



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

August 3, 2018

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, 2018

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, 2019

(April 1, 2018 to June 30, 2018)

(1) Consolidated Operating Results

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended								
June 30, 2018	198,618	6.1	6,939	23.8	7,647	20.1	5,495	57.8
June 30, 2017	187,136	7.9	5,604	59.0	6,370	63.2	3,482	55.7

(Notes) Comprehensive income

First quarter ended June 30, 2018: ¥7,439 million (4.1% decrease)

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

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the first quarter ended				
June 30, 2018	43.89	—	—	—
June 30, 2017	27.62	—	—	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2018	583,081	312,864	52.8	2,457.48
March 31, 2018	569,456	308,804	53.3	2,424.97

(Reference) Equity capital

As of June 30, 2018: ¥307,706 million

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

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen	Yen	Yen	Yen	Yen
March 2018	—	17.00	—	23.00	40.00
March 2019	—	—	—	—	—
March 2019 (estimate)	—	18.00	—	19.00	37.00

(Note) Revisions to the latest projected dividends: No

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

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

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full fiscal year	828,000	5.6	25,500	5.7	27,500	5.8	18,600	8.3	148.55

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

* Notes

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

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

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

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

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

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

iii. Changes in accounting estimates: No

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

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

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

June 30, 2018	127,408,285 shares	March 31, 2018	127,408,285 shares
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ii. Number of treasury stock as of the fiscal period end

June 30, 2018	2,196,179 shares	March 31, 2018	2,195,966 shares
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iii. Average number of shares during the period

June 30, 2018	125,212,159 shares	June 30, 2017	126,120,721 shares
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* Quarterly financial statements are not subject to quarterly review.

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

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

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

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

The Japanese economy continued to recover throughout the consolidated first quarter, supported by strong corporate earnings, increasing capital investment, and other factors. Continuing improvement in employment and payrolls was also a positive contributing factor. The global economy continued its pace of moderate recovery as well, despite concerns about the impact of trade frictions between the U.S. and China and the U.S. and Europe. Positive corporate earnings in the U.S. was the major contributing factor behind this recovery.

In this environment, the Company recorded domestic sales of ¥102.02 billion (+7.4% year on year) for the consolidated first quarter. Overseas sales amounted to ¥96.59 billion (+4.8%). In total, the Company recorded ¥198.61 billion (+6.1%) in net sales.

The Company recorded gross profit of ¥26.5 billion (+10.1%) and operating income of ¥6.93 billion (+23.8%). This increase was mainly due to generally higher global sales and improved profitability among the Company's manufacturing subsidiaries. Ordinary income amounted to ¥7.64 billion (+20.1%), while profit attributable to owners of the parent amounted to ¥5.49 billion (+57.8%).

b. Segment Summary

Functional Materials

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

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

The Speciality Chemicals business recorded higher sales as well. Sales were negatively impacted by a decrease in sales due of certain materials used in the electronics industry overseas due to the impact of supplier production adjustments. In Japan, however, the Company experienced higher sales of electronics chemicals and plastic materials/plastic additives for the semiconductor and other electronics-related markets.

As a result, the Functional Materials segment recorded sales of ¥44.06 billion for the consolidated first quarter, a ¥3.74 billion (+9.3%) increase year on year. Operating income for the segment was ¥1.34 billion, representing a ¥160 million (+14.3%) increase.

Advanced Materials & Processing

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

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

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. Sales in these businesses were higher overall, driven by growth in Japan and ASEAN.

As a result, the Advanced Materials & Processing segment recorded sales of ¥68.72 billion for the consolidated first quarter, a ¥4.13 billion (+6.4%) increase year on year. Operating income grew ¥630 million (+38.4%), reaching ¥2.29 billion for the quarter.

Electronics

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

The Electronic Chemicals business recorded lower sales overall, mainly due to the negative impact of decreased capacity utilization at customer factories, resulting in lower sales of photolithography materials and formulated epoxy resins for the semiconductor industry.

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

As a result, sales for the segment amounted to ¥29.28 billion, which was a ¥1.25 billion (-4.1%) decrease year on year. Meanwhile, segment operating income grew ¥140 million (+8.1%), reaching ¥1.86 billion for the consolidated first quarter. This increase was mainly due to strong performance of high-margin businesses in Greater China.

Automotive & Energy

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

As a result, sales for the segment amounted to ¥34.17 billion, which was a ¥3.43 billion (+11.2%) increase compared to the consolidated first quarter of the prior fiscal year. Segment operating income grew ¥110 million (+17.6%), reaching ¥790 million for the quarter.

Life & Healthcare

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

Overseas, sales of TREHA™ and other products to food ingredient makers in our Life & Healthcare Products business fell, while sales for these same products grew in Japan. Sales of AA2G™ to customers in the skin care and toiletries sectors were higher both in Japan and overseas. In the medical and pharmaceutical field, sales of pharmaceutical raw materials and intermediates and medical materials were higher than the year-ago period. As a result, the business recorded higher sales compared to the prior year.

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

As a result, sales for the segment amounted to ¥22.22 billion, which was a ¥1.43 billion (+6.9%) increase compared to the consolidated first quarter of the prior fiscal year. Segment operating income grew ¥130 million (+10.8%) reaching ¥1.34 billion for the consolidated first quarter.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated first quarter, current assets amounted to ¥364.35 billion. This represents an increase of ¥11.03 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 ¥218.72 billion, up ¥2.59 billion. This increase was mainly due to increases in fair value of shares retained. As a result of these various factors, total assets increased ¥13.62 billion to ¥583.08 billion as of the end of the consolidated first quarter.

Liabilities amounted to ¥270.21 billion, a ¥9.56 billion increase compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in short-term loans and commercial paper.

Net assets amounted to ¥312.86 billion, up ¥4.05 billion. This increase was mainly due to ¥5.49 billion in profit attributable to owners of the parent and an increase in net unrealized holding gain on securities.

As a result, the Company recorded a shareholders' equity ratio of 52.8%, 0.5 points lower than the end of the prior consolidated fiscal year.

(3) Qualitative Information related to Consolidated Earnings Forecasts

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

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2018)	First Quarter, Current Consolidated Fiscal Year (June 30, 2018)
ASSETS		
Current assets		
Cash and time deposits	43,303	41,845
Notes and accounts receivable	225,999	231,594
Merchandise and finished goods	67,681	73,630
Work in process	1,883	2,120
Raw materials and supplies	4,106	4,660
Other	10,953	10,974
Less allowance for doubtful accounts	(602)	(466)
Total current assets	353,325	364,358
Non-current assets		
Property, plant and equipment	67,225	66,698
Intangible fixed assets		
Goodwill	25,478	25,210
Technology-based assets	12,215	11,821
Other	3,396	3,131
Total intangible fixed assets	41,090	40,163
Investments and other assets		
Investments in securities	100,403	104,820
Long-term loans receivable	109	102
Deferred tax assets	2,409	2,060
Other	4,992	4,977
Less allowance for doubtful accounts	(101)	(100)
Total investments and other assets	107,813	111,860
Total non-current assets	216,130	218,722
Total assets	569,456	583,081

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2018)	First Quarter, Current Consolidated Fiscal Year (June 30, 2018)
LIABILITIES		
Current liabilities		
Notes and accounts payable	118,028	119,512
Short-term loans	31,934	39,246
Current portion of long-term loans	11,067	10,927
Commercial paper	5,000	8,000
Current portion of bonds	-	10,000
Accrued income taxes	1,738	1,482
Accrued bonuses for employees	5,451	2,606
Accrued bonuses for directors	274	88
Other	19,500	19,174
Total current liabilities	192,996	211,038
Long-term liabilities		
Bonds	20,000	10,000
Long-term loans	17,906	17,932
Deferred tax liabilities	14,420	15,904
Net defined benefit liability	14,518	14,600
Other	809	741
Total long-term liabilities	67,655	59,178
Total liabilities	260,651	270,217
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,158	10,659
Retained earnings	232,534	235,149
Less treasury stock, at cost	(3,114)	(3,114)
Total shareholders' equity	250,278	252,394
Accumulated other comprehensive income		
Net unrealized holding gain on securities	50,773	52,363
Deferred (loss) gain on hedges	(15)	21
Translation adjustments	2,917	3,185
Remeasurements of defined benefit plans	(317)	(258)
Total accumulated other comprehensive income	53,358	55,312
Non-controlling interests	5,168	5,157
Total net assets	308,804	312,864
Total liabilities and net assets	569,456	583,081

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

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2018 and 2017

(Millions of yen)

	Three-month period ended June 30, 2017 (April 1, 2017 - June 30, 2017)	Three-month period ended June 30, 2018 (April 1, 2018 - June 30, 2018)
Net sales	187,136	198,618
Cost of sales	163,064	172,111
Gross profit	24,072	26,506
Selling, general and administrative expenses	18,467	19,567
Operating income	5,604	6,939
Non-operating income		
Interest income	43	58
Dividend income	684	819
Rent income	68	67
Equity in earnings of affiliates	204	247
Foreign exchange gain	16	-
Other	83	129
Total non-operating income	1,100	1,323
Non-operating expenses		
Interest expenses	236	360
Foreign exchange losses	-	157
Other	97	96
Total non-operating expenses	334	614
Ordinary income	6,370	7,647
Extraordinary gains		
Gain on sale of non-current assets	0	20
Gain on sale of investment securities	-	1
Gain on sales of shares of subsidiaries and affiliates	-	6
Total extraordinary gains	0	28
Extraordinary losses		
Loss on sale of non-current assets	19	7
Loss on disposal of non-current assets	13	16
Impairment losses	225	-
Loss on business withdrawal	230	-
Loss on step acquisitions	294	-
Total extraordinary losses	782	23
Income before income taxes and non-controlling interests	5,588	7,652
Income taxes - current	1,170	1,044
Income taxes - deferred	935	1,053
Total income taxes	2,106	2,097
Profit for the period	3,482	5,554
(Loss) profit attributable to non-controlling interests	(0)	58
Profit attributable to owners of the parent	3,482	5,495

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2018 and 2017

(Millions of yen)

	Three-month period ended June 30, 2017 (April 1, 2017 - June 30, 2017)	Three-month period ended June 30, 2018 (April 1, 2018 - June 30, 2018)
Profit for the period	3,482	5,554
Other comprehensive income		
Net unrealized holding gain on securities	3,747	1,591
Deferred (loss) gain on hedges	(1)	36
Translation adjustments	493	240
Remeasurements of defined benefit plans	54	59
Share of other comprehensive income of affiliates accounted for by the equity method	(18)	(43)
Total other comprehensive income	4,276	1,884
Comprehensive income	7,758	7,439
Comprehensive income attributable to:		
Shareholders of the parent	7,718	7,449
Non-controlling interests	39	(10)

(3) Notes related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Significant Fluctuations in Shareholders' Equity)

No matters to report.

(Additional Information)

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

(Segment Information, etc.)

Segment Information

I 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.

II Three-month period ended June 30, 2018 (consolidated)

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

(Millions of yen)

	Reportable Segments						Other (Note) 1.	Total	Corporate (Note) 2.	Adjustments (Note) 3.	To Quarterly Consolidated Statements of Income (Note) 4.
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	44,068	68,723	29,282	34,178	22,223	198,476	141	198,618	-	-	198,618
Intersegment sales/transfers	746	610	487	680	105	2,631	1,363	3,995	-	(3,995)	-
Total	44,814	69,334	29,769	34,859	22,329	201,108	1,505	202,613	-	(3,995)	198,618
Segment income (loss)	1,347	2,298	1,867	799	1,349	7,661	75	7,736	(902)	104	6,939

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

2. Changes in Reportable Segments
(Changes in Business Classifications)

Beginning with the current consolidated first quarter, the Company has classified Fitz Chem LLC under the Functional Materials and the Life & Healthcare segments. In the prior consolidated fiscal year, Fitz Chem LLC was classified under the Functional Materials segment. This change is in response to a change in business unit management. As the acquisition of Fitz Chem LLC occurred during the second quarter of the prior consolidated fiscal year, this change has no impact on segment information of the first quarter of the prior consolidated fiscal year.

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

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

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

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

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

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

3. Supplementary Information

(1) Overseas Sales

I 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

II Three-month period ended June 30, 2018 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	51,169	28,438	9,602	3,452	3,932	96,596
II Consolidated sales (Millions of yen)						198,618
III Ratio of overseas sales to consolidated sales (%)	25.8	14.3	4.8	1.7	2.0	48.6

(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