



# Consolidated Financial Statements for the Second Quarter of the Fiscal Year Ending March 31, 2015 <Under Japanese GAAP>

November 4, 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 Sections)

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

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Filing of quarterly report (scheduled): November 7, 2014

Start of distribution of dividends (scheduled): December 1, 2014

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: Yes (for analysts and institutional investors)

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

## 1. Consolidated Results for the Second Quarter of the Fiscal Year Ending March 31, 2015 (April 1, 2014 to September 30, 2014)

### (1) Consolidated Operating Results

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

	Net sales		Operating profit		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the second quarter ended								
September 30, 2014	372,782	4.1	7,959	(8.4)	9,103	(7.6)	6,664	(7.6)
September 30, 2013	358,210	6.8	8,685	6.4	9,853	13.7	7,212	(10.9)

(Note) Comprehensive income Second quarter ended September 30, 2014: ¥17,592 million (15.1%)

Second quarter ended September 30, 2013: ¥15,279 million (395.3%)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the second quarter ended				
September 30, 2014	52.46		—	
September 30, 2013	56.82		—	

### (2) Consolidated Financial Position

	Total assets	Net assets	Net worth ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2014	529,574	266,545	49.3	2,056.14
March 31, 2014	498,141	251,892	49.5	1,942.20

(Reference) Equity capital As of September 30, 2014: ¥261,196 million

As of March 31, 2014: ¥246,723 million

## 2. Dividends

	Dividends per share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen	Yen	Yen	Yen	Yen
March 31, 2014	—	14.00	—	14.00	28.00
March 31, 2015	—	15.00			
March 31, 2015 (estimate)			—	15.00	30.00

(Note) Revisions to the latest projected dividends: No

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

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

	Net sales		Operating profit		Ordinary income		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	760,000	5.1	16,800	6.4	18,700	4.4	12,800	9.7	100.76

(Note) Revisions to the latest projected consolidated results: Yes

\* 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: Yes

iii. Changes in accounting estimates: No

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

(Note) For details, see page 6, “2. Summary Information (Notes) (3) Changes of Accounting Policies or Presentation Methods in the Consolidated Financial Statements.”

(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)

September 30, 2014	138,408,285 shares	March 31, 2014	138,408,285 shares
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ii. Number of treasury stock as of the fiscal period end

September 30, 2014	11,375,942 shares	March 31, 2014	11,375,631 shares
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iii. Average number of shares during the period

September 30, 2014	127,032,535 shares	September 30, 2013	126,918,769 shares
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**\* Quarterly Review Implementation Disclosure**

This quarterly report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act. Furthermore, quarterly consolidated financial statements were undergoing the review procedure process at the time of release.

**\* 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 Earnings Forecasts” on page 5 of this document.

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## 1. Qualitative Information

### (1) Business Performance

#### a. General Summary of Results

As of the second quarter of the fiscal year, the future of the Japanese economy remained uncertain. Despite strong stock prices and an overall tone of gradual recovery, the country has been slow to recover from front-loaded consumer demand in anticipation of consumption tax increases, and concerns remain regarding economic stagnation in Europe and geopolitical risk throughout the world.

In this environment, the Company recorded domestic sales for the cumulative consolidated second quarter of ¥185.41 billion (2.3% year-on-year increase) and overseas sales of ¥187.36 billion (5.9% increase). In total, the Company recorded net sales of ¥372.78 billion, representing a 4.1% year-on-year increase.

Despite net sales gains, lower profits in our electronics-related business placed downward pressure on gross profit, which came in at ¥44.45 billion (1.0% year-on-year decline). Operating profit amounted to ¥7.95 billion, which was an 8.4% year-on-year decline. Although the Company recorded lower retirement benefit costs related to amortization of actuarial differences in retirement benefit obligations, doubts concerning the recovery of accounts receivable from a customer of the Company's Taiwanese subsidiary led to the Company recording a specific allowance for doubtful accounts. The Company recorded ordinary income of ¥9.1 billion, a 7.6% year-on-year decrease, mainly due to lower year-on-year foreign exchange gains offsetting higher comparative equity in earnings of affiliates. These factors contributed to net income of ¥6.66 billion for the cumulative consolidated second quarter, which was a 7.6% year-on-year decrease.

#### 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 second quarter of the prior period according to these reorganized classifications.

#### Functional Materials

The Company's Functional Materials segment recorded net sales at figures level with the same period in the prior fiscal year. While overseas net sales showed slight gains, results in Japan were flat.

The performance chemicals business experienced slight gains overall. While net sales of paints for construction and building materials were slow, sales of urethane materials for the automotive and home electronics markets contributed to business growth.

Our specialty chemicals business reported flat sales overall. Sales to fluorine and metal working oil manufacturers in Japan were strong, as were exports of sealants. On the other hand, fluorine materials and epoxy compound products revenue growth was somewhat slow.

As a result, net sales for the Functional Materials segment for the cumulative consolidated second quarter amounted to ¥83.81 billion, which was a year-on-year gain of ¥390 million or 0.5%. Operating profit, influenced in part by lower profits at domestic manufacturing businesses, fell to ¥2.04 billion, representing a ¥220 million (10.0%) decrease year on year.

#### Advanced Materials & Processing

The Advanced Materials & Processing segment reported higher overall net sales for the period, driven by higher performance in Northeastern Asia and slightly improved results in Japan, Southeastern Asia, and North America.

These gains offset lower revenues in Europe.

The colors and imaging business recorded overall year-on-year declines. Although the dyes and additives business showed strong sales, toner materials and other areas of the information printing materials business experienced slow sales.

Our office equipment and appliance business reported higher net sales as a whole. This result was mainly due to higher revenues in Northeastern Asia, as well as slightly improved performance in Japan and Southeastern Asia.

Our business focusing on functional films and sheets and plastic molding products experienced strong sales of plastic materials, materials for LCD TV reflectors, and conductive polymer materials, driving performance higher year on year overall.

As a result, the Company recorded net sales of ¥124.01 billion for the Advanced Materials & Processing segment for the cumulative consolidated second quarter, representing a ¥5.54 billion (4.7%) increase year on year. Operating profit increased ¥340 million (18.6%) to ¥2.22 billion, due mainly to improved profits at certain of the Company's manufacturing subsidiaries.

### **Electronics**

The Electronics segment reported higher overall revenues, driven mainly by revenue growth in Japan, Southeastern Asia, and Northeastern Asia, which offset performance decreases in North America and Europe.

The Company's electronic chemicals business reported slightly lower overall revenues, due mainly to weaker performance in sales of formulated epoxy resin for the heavy and light electrical machinery markets and sales of chemicals used in semiconductor and LCD panel manufacturing.

Our electronic materials business showed overall year-on-year gains, with higher reported sales of LED-related products, thin-glass processing, and touch-panel materials.

As a result, the Electronics segment recorded net sales for the cumulative consolidated second quarter in the amount of ¥75.66 billion, representing a ¥3.71 billion (5.2%) increase compared to the same period in the prior fiscal year. Operating profit amounted to ¥2.33 billion, which was a ¥1.81 billion (43.7%) decrease year on year, mainly due to an allowance for doubtful accounts related to a customer of the Company's subsidiary in Taiwan.

### **Automotive & Energy**

The automobile-related business recorded overall growth. This result was mainly due to strong sales for certain vehicle models in Japan, combined with favorable trends in sales of resin raw material to Japanese auto manufacturers in China and North America, which have continued to perform well. On the other hand, production declines among Thai auto manufacturers have yet to recover.

The energy business experienced overall growth, with sales gains in industrial solar power systems and products for lithium ion batteries.

As a result, segment net sales for the cumulative consolidated second quarter amounted to ¥51.93 billion, representing a ¥4.47 billion (9.4%) increase year on year. Operating profit increased by ¥400 million (63.8%), reaching ¥1.04 billion, owing mainly to improved profits among domestic manufacturing businesses, as well as higher profits in China.

### **Life & Healthcare**

The Company's Life & Healthcare segment reported higher net sales as a whole. In the food materials industry, the segment recorded strong sales of our proprietary trehalose products in Japan and overseas, while sales of enzyme

products were level with the same period on the prior fiscal year. In the skin care and toiletries business, inclement summer weather negatively affected sales of our proprietary AA2G product; however, sales of raw materials to the toiletries industry were strong. In the pharmaceuticals and medical business, sales of pharmaceutical raw materials and intermediates to generic pharmaceutical makers were strong, while sales for brand-name drugs and medical materials use were on par with the prior year.

Our beauty care products business includes sales of cosmetics and health foods. Here, overall sales were lower due to front-loaded demand in anticipation of the consumption tax rate increase, as well as the fact that the Company did not introduce very many new products to the market.

As a result, segment net sales amounted to ¥36.93 billion for the cumulative consolidated second quarter, which marked a ¥430 million (1.2%) increase year on year. Operating profit fell to ¥1.32 billion, ¥120 million (8.5%) lower than the same period in the prior fiscal year.

### **Other**

No special matters to disclose.

## **(2) Financial Position**

### **a. Assets, Liabilities and Net Assets**

As of the end of the consolidated second quarter, current assets amounted to ¥327.97 billion. This represents an increase of ¥21.61 billion compared to the end of the prior consolidated fiscal year, mainly due to increases in accounts receivable and inventories. Non-current assets amounted to ¥201.59 billion, an increase of ¥9.81 billion compared to the end of the prior consolidated fiscal year. This increase in non-current assets was mainly due to higher valuations of the Company's investments in securities, driven by higher market prices. As a result, total assets increased by ¥31.43 billion, reaching ¥529.57 billion as of the end of the consolidated second quarter.

Liabilities amounted to ¥263.02 billion, which was an increase of ¥16.77 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to increased accounts payable and deferred tax liabilities due to unrealized holding gains on securities.

Net assets amounted to ¥266.54 billion at the end of the consolidated second quarter, up ¥14.65 billion compared to the end of the prior consolidated fiscal year. The Company recorded quarterly net income of ¥6.66 billion, as well as year-on-year increases in net unrealized holding gain on securities and translation adjustments.

As a result of the preceding, the Company's shareholders' equity ratio fell 0.2 points compared to the end of the prior consolidated fiscal year, down to 49.3%.

### **b. Cash Flows**

Cash and cash equivalents ("Cash") decreased by ¥1.23 billion (3.6%) compared to the end of the prior consolidated fiscal year, amounting to ¥32.59 billion. Cash from operating activities amounted to ¥940 million, while cash used in investing activities came to ¥2.76 billion. Cash used in financing activities amounted to ¥320 million, and the Company added ¥880 million in cash from exchange rate fluctuations, with an additional ¥30 million in cash from newly consolidated entities.

(Cash Flows from Operating Activities)

Cash flows from operating activities for the cumulative consolidated second quarter amounted to ¥940 million. This result was mainly due to income before income taxes and minority interests of ¥9.32 billion and depreciation and amortization of ¥4.51 billion, offset by ¥8.17 billion in higher working capital related to accounts receivable increases and ¥4.35 billion in income tax payments.

**(Cash Flows from Investing Activities)**

Cash used in investing activities during the cumulative consolidated second quarter amounted to ¥2.76 billion. Although the Company received cash of ¥530 million from the sale of property, plant, and equipment and saw a decrease in time deposits of ¥630 million, cash outlays for purchases of property, plant, and equipment and intangible fixed assets amounted to ¥3.82 billion.

**(Cash Flows from Financing Activities)**

Cash used in financing activities for the cumulative consolidated second quarter amounted to ¥320 million. While the company recorded an increase in short-term loans of ¥2.12 billion, payments on long-term loans accounted for ¥370 million, with another ¥1.77 billion in dividend payments.

**(3) Qualitative Information related to Earnings Forecasts**

While the weaker yen has resulted in improved export profits and other positive factors, demand in Japan continues to struggle in the wake of unseasonably bad summer weather and the effects of front-loaded demand in advance of the consumption tax increase earlier this year. Regionally, the economy of the United States has been strong. However, concerns remain regarding the economic stagnation in Europe and the direction of geopolitical risk throughout the world.

Given these circumstances, we expect to see continued healthy demand in North America for our Automotive & Energy segment, despite the uncertainties caused by downwardly revised auto production figures in Japan and Asia.

For our Electronics segment, we do not project that we will reach our plan numbers with respect to profits, despite the planned start of full production for our thin-glass processing business. Factors dragging on profit expectations include low demand for LCD film-related materials, falling profitability for touch panel materials, and an allowance for doubtful accounts recorded during the prior quarter related to a customer of our Taiwanese subsidiary.

Due to higher consumption taxes and unseasonably bad summer weather, we do not project that the Company will be able to reach plan numbers for our mainstay trehalose and AA2G products in our Life & Healthcare segment. We also project that we will underperform plan for paints for construction and building materials in our Functional Materials segment for the same reasons.

Given these conditions, we have revised our full-year earnings forecasts as shown below:

**Full-Year Earnings Forecast Revisions (April 1, 2014 to March 31, 2015)**

(Millions of yen)

	Prior Forecast (A)	Revised Forecast (B)	Change (B-A)	Change (%)
Net sales	783,000	760,000	(23,000)	(2.9%)
Operating profit	19,000	16,800	(2,200)	(11.6%)
Ordinary income	21,500	18,700	(2,800)	(13.0%)
Net income	14,200	12,800	(1,400)	(9.9%)

## 2. Summary Information (Notes)

### (1) Changes of Classification of Specified Subsidiaries Accompanied by Changes in the Consolidation Scope

No matters to report.

### (2) Application of Special Accounting Methods to the Preparation of Quarterly Financial Statements

No matters to report.

### (3) Changes of Accounting Policies or Presentation Methods in the Consolidated Financial Statements

(Changes in Accounting Policies)

Companies have the option to adopt “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013) and “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013) for consolidated fiscal years beginning April 1, 2014. Accordingly, the Company has adopted these accounting standards (with the exception of the provisions of paragraph 39 of the Accounting Standard for Consolidated Financial Statements). Under these accounting changes, the Company now records equity changes in subsidiaries subject to ongoing control to capital surplus. In addition, the Company now records acquisition-related costs as costs in the consolidated fiscal year in which they occurred. With respect to business combinations occurring after the beginning of the consolidated first quarter, the Company will now revise acquisition cost allocation base on provisional accounting estimates, reflecting these costs in the quarterly consolidated financial statements of the date on which the business combination occurred.

In accordance with the transitional treatment based on the provisions of section 58-2(3) of the Accounting Standard for Business Combinations, section 44-5(3) of the Accounting Standard for Consolidated Financial Statements and section 57-4(3) of the Accounting Standard for Business Divestitures, the cumulative effects of the retrospective application of these accounting changes have been adjusted to capital surplus and retained earnings as of the beginning of the consolidated first quarter.

As a result, goodwill, retained earnings, and translation adjustments decreased by ¥857 million, ¥2,791 million, and ¥64 million as of the beginning of the consolidated first quarter. At the same time, capital surplus increased by ¥1,998 million. The effect of these accounting changes on operating profit, ordinary income, and income before income taxes and minority interests during the consolidated first quarter is minimal.



### 3. Quarterly Consolidated Financial Statements

#### (1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2014)	Second Quarter, Current Consolidated Fiscal Year (September 30, 2014)
<b>ASSETS</b>		
Current assets		
Cash and time deposits	34,980	33,151
Notes and accounts receivable	202,996	217,992
Merchandise and finished goods	53,075	59,811
Work in process	1,344	1,918
Raw materials and supplies	3,039	3,565
Deferred tax assets	4,537	5,114
Other	7,324	8,437
Less allowance for doubtful accounts	(936)	(2,013)
<b>Total current assets</b>	<b>306,362</b>	<b>327,979</b>
Non-current assets		
Property, plant and equipment	63,914	64,083
Intangible fixed assets		
Goodwill	29,780	28,240
Technology-based assets	18,517	17,730
Other	4,731	4,510
<b>Total intangible fixed assets</b>	<b>53,030</b>	<b>50,481</b>
Investments and other assets		
Investments in securities	66,275	78,230
Long-term loans receivable	1,168	1,134
Deferred tax assets	2,702	3,050
Other	4,906	4,833
Less allowance for doubtful accounts	(218)	(218)
<b>Total investments and other assets</b>	<b>74,832</b>	<b>87,030</b>
<b>Total non-current assets</b>	<b>191,778</b>	<b>201,595</b>
<b>Total assets</b>	<b>498,141</b>	<b>529,574</b>

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2014)	Second Quarter, Current Consolidated Fiscal Year (September 30, 2014)
<b>LIABILITIES</b>		
Current liabilities		
Notes and accounts payable	105,014	116,020
Short-term loans	28,818	32,140
Current portion of long-term loans	6,596	6,429
Current portion of bonds	-	10,000
Accrued income taxes	3,720	2,725
Deferred tax liabilities	24	22
Accrued bonuses for employees	4,045	4,021
Accrued bonuses for directors	232	125
Other	15,195	15,090
Total current liabilities	163,646	186,575
Long-term liabilities		
Bonds	30,000	20,000
Long-term loans	27,140	27,195
Deferred tax liabilities	12,506	16,293
Net defined benefit liability	11,875	11,952
Other	1,080	1,011
Total long-term liabilities	82,603	76,452
Total liabilities	246,249	263,028
<b>NET ASSETS</b>		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	10,242	12,262
Retained earnings	206,351	208,535
Less treasury stock, at cost	(6,916)	(6,917)
Total shareholders' equity	219,377	223,580
Accumulated other comprehensive income (loss)		
Net unrealized holding gain on securities	24,725	32,106
Deferred (loss) gain on hedges	(0)	11
Translation adjustments	2,239	5,259
Remeasurements of defined benefit plans	380	238
Total accumulated other comprehensive income	27,346	37,615
Minority interests	5,168	5,349
Total net assets	251,892	266,545
Total liabilities and net assets	498,141	529,574

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

(Quarterly Consolidated Statement of Income)  
(Cumulative Second Quarter)

(Millions of yen)

	Cumulative Second Quarter, Prior Consolidated Fiscal Year (April 1, 2013 - September 30, 2013)	Cumulative Second Quarter, Current Consolidated Fiscal Year (April 1, 2014 - September 30, 2014)
Net sales	358,210	372,782
Cost of sales	313,295	328,324
Gross profit	44,915	44,457
Selling, general and administrative expenses	36,229	36,498
Operating profit	8,685	7,959
Non-operating income		
Interest income	109	100
Dividend income	603	660
Rent income	147	128
Equity in earnings of affiliates	255	372
Foreign exchange gain	491	312
Other	306	260
Total non-operating income	1,912	1,834
Non-operating expenses		
Interest expenses	531	535
Other	213	154
Total non-operating expenses	745	689
Ordinary income	9,853	9,103
Extraordinary gains		
Gain on sale of non-current assets	32	364
Gain on sale of investment securities	687	0
Other receivables	118	-
Other	11	-
Total extraordinary gains	850	364
Extraordinary losses		
Loss on sale of non-current assets	16	19
Loss on disposal of non-current assets	86	36
Impairment loss	40	67
Loss on sale of investments securities	0	0
Loss on valuation of investments securities	19	-
Loss on sales of investments in capital	-	20
Total extraordinary losses	163	144
Income before income taxes and minority interests	10,540	9,323
Income taxes - current	4,483	3,348
Income taxes - deferred	(1,525)	(966)
Total income taxes	2,957	2,381
Income before minority interests	7,582	6,942
Minority interests	370	278
Net income	7,212	6,664

(Quarterly Consolidated Statements of Comprehensive Income)  
(Cumulative Second Quarter)

(Millions of yen)

	Cumulative Second Quarter, Prior Consolidated Fiscal Year (April 1, 2013 - September 30, 2013)	Cumulative Second Quarter, Current Consolidated Fiscal Year (April 1, 2014 - September 30, 2014)
Income before minority interests	7,582	6,942
Other comprehensive income		
Net unrealized holding gain on securities	5,876	7,376
Deferred (loss) gain on hedges	9	11
Translation adjustments	1,271	3,126
Remeasurements of defined benefit plans	494	(141)
Share of other comprehensive income of affiliates accounted for by the equity method	44	277
Total other comprehensive income	7,696	10,650
Comprehensive income	15,279	17,592
Comprehensive income attributable to:		
Comprehensive income attributable to shareholders of the Company	14,642	16,977
Comprehensive income attributable to minority interests	636	615

(3) Quarterly Consolidated Statements of Cash Flows

(Millions of yen)

	Cumulative Second Quarter, Prior Consolidated Fiscal Year (April 1, 2013 - September 30, 2013)	Cumulative Second Quarter, Current Consolidated Fiscal Year (April 1, 2014 - September 30, 2014)
<b>Cash flows from operating activities</b>		
Income before income taxes and minority interests	10,540	9,323
Depreciation and amortization	4,142	4,515
Amortization of goodwill	815	807
Increase (decrease) in adjustments for retirement benefits	703	(156)
Interest income and dividend income	(713)	(761)
Interest expenses	531	535
Foreign exchange loss (gain)	151	71
(Increase) decrease in notes and accounts receivable	(9,634)	(10,186)
(Increase) decrease in inventories	1,834	(5,894)
Increase (decrease) in notes and accounts payable	(1,835)	7,905
Other	968	(1,216)
<b>Subtotal</b>	<b>7,504</b>	<b>4,943</b>
Interest and dividends received	793	887
Interest paid	(544)	(531)
Taxes paid	(3,396)	(4,356)
<b>Cash flows from operating activities</b>	<b>4,356</b>	<b>942</b>
<b>Cash flows from investing activities</b>		
Purchases of property, plant and equipment	(3,691)	(3,259)
Cash from sale of property, plant and equipment	110	537
Payment for acquisition of intangible fixed assets	(725)	(562)
Purchases of investments securities	(57)	(215)
Cash from sale of investment securities	1,327	10
Cash used for purchase of investments	(1,143)	—
Change in short-term loans (increase)	(368)	(3)
Net decrease (increase) in time deposits	376	635
Other	(345)	89
<b>Cash flows from investing activities</b>	<b>(4,517)</b>	<b>(2,767)</b>
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term loans, net	2,491	2,127
Proceeds from long-term loans	511	142
Repayment of long-term loans	(4,568)	(373)
Cash dividends paid	(1,647)	(1,778)
Cash dividends paid to minority shareholders	(545)	(334)
Other	320	(106)
<b>Cash flows from financing activities</b>	<b>(3,436)</b>	<b>(323)</b>
Effects of exchange rate changes on cash and cash equivalents	(289)	885
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(3,886)</b>	<b>(1,263)</b>
Cash and cash equivalents at beginning of the year	45,816	33,825
Increase in cash and cash equivalents accompanying consolidation	113	32
<b>Cash and cash equivalents at end of the year</b>	<b>42,043</b>	<b>32,594</b>

**(4) Notes related to Quarterly Consolidated Financial Statements**

(Assumption for Going Concern)

No matters to report.

(Segment Information, etc.)

**I Six months ended September 30, 2013 (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 Statements of Income (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	83,419	118,461	71,944	47,463	36,504	357,793	417	358,210	—	—	358,210
Intersegment sales and transfers	1,463	1,036	354	887	243	3,984	2,670	6,655	—	(6,655)	—
Total	84,882	119,498	72,299	48,350	36,747	361,778	3,087	364,866	—	(6,655)	358,210
Segment income (loss)	2,267	1,877	4,146	637	1,443	10,372	149	10,522	(2,098)	261	8,685

(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.
3. Adjustments are eliminations of intersegment translations.
4. The sum of segment income totals, Corporate and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

**II Six months ended September 30, 2014 (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 Statements of Income (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	83,816	124,010	75,664	51,938	36,935	372,365	416	372,782	—	—	372,782
Intersegment sales and transfers	1,427	1,102	379	1,377	147	4,435	2,516	6,952	—	(6,952)	—
Total	85,244	125,113	76,044	53,316	37,082	376,801	2,933	379,734	—	(6,952)	372,782
Segment income (loss)	2,040	2,226	2,336	1,044	1,321	8,969	141	9,110	(1,429)	277	7,959

(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.
3. Adjustments are eliminations of intersegment translations.
4. The sum of segment income totals, 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 with the consolidated first quarter, the low-power semiconductor design development business, which had been categorized under the Electronics segment, is now categorized under the Automotive & Energy segment. We believe this will promote technological development with businesses more closely related to environment/energy-related technologies.

Segment information for the consolidated second quarter of the prior period 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-temperature/vacuum equipment, high-function epoxy resins, precision electronics abrasives, and more for the display, touch panel, LCD, semiconductor, hard disk drive, electronic components, and heavy electrical 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, 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.

### (Significant Fluctuations in Shareholders' Equity)

No matters to report.

### (Significant Subsequent Events)

No matters to report.

#### 4. Supplementary Information

##### (1) Overseas Sales

Six months ended September 30, 2013 (consolidated)

	Northeast Asia	Southeast Asia	North America	Europe & Others	Total
I Overseas sales (Millions of yen)	99,834	54,416	12,862	9,859	176,973
II Consolidated sales (Millions of yen)					358,210
III Ratio of overseas sales to consolidated sales (%)	27.9	15.2	3.6	2.7	49.4

Six months ended September 30, 2014 (consolidated)

	Northeast Asia	Southeast Asia	North America	Europe & Others	Total
I Overseas sales (Millions of yen)	104,154	59,921	15,243	8,043	187,363
II Consolidated sales (Millions of yen)					372,782
III Ratio of overseas sales to consolidated sales (%)	27.9	16.1	4.1	2.2	50.3

(Notes)

1. Sales in overseas markets 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) Northeast Asia.....Taiwan, China
  - (2) Southeast Asia.....Singapore, Thailand
  - (3) North America.....U.S.
  - (4) Europe & Others.....Germany