applications in a segment aligned more closely with the end user. Similarly, the company has moved its raw materials business for the cosmetics industries from the Functional Materials segment to the Life & Healthcare segment. This move was made to capitalize on synergies with products created by Hayashibara Co., Ltd.

Segment information for the prior consolidated fiscal year reflects these segment changes.

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, plastic materials, plastic additives, industrial oil solutions, surfactants, fluorochemicals, encapsulant materials, and silicone materials and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, semiconductor industries.

The Advanced Materials & Processing segment is engaged in the sales of dyestuffs, dyes, functional dyes, information printing products, thermoplastic resins, thermosetting resins, synthetic rubber, inorganic materials, plastics products, resins molding tools/dies, external inspection equipment for the dye/additive, information printing, fiber processing, raw resin material, resin molding, functional film and sheet and other industries.

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

The Automotive & Energy segment is engaged in sales of plastic products, thermoplastic resins, thermosetting resins, resins molding tools/dies, battery materials, solar cell/secondary battery-related 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/fertilizers for the pharmaceutical, food, and cosmetics industries. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

2. Net Sales, Profit (Loss), Assets, Liabilities, and Other by Segment

   Accounting treatment in each reportable segment follows the principles and procedures of the accounting treatments used to prepare the Company’s consolidated financial statements.

   Profit in reportable segments is defined as operating profit. Inter-segment profits and transfers are based on actual market prices.

3. Information related to Net Sales, Profit (Loss), Assets, Liabilities, and Other by Segment

Prior Consolidated Fiscal Year (April 1, 2012 to March 31, 2013)

(Millions of yen)

	Reportable Segments						Other (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	To Consolidated Financial Statements (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net Sales											
Sales to Customers	167,017	214,214	125,014	83,068	76,116	665,431	841	666,272	–	–	666,272
Intersegment Sales/Transfers	2,373	1,133	724	1,384	830	6,445	5,523	11,968	–	(11,968)	–
Total	169,390	215,347	125,738	84,453	76,947	671,877	6,364	678,241	–	(11,968)	666,272
Segment Profit (Loss)	4,368	3,171	6,421	763	4,093	18,818	265	19,083	(3,672)	167	15,578
Segment Assets	76,779	108,713	65,453	37,387	95,735	384,069	6,489	390,558	127,891	(31,702)	486,747
Other											
Depreciation and amortization	418	553	1,508	250	2,025	4,756	202	4,959	2,486	–	7,445
Amortization of Goodwill	–	–	96	–	1,516	1,612	–	1,612	–	–	1,612
Goodwill	–	–	2,046	–	28,679	30,726	–	30,726	–	–	30,726
Investments in Equity Affiliates	1,781	1,545	56	1,613	1,856	6,854	1,793	8,648	–	–	8,648
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	612	863	2,788	92	3,028	7,385	436	7,821	3,870	–	11,691

(Notes)

1. Other is a business segment consisting of businesses not included in reportable segments, and includes distribution services, information processing services, and professional services.
2. Corporate segment income represents expenses not allocated to reportable segments or Other. Segment assets under Corporate are assets not allocable to reportable segments or Other.
3. Adjustments are eliminations of intersegment translations.
4. The sum of segment profit (loss) totals, Corporate and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

Current Consolidated Fiscal Year (April 1, 2013 to March 31, 2014)

(Millions of yen)

	Reportable Segments						Other (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	To Consolidated Financial Statements (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net Sales											
Sales to Customers	169,973	239,224	137,026	99,441	76,810	722,475	737	723,212	–	–	723,212
Intersegment Sales/Transfers	2,966	2,212	674	1,886	418	8,158	5,773	13,932	–	(13,932)	–
Total	172,939	241,436	137,700	101,328	77,228	730,633	6,510	737,144	–	(13,932)	723,212
Segment Profit (Loss)	4,328	3,707	6,067	1,381	4,000	19,485	215	19,701	(4,364)	452	15,789
Segment Assets	75,491	119,202	69,824	40,792	96,205	401,516	7,124	408,640	124,035	(34,533)	498,141
Other											
Depreciation and amortization	407	647	2,323	262	2,993	6,634	193	6,827	1,806	–	8,634
Amortization of Goodwill	–	–	169	–	1,516	1,685	—	1,685	–	–	1,685
Goodwill	–	–	2,617	–	27,163	29,780	—	29,780	–	–	29,780
Investments in Equity Affiliates	1,850	2,245	75	1,777	2,070	8,018	1,838	9,856	–	(54)	9,801
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	399	862	2,015	369	4,488	8,134	49	8,184	2,929	–	11,113

(Notes)

1. Other is a business segment consisting of businesses not included in reportable segments, and includes distribution services, information processing services, and professional services.
2. Corporate segment income represents expenses not allocated to reportable segments or Other. Segment assets under Corporate are assets not allocable to reportable segments or Other.
3. Adjustments are eliminations of intersegment translations.
4. The sum of segment profit (loss) totals, Corporate and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

b. Other Information

Prior Consolidated Fiscal Year (April 1, 2012 to March 31, 2013)

1. Products and Services

Omitted, since the same information has been disclosed under Segment Information.

2. Geographic Information

(1) Net sales

(Millions of yen)

Japan	China	Other	Total
361,971	133,076	171,224	666,272

(Note) Net sales are categorized by country or region, according to the location of the customer.

(2) Property, plant and equipment

(Millions of yen)

Japan	Other	Total
54,619	6,347	60,967

3. Major Customers

Information not presented here, since no single customer accounts for 10% or more of consolidated net sales.

Current Consolidated Fiscal Year (April 1, 2013 to March 31, 2014)

1. Products and Services

Omitted, since the same information has been disclosed under Segment Information.

2. Geographic Information

(1) Net Sales

(Millions of yen)

Japan	China	Other	Total
372,939	152,373	197,899	723,212

(Note) Net sales are categorized by country or region, according to the location of the customer.

(2) Property, plant and equipment

(Millions of yen)

Japan	Other	Total
56,862	7,051	63,914

3. Major Customers

Information not presented here, since no single customer accounts for 10% or more of consolidated net sales.

c. Impairment Losses of Non-current Assets for each Reportable Segment

Prior Consolidated Fiscal Year (April 1, 2012 to March 31, 2013)

(Millions of yen)

	Reportable Segments						Other	Corporate/ Elimination	Total
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total			
Impairment loss	–	1,359	326	–	211	1,896	–	–	1,896

(Notes) Advanced Materials & Processing reflects the write-down to recoverable book value for manufacturing assets associated with the decreasing profitability of plastics resin & material processing businesses and withdrawal from the business of manufacturing resin plastic tray products for transport use in China.

Electronics reflects the write-down to recoverable book value of commercial assets associated with the withdrawal from the business for semiconductor wafer plating and the withdrawal from the business for optical film processing for LCD displays in China.

Life & Healthcare reflects the write-down to recoverable book value of commercial assets associated with the increasingly unprofitable pharmaceutical intermediates manufacturing business. This number also reflects the write-down to recoverable book value for idle assets with significantly reduced market value.

Current Consolidated Fiscal Year (April 1, 2013 to March 31, 2014)

(Millions of yen)

	Reportable Segments						Other	Corporate/ Elimination	Total
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total			
Impairment loss	–	–	221	1,080	–	1,301	–	12	1,314

(Notes) Due to a significant decline in market value, the Company has written down the book value of certain shared assets related to computer software duplication business under Electronics, reflecting amounts estimated to be recoverable.

Due to decreasing profitability related to rechargeable battery system manufacturing and sales and the suspension of development activities in car electronics under Automotive & Energy, the Company has written down the book value of the related business assets, reflecting the amounts estimated to be recoverable.

(Per-Share Data)

Prior Consolidated Fiscal Year (April 1, 2012 to March 31, 2013)		Current Consolidated Fiscal Year (April 1, 2013 to March 31, 2014)	
Net Assets per Share	¥1,803.31	Net Assets per Share	¥1,942.20
Earnings per Share	¥111.31	Earnings per Share	¥91.86

(Notes)

1. Diluted earnings per share not presented, as the Company does not issue any stock with dilutive effects.
2. Basic earnings per share calculations are as show below.

Item	Prior Consolidated Fiscal Year (April 1, 2012 to March 31, 2013)	Current Consolidated Fiscal Year (April 1, 2013 to March 31, 2014)
Net Income from consolidated statements of income (millions of yen)	14,182	11,663
Net income related to common stock (millions of yen)	14,182	11,663
Average number of outstanding shares of common stock (shares)	127,406,786	126,971,429
Dilutive stock not included in calculation of diluted earnings per share (no dilutive effects)	409,000 shares subject to stock options as approved at the annual shareholders' meeting held June 26, 2008.	409,000 shares subject to stock options as approved at the annual shareholders' meeting held June 26, 2008. The exercise period for the stock options noted above expired on July 31, 2013. Accordingly, these stock options have expired.

(Significant Subsequent Events)

No matters to report.

4 Other

Year ended March 31, 2014 Financial Highlights (Consolidated)

[Sales in overseas markets]

(Millions of yen)

Item	Current Consolidated Fiscal Year		Prior Consolidated Fiscal Year		Change
	Amount	Overseas Sales/ Consolidated Sales (%)	Amount	Overseas Sales/ Consolidated Sales (%)	
Overseas Sales	350,272	48.4	304.301	45.7	45,971
Northeast Asia	196,118	27.1	175,965	26.4	20,153
Southeast Asia	108,414	15.0	85,881	12.9	22,533
North America	26,344	3.6	25,423	3.8	921
Europe & Other	19,394	2.7	17,031	2.6	2,363

(Notes)

1. Sales in overseas markets consist of net sales of the Company and consolidated subsidiaries in other countries or regions.
2. Major countries in each region
   (1) Northeast Asia ············Taiwan, China
   (2) Southeast Asia ············Singapore, Thailand
   (3) North America ············USA
   (4) Europe & Others··········Germany

[Income (Loss)]

(Millions of yen)

Item	Current Consolidated Fiscal Year	Prior Consolidated Fiscal Year	Change / Change (%)
Net sales	723,212	666,272	56,939
			+8.5%
Functional Materials	169,973	167,017	2,955
Advanced Materials & Processing	239,224	214,214	25,009
Electronics	137,026	125,014	12,011
Automotive & Energy	99,441	83,068	16,373
Life & Healthcare	76,810	76,116	693
Other	737	841	(104)
Gross profit	88,936	82,583	6,353
(Profit Ratio)	(12.3%)	(12.4%)	+7.7%
Selling, general and administrative expenses	73,146	67,004	6,141
Selling expense	10,719	10,013	705
Payroll	31,733	28,720	3,013
Depreciation and amortization	4,230	3,971	258
Amortization of goodwill	1,685	1,612	72
Other	24,777	22,686	2,091
Operating profit	15,789	15,578	211
			+1.4%
Financial Profit	249	316	(67)
Interest income	108	203	(95)
Dividend income	1,115	1,212	(96)
Interest expenses	975	1,099	(124)
Other non-operating profit (Loss)	1,866	2,032	(166)
Ordinary income	17,905	17,927	(22)
			(0.1%)
Extraordinary gains	2,045	4,464	(2,419)
Extraordinary losses	1,596	2,934	(1,337)
Total income taxes	6,222	4,413	1,808
Minority interests	468	862	(394)
Net income	11,663	14,182	(2,519)
			(17.8%)

Overview

[Net sales]

Functional Materials: Sales declined in Southeast Asia; however Japan and Northeast Asia experienced gains. The performance chemicals business grew, while the specialty chemicals business recorded a decline in sales.

Advanced Materials & Processing: Sales gains in every region (Japan, Northeast/Southeast Asia, USA, and Europe). Colors and imaging business and office equipment and appliances business experienced revenue growth, while functional film and sheets and resin molding performed below prior-year levels.

Electronics: Lower revenues in Europe, USA. Japan, Northeast/Southeast Asia showed gains. Sales increased in the electronic chemicals business while electronics materials business level with prior year.

Automotive & Energy: Automotive-related materials reported gains in Northeast Asia, Europe, USA, and Japan. Energy-related business also showed gains.

Life & Healthcare: Food materials reported growth in Japan and world-wide. Skin care revenues fell in Japan, but toiletries showed growth. Beauty care products revenues increased.

[Gross profit]

Higher gross profits across all segments.

[Selling, general and administrative expenses]

- Payroll (+3,013) : Mainly due to increase in employee bonuses and retirement benefit costs
- Other (+2,091) : Increase in research costs (+480), commissioned services (+421)

[Operating profit]

Higher profits in Advanced Materials & Processing, and Automotive & Energy segments. Lower profits in Functional Materials, Electronics, and Life & Healthcare segments.

[Extraordinary gains]

867 in gains on sale of investment securities, 528 in gains on negative goodwill, and 519 in gains on sale of non-current assets

[Extraordinary losses]

Impairment loss 1,314, Loss on disposal of non-current assets 154

[Assets, Liabilities]

(Millions of yen)

Item	Current Consolidated Fiscal Year	Prior Consolidated Fiscal Year	Change
Current assets	306,362	305,751	611
Non-current assets	191,778	180,996	10,781
PP&E/intangible Fixed Assets	116,945	116,262	683
Investments and other assets	74,832	64,734	10,098
Total assets	498,141	486,747	11,393
Current liabilities	163,646	165,812	(2,166)
Short-term loans	28,818	25,061	3,756
Current portion of long-term debt	6,596	10,408	(3,812)
Other	128,231	130,342	(2,110)
Long-term liabilities	82,603	83,129	(525)
Bonds	30,000	30,000	–
Long-term debt	27,140	32,614	(5,473)
Other	25,462	20,515	4,947
Total liabilities	246,249	248,941	(2,692)
Interest-bearing debt	92,828	98,425	(5,597)
Shareholders' equity	219,377	211,792	7,584
Accumulated other comprehensive income (loss)	27,346	16,712	10,633
Stock acquisition rights	–	50	(50)
Minority interests	5,168	9,250	(4,081)
Total net assets	251,892	237,806	14,085
Net worth ratio	49.5%	46.9%	

Overview

[Current assets]

Increase in notes and accounts receivable (+6,995), inventories (+5,596); decrease in cash and time deposits (-11,713)

[Non-current assets]

Increase in investments in securities (+9,404): mainly valuation gains on marketable securities

[Liabilities]

- Decrease due to loan repayments (-5,529)
- Increase in long-term deferred tax liabilities (+3,255): mainly due to increase in unrealized holding gains on securities

[Net assets]

- **Shareholders' equity: Increase in retained earnings due to net income (+11,663); dividend payments (-3,425)**
- Accumulated other comprehensive income (loss): Increase in valuation differences in available-for-sale securities (+6,782)
  Increased due to foreign currency translation adjustments (+3,463)

(Note) Figures inside parentheses of explanatory text indicate comparative change

Earnings Performance and Fiscal 2015 Earnings Forecast

(Millions of yen)

	FYE March 2011	FYE March 2012	FYE March 2013	FYE March 2014	FYE March 2015 (forecast)	Year-on-Year Change
Net Sales	660,213	631,854	666,272	723,212	783,000	108.3%
Functional Materials	–	177,126	167,017	169,973	179,000	
Advanced Materials & Processing	–	217,929	214,214	239,224	260,000	
Electronics	–	110,495	125,014	137,026	157,000	
Automotive & Energy	–	76,113	83,068	99,441	104,700	
Life & Healthcare	–	49,170	76,116	76,810	81,600	
Other	–	1,018	841	737	700	
Gross profit	73,008	71,628	82,583	88,936	94,700	106.5%
Ratio	(11.1%)	(11.3%)	(12.4%)	(12.3%)	(12.1%)	
Operating profit	18,732	13,427	15,578	15,789	19,000	120.3%
Ratio	(2.8%)	(2.1%)	(2.3%)	(2.2%)	(2.4%)	
Ordinary income	20,625	15,690	17,927	17,905	21,500	120.1%
Ratio	(3.1%)	(2.5%)	(2.7%)	(2.5%)	(2.7%)	
Net income	12,823	8,570	14,182	11,663	14,200	121.8%
Ratio	(1.9%)	(1.4%)	(2.1%)	(1.6%)	(1.8%)	
Total assets	375,336	450,842	486,747	498,141		
Equity capital	201,516	204,706	228,505	246,723		
Net worth ratio	53.7%	45.4%	46.9%	49.5%		
ROE (Equity capital/profit ratio)	6.5%	4.2%	6.5%	4.9%		
ROA (Total assets/profit ratio)	3.4%	2.1%	3.0%	2.4%		
Earnings per share (yen)	99.76	66.69	111.31	91.86	111.78	121.7%
Debt to cash flow ratio (x)	–	–	–	–		
Consolidated companies	60	66	82	85	86	
Consolidated subsidiaries	51	55	61	60	61	
Equity method affiliates	9	11	21	25	25	

Note 1: ROE = net income / {(equity capital, beginning of period + equity capital, end of period) / 2}
ROA = net income / {(total assets, beginning of period + total assets, end of period) / 2}
Note 2: Debt to Cash Flow Ratio = (Interest-bearing debt - cash and deposits) / equity capital

Consolidated Companies

[Ratio of Profitable to Unprofitable Companies]

(Units: Companies)

Category		Current Consolidated Fiscal Year			Prior Consolidated Fiscal Year		
		Profitable Co's	Unprofitable Co's	Total	Profitable Co's	Unprofitable Co's	Total
Consolidated Subsidiaries	Japan	21	5	26	23	5	28
	Overseas	29	5	34	24	9	33
Equity Method Affiliates	Japan	7	3	10	7	2	9
	Overseas	10	5	15	9	3	12
Composition Ratio (%)		79%	21%	100%	77%	23%	100%

– Major Profitable Companies –

Category	Company Name	Main Business Lines
Domestic Consolidated Subsidiaries	Hayashibara Co., Ltd.	Development, manufacture, and sales of food raw materials, pharmaceutical raw materials, health food raw materials, and functional dyes
	Nagase ChemteX Corp.	Research, manufacture, and sale of enzymes, fermented products, pharmaceutical intermediates, disinfecting agents, functional polymers, epichlorohydrine derivatives, electronics materials, etc.
Overseas Consolidated Subsidiaries	Nagase (Thailand) Co., Ltd.	Import/export, domestic sales, marketing
	Nagase (Hong Kong) Ltd.	Import/export, domestic sales, marketing
Equity Method Affiliates	Nagase Landauer, Ltd.	Radiation measuring services

– Major Unprofitable Companies –

Category	Company Name	Main Business Lines
Domestic Consolidated Subsidiaries	Setsunan Kasei Co., Ltd.	Coloring and sale of plastics
	CAPTEX Co., Ltd.	Manufacture and development of battery power source controllers, battery power sources and power source peripheral equipment
Overseas Consolidated Subsidiaries	Nagase Electronics Technology (Xiamen) Co., Ltd.	Chemical etching of liquid crystal glass panel units
	Sofix Corp.	Manufacture and sales of color formers
Equity Method Affiliates	KN Platech America Corporation	Manufacture and sales of blow-molded plastic components, products

[Employees, Consolidated]

(Unit: People)

Current Consolidated Fiscal Year				Change			
Parent	Consolidated Subsidiaries	Equity Affiliates	Total	Parent	Consolidated Subsidiaries	Equity Affiliates	Total
978	4,982	3,034	8,994	6	57	(155)	(92)