



Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2018 <Under Japanese GAAP>

August 3, 2017

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

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (First Section)

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

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Filing of quarterly report (scheduled): August 8, 2017

Start of distribution of dividends (scheduled): -

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: No

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

1. Consolidated Results for the First Quarter of the Fiscal Year Ending March 31, 2018

(April 1, 2017 to June 30, 2017)

(1) Consolidated Operating Results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended June 30, 2017	187,136	7.9	5,604	59.0	6,370	63.2	3,482	55.7
June 30, 2016	173,394	(6.3)	3,525	(28.9)	3,904	(26.7)	2,236	(34.2)

(Notes) Comprehensive income

First quarter ended June 30, 2017: ¥7,758 million (—%)

First quarter ended June 30, 2016: (¥5,342) million (—%)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the first quarter ended June 30, 2017	27.62		—	
June 30, 2016	17.61		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2017	540,690	300,450	54.7	2,343.85
March 31, 2017	530,775	295,198	54.7	2,301.10

(Reference) Equity capital

As of June 30, 2017: ¥295,607 million

As of March 31, 2017: ¥ 290,217 million

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen	Yen	Yen	Yen	Yen
March 2017	—	16.00	—	17.00	33.00
March 2018	—	—	—	—	—
March 2018 (estimate)	—	17.00	—	18.00	35.00

(Note) Revisions to the latest projected dividends: No

**3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2018
(April 1, 2017 to March 31, 2018)**

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	732,000	1.3	19,100	27.1	20,900	27.7	12,500	21.0	99.11

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

* Notes

(1) Changes in major subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): Yes

New: 1 (Company name: INKRON LIMITED) Excluded: — (Company name:)

(Note) Please refer to “2. Quarterly Consolidated Financial Statements (3) Notes related to Quarterly Consolidated Financial Statements (Changes in Significant Subsidiaries during the Period) .” on page 9 of this document.

(2) Application of special accounting methods to the preparation of quarterly financial statements: No

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

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

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

iii. Changes in accounting estimates: No

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

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

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

June 30, 2017	127,408,285 shares	March 31, 2017	127,408,285 shares
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ii. Number of treasury stock as of the fiscal period end

June 30, 2017	1,287,672 shares	March 31, 2017	1,287,366 shares
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iii. Average number of shares during the period

June 30, 2017	126,120,721 shares	June 30, 2016	127,030,962 shares
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* **Quarterly financial statements are not subject to quarterly review.**

* **Cautionary Statement with Respect to Forecasts of Consolidated Business Results**

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

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

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

The Japanese economy maintained a gradual recovery during the consolidated first quarter as corporate earnings and payrolls improved. While the global economy grew likewise overall, improvement slowed in China and other emerging economies, while uncertainty remains as to the future direction of U.S. and European political and economic policies. Accordingly, the exact future of the global economy is not easy to predict.

In this environment, the Company recorded consolidated first quarter domestic sales of ¥94.94 billion, which was a 6.8% increase year on year. Overseas sales amounted to ¥92.18 billion (+9.1%), resulting in total sales of ¥187.13 billion, or an increase of 7.9% year on year.

The Company recorded gross profit of ¥24.07 billion, an increase of 6.7%, in conjunction with higher sales. Operating income amounted to ¥5.6 billion (+59.0%). This increase was mainly due to a decrease in retirement benefit expenses in connection with lower amortization of actuarial differences. Ordinary income rose 63.2% year on year to ¥6.37 billion, mainly due to improved earnings in equity-method affiliates. Profit attributable to owners of the parent amounted to ¥3.48 billion, an increase of 55.7%.

b. Segment Summary

Functional Materials

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

The Performance Chemicals business recorded higher sales due to growth in coating raw materials and urethane materials, spurred by strong automotive production in Japan and overseas.

The Speciality Chemicals business recorded higher sales overall. Sales of fluorochemicals, electronics chemicals, and plastic materials and additives were higher for the semiconductor and other electronics industry. At the same time, sales were higher for plastic additives in overseas markets.

As a result, the Functional Materials segment recorded sales of ¥40.32 billion for the consolidated first quarter, a ¥3.23 billion (+8.7%) increase year on year. Operating income for the segment was ¥1.17 billion, representing a ¥310 million (+35.8%) increase.

Advanced Materials & Processing

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

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

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

As a result, the Advanced Materials & Processing segment recorded sales of ¥64.59 billion for the consolidated first quarter, a ¥5.9 billion (+10.1%) increase year on year. Segment operating income grew ¥450 million (+38.2%), reaching ¥1.66 billion for the consolidated first quarter.

Electronics

The Electronics segment recorded slightly higher sales in Japan and overseas year on year.

The Electronic Chemicals business recorded higher sales due to growth in photolithography material sales and strong performance of formulated epoxy resins for the heavy electrical and semiconductor industries.

The Electronic Materials business recorded lower sales, mainly due to lower performance in smartphone case materials, despite higher sales of display-related products.

As a result, net sales for the segment amounted to ¥30.53 billion, which was a ¥650 million (+2.2%) increase. Segment operating income grew ¥240 million (+16.5%), reaching ¥1.72 billion for the consolidated first quarter.

Automotive & Energy

The Automotive Solutions business recorded higher sales, driven by strong performance in our domestic resins business and higher sales of car electronics-related products.

As a result, sales for the segment amounted to ¥30.73 billion, which was a ¥4.51 billion (+17.2%) increase. Operating income for the segment was ¥670 million, representing a ¥400 million (+150.0%) increase.

Life & Healthcare

The Life & Healthcare segment recorded slightly lower sales compared to the same period in the prior fiscal year. This result was mainly due to lower sales in Japan, despite growth in the European market.

In the Life & Healthcare Products business, sales of TREHA™ and other products to food ingredient makers were level year on year in Japan and overseas. Although the business recorded higher sales of AA2G™ to major customers in the Japanese skin care and toiletries field, sales to major customers overseas were lower. In the medical and pharmaceutical field, sales of raw materials and intermediates and medical materials were lower. As a result, the business recorded sales slightly lower compared to the prior year.

The Beauty Care Products business, which includes sales of cosmetics and health foods, recorded slightly lower sales, mainly due to weakness in existing products.

As a result, net sales for the segment amounted to ¥20.79 billion, representing a ¥530 million (-2.5%) decrease. Operating income decreased ¥30 million (-2.8%) year on year, down to ¥1.21 billion.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated first quarter, current assets amounted to ¥326.64 billion. This represents an increase of ¥5.42 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in accounts receivable and inventories. Non-current assets amounted to ¥214.04 billion, up ¥4.48 billion. This increase was mainly due to increases in fair values of shares retained. As a result of these various factors, total assets increased ¥9.91 billion to ¥540.69 billion as of the end of the consolidated first quarter.

Liabilities amounted to ¥240.24 billion, a ¥4.66 billion increase compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in long-term loans and the issuance of commercial paper, despite the redemption of bonds.

Net assets amounted to ¥300.45 billion, up ¥5.25 billion. This increase was mainly due to ¥3.48 billion in profit attributable to owners of the parent and an increase in net unrealized holding gains in securities.

As a result, the Company recorded a shareholders' equity ratio of 54.7%, level with the end of the prior consolidated fiscal year.

(3) Qualitative Information related to Consolidated Earnings Forecasts

The Company has made no changes its full-year consolidated earnings forecasts as originally published on May 2, 2017.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2017)	First Quarter, Current Consolidated Fiscal Year (June 30, 2017)
ASSETS		
Current assets		
Cash and time deposits	39,830	38,095
Notes and accounts receivable	206,846	210,487
Merchandise and finished goods	58,162	61,663
Work in process	1,309	1,283
Raw materials and supplies	3,648	3,820
Deferred tax assets	2,375	2,163
Other	9,681	9,764
Less allowance for doubtful accounts	(638)	(633)
Total current assets	321,215	326,644
Non-current assets		
Property, plant and equipment	67,619	67,438
Intangible fixed assets		
Goodwill	23,034	23,501
Technology-based assets	13,791	13,397
Other	3,916	3,668
Total intangible fixed assets	40,742	40,567
Investments and other assets		
Investments in securities	94,548	99,628
Long-term loans receivable	482	457
Deferred tax assets	1,524	1,401
Other	4,931	4,841
Less allowance for doubtful accounts	(289)	(289)
Total investments and other assets	101,197	106,039
Total non-current assets	209,559	214,045
Total assets	530,775	540,690

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2017)	First Quarter, Current Consolidated Fiscal Year (June 30, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable	102,076	103,269
Short-term loans	28,162	28,866
Current portion of long-term loans	3,522	3,270
Commercial paper	-	5,000
Current portion of bonds	10,000	-
Accrued income taxes	1,849	1,440
Deferred tax liabilities	37	38
Accrued bonuses for employees	4,512	2,291
Accrued bonuses for directors	171	59
Other	16,161	17,928
Total current liabilities	166,494	162,164
Long-term liabilities		
Bonds	20,000	20,000
Long-term loans	20,078	26,793
Deferred tax liabilities	13,503	15,728
Net defined benefit liability	14,625	14,709
Other	874	843
Total long-term liabilities	69,082	78,075
Total liabilities	235,576	240,240
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,590	11,353
Retained earnings	219,721	221,052
Less treasury stock, at cost	(1,337)	(1,338)
Total shareholders' equity	239,674	240,768
Accumulated other comprehensive income (loss)		
Net unrealized holding gain on securities	47,683	51,434
Deferred (loss) gain on hedges	4	3
Translation adjustments	3,129	3,621
Remeasurements of defined benefit plans	(274)	(219)
Total accumulated other comprehensive income	50,542	54,839
Non-controlling interests	4,981	4,842
Total net assets	295,198	300,450
Total liabilities and net assets	530,775	540,690

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

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2017 and 2016

(Millions of yen)

	Three-month period ended June 30, 2016 (April 1, 2016 - June 30, 2016)	Three-month period ended June 30, 2017 (April 1, 2017 - June 30, 2017)
Net sales	173,394	187,136
Cost of sales	150,829	163,064
Gross profit	22,564	24,072
Selling, general and administrative expenses	19,039	18,467
Operating income	3,525	5,604
Non-operating income		
Interest income	51	43
Dividend income	729	684
Rent income	78	68
Equity in earnings of affiliates	-	204
Foreign exchange gain	-	16
Other	129	83
Total non-operating income	988	1,100
Non-operating expenses		
Interest expenses	228	236
Equity in losses of affiliates	85	-
Foreign exchange losses	192	-
Other	102	97
Total non-operating expenses	609	334
Ordinary income	3,904	6,370
Extraordinary gains		
Gain on sale of non-current assets	15	0
Gain on sale of investment securities	60	-
Total extraordinary gains	75	0
Extraordinary losses		
Loss on sale of non-current assets	10	19
Loss on disposal of non-current assets	49	13
Impairment losses	10	225
Loss on sale of investments securities	24	-
Loss on valuation of investments securities	151	-
Loss on sales of shares of subsidiaries and affiliates	257	-
Loss on business withdrawal	-	230
Loss on step acquisitions	-	294
Other	57	-
Total extraordinary losses	560	782
Income before income taxes and non-controlling interests	3,418	5,588
Income taxes - current	690	1,170
Income taxes - deferred	450	935
Total income taxes	1,141	2,106
Profit for the period	2,277	3,482
Profit (loss) attributable to non-controlling interests	41	(0)
Profit attributable to owners of the parent	2,236	3,482

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2017 and 2016

(Millions of yen)

	Three-month period ended June 30, 2016 (April 1, 2016 - June 30, 2016)	Three-month period ended June 30, 2017 (April 1, 2017 - June 30, 2017)
Profit for the period	2,277	3,482
Other comprehensive income		
Net unrealized holding (loss) gain on securities	(2,301)	3,747
Deferred gain (loss) on hedges	26	(1)
Translation adjustments	(5,448)	493
Remeasurements of defined benefit plans	537	54
Share of other comprehensive income of affiliates accounted for by the equity method	(435)	(18)
Total other comprehensive income	(7,620)	4,276
Comprehensive income	(5,342)	7,758
Comprehensive income attributable to:		
Shareholders of the parent	(4,843)	7,718
Non-controlling interests	(499)	39

(3) Notes related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Segment Information, etc.)

Segment Information

I Three-month period ended June 30, 2016 (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	37,090	58,691	29,887	26,226	21,328	173,224	169	173,394	-	-	173,394
Intersegment sales/transfers	433	590	411	603	130	2,170	1,446	3,616	-	(3,616)	-
Total	37,524	59,282	30,298	26,830	21,458	175,394	1,615	177,010	-	(3,616)	173,394
Segment income (loss)	868	1,201	1,481	271	1,252	5,075	73	5,148	(1,759)	136	3,525

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

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

3. Adjustments are eliminations of intersegment transactions.

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

II Three-month period ended June 30, 2017 (consolidated)

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

(Millions of yen)

	Reportable Segments						Other (Note) 1.	Total	Corporate (Note) 2.	Adjustments (Note) 3.	To Quarterly Consolidated Statements of Income (Note) 4.
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	40,323	64,592	30,539	30,739	20,793	186,989	146	187,136	-	-	187,136
Intersegment sales/transfers	600	569	522	671	122	2,486	1,087	3,573	-	(3,573)	-
Total	40,924	65,161	31,062	31,411	20,916	189,476	1,234	190,710	-	(3,573)	187,136
Segment income (loss)	1,178	1,660	1,726	679	1,217	6,462	61	6,524	(1,018)	98	5,604

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

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

3. Adjustments are eliminations of intersegment transactions.

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

(Significant Fluctuations in Shareholders' Equity)

No matters to report.

(Changes in Significant Subsidiaries during the Period)

During the consolidated first quarter, the Company acquired shares of INKRON LIMITED (specified subsidiary). Accordingly, the Company includes INKRON LIMITED and two INKRON LIMITED subsidiaries (Inkron Oy and Inkron Technologies GmbH) in the scope of consolidation.

3. Supplementary Information

(1) Overseas Sales

I Three-month period ended June 30, 2016 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales Millions of yen)	46,188	24,781	7,037	2,928	3,548	84,484
II Consolidated sales Millions of yen)						173,394
III Ratio of overseas sales to consolidated sales (%)	26.6	14.3	4.1	1.7	2.0	48.7

II Three-month period ended June 30, 2017 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales Millions of yen)	50,254	26,128	7,685	3,474	4,643	92,186
II Consolidated sales Millions of yen)						187,136
III Ratio of overseas sales to consolidated sales (%)	26.8	14.0	4.1	1.9	2.5	49.3

(Note)

1. Overseas sales consist of net sales of the Company and consolidated subsidiaries in other countries or regions.
2. Countries/regions are determined by geographical proximity.
3. Major countries in each region

- (1) Greater China.....China, Hong Kong, Taiwan
- (2) ASEAN.....Thailand, Singapore
- (3) Americas.....U.S., Mexico
- (4) Europe.....Germany
- (5) Other.....Korea