

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2021 <Under Japanese GAAP>

August 4, 2020

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 13, 2020

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, 2021

(April 1, 2020 to June 30, 2020)

(1) Consolidated Operating Results

(% = year-on-year change)

	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, 2020	180,569	(6.4)	3,673	(30.1)	4,237	(27.5)	6,807	63.8
June 30, 2019	192,986	(2.8)	5,257	(24.2)	5,848	(23.5)	4,156	(24.4)

(Notes) Comprehensive income First quarter ended June 30, 2020: ¥1,850 million (—%)

First quarter ended June 30, 2019: (¥52) million (—%)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the first quarter ended June 30, 2020	54.90		—	
June 30, 2019	33.51		—	

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2020	599,942	322,364	52.4	2,535.08
March 31, 2020	611,477	313,243	49.9	2,462.04

(Reference) Equity capital As of June 30, 2020: ¥ 314,379 million

As of March 31, 2020: ¥ 305,322 million

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
For the year ended (or ending)	Yen				
March 2020	—	22.00	—	22.00	44.00
March 2021	—	—	—	—	—
March 2021 (forecast)	—	22.00	—	22.00	44.00

(Note) Revisions to the latest dividends forecast: No

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2021
(April 1, 2020 to March 31, 2021)

(% = year-on-year change)

Full 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
	754,000	(5.7)	15,000	(21.7)	15,500	(18.8)	12,500	(17.5)	100.80

(Note) Revisions to the latest consolidated earnings forecast: No

Our consolidated earnings forecast for the fiscal year ending March 2021 is based on the assumption that the economy will gradually recover from the impact of the COVID-19 pandemic in the second half.

*** 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 in accounting policies, 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, 2020	127,408,285 shares	March 31, 2020	127,408,285 shares
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ii. Number of treasury stock as of the fiscal period end

June 30, 2020	3,396,800 shares	March 31, 2020	3,396,695 shares
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iii. Average number of shares during the period

June 30, 2020	124,011,553 shares	June 30, 2019	124,011,911 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 P.4 of this document.

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

The global economy for the current consolidated first quarter deteriorated rapidly since the economic activities in every country were suppressed due to the global spread of COVID-19. In the regions where the NAGASE Group operates our business, the economic activities in the Americas, Europe, and ASEAN are still stalled, except for Greater China, where the economic activities are gradually being reopened. The Japanese economy also deteriorated rapidly mainly due to stagnant consumption and significant decline of export.

In this environment, the Company recorded domestic sales of ¥82.17 billion (-19.2% year on year) for the current consolidated first quarter. Overseas sales amounted to ¥98.39 billion (+7.8%). In spite of the addition of sales from the Prinova Group acquired by the Company in the prior consolidated second quarter, the Company recorded net sales of ¥180.56 billion (-6.4%) in total due to a significant decrease among existing Group companies.

The Company recorded gross profit of ¥26.05 billion (+2.6%), as a result of the high profitability of the Prinova Group exceeding the impact of the Company's sales decrease. Despite the contribution of the Prinova Group, operating income amounted to ¥3.67 billion (-30.1%) and ordinary income ¥4.23 billion (-27.5%) mainly due to decreased income in existing Group companies and increased investment costs of promoting the digital transformation (DX) for medium- and long-term growth. Profit attributable to owners of the parent amounted to ¥6.8 billion (+63.8%) mainly due to the recording of profits stemming from the sales of certain shares owned by the Company.

b. Segment Summary

Functional Materials

The Functional Materials segment recorded lower sales in both domestic and overseas markets mainly due to lower automotive production in Japan and overseas attributable to the impact of the COVID-19 pandemic.

The Performance Chemicals business recorded materially lower sales due to lower sales in coating raw materials and urethane materials, as a result of lower automotive production in Japan and overseas.

The Speciality Chemicals business recorded lower sales overall due to decreased sales of industrial oil solutions and plastic materials arising from the impact of the weak automotive industry, although the sales of electronics chemicals for the semiconductor and other related electronics industries decreased only slightly.

As a result, sales for the segment amounted to ¥34.36 billion, representing a ¥9.23 billion (-21.2%) decrease compared to the same period in the prior fiscal year. Operating income fell ¥580 million (-39.1%) to ¥910 million compared to the consolidated first quarter of the prior fiscal year.

Advanced Materials & Processing

The Advanced Materials & Processing segment recorded lower sales in both domestic and overseas markets due to the broad impact of the COVID-19 on the resins and other businesses.

The Colors & Advanced Processing business recorded lower sales overall, due to decreased sales of dyes and additives, digital print processing materials, and plastic resins for industrial and packaging applications and conductive materials in Japan.

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. Sales in these businesses were lower overall, caused by decreases in Japan, Greater China, and ASEAN.

As a result, sales for the segment amounted to ¥58.23 billion, representing a ¥9.15 billion (-13.6%) decrease compared to the same period in the prior fiscal year. Operating income fell ¥560 million (-28.0%) to ¥1.46 billion.

Electronics

Despite increased sales of precision processing-related materials used in connection with intermediate processing in semiconductors, the Electronics segment recorded lower net sales overall driven by lower sales of materials related to the photolithography, formulated epoxy resins for the heavy and light electrical equipment industry, equipment, and display.

As a result, sales for the segment amounted to ¥26.06 billion, which was a ¥550 million (-2.1%) decrease year on year. Operating income was ¥1.73 billion, an increase of ¥450 million (+36.1%) year on year, mainly due to improved profitability among the Company's manufacturing subsidiaries.

Mobility & Energy

The Mobility Solutions business recorded significantly lower sales both in Japan and overseas, due to lower sales of car electronics-related products in Japan and lower sales in the resins business both in Japan and overseas as a result of lower automotive production in Japan and overseas attributable to the impact of the COVID-19 pandemic.

As a result, sales for the segment amounted to ¥18.97 billion, representing a ¥13.57 billion (-41.7%) decrease year on year. Operating loss was ¥160 million, a decrease of ¥690 million from operating income of ¥520 million in the same period of the previous year.

Life & Healthcare

The Life & Healthcare segment recorded significantly higher sales overall, due to higher sales overseas driven by the addition of sales from the Prinova Group acquired by the Company in the prior consolidated second quarter, though domestic sales decreased mainly due to lower demand attributable to the impact of the COVID-19 pandemic.

The new Food Ingredients business recorded significantly higher sales overall, due to higher sales of TREHA™ and other products overseas in the food materials field, despite a decline in their domestic sales, as well as the addition of sales from the Prinova Group.

The Life & Healthcare business recorded lower sales overall, due to lower sales of the pharmaceutical business, despite higher sales of pharmaceutical raw materials and intermediates and medical materials, in the medical and pharmaceutical field and lower sales in Japan and overseas of AA2G™ in the skin care and toiletries field.

As a result, sales for the segment amounted to ¥42.82 billion, which was a ¥20.13 billion (+88.7%) increase compared to the consolidated first quarter of the prior fiscal year. Operating income decreased ¥0 million (-0.2%) to ¥1.39 billion, mainly due to weaker profitability among the Company's manufacturing subsidiaries in Japan.

Others

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated first quarter, current assets amounted to ¥361.52 billion. This represents a decrease of ¥17.81 billion compared to the end of the prior consolidated fiscal year due to decreases in cash and deposits and accounts receivable, despite an increase in inventories. Non-current assets amounted to ¥238.41 billion, up ¥6.27 billion from the end of the prior consolidated fiscal year. This increase was mainly due to an increase in investment in securities stemming from a rise in the fair value of shares owned by the Company, despite a decrease resulting mainly from the amortization of intangible fixed assets. As a result, total assets decreased ¥11.53 billion to ¥599.94 billion compared to the end of the prior consolidated fiscal year.

Liabilities amounted to ¥277.57 billion, a decrease of ¥20.65 billion compared to the end of the prior consolidated fiscal year. This decrease was mainly due to decreases in accounts payable and commercial paper.

Net assets amounted to ¥322.36 billion, up ¥9.12 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to the recording of profit attributable to owners of the parent in the amount of ¥6.8 billion, as well as an increase in net unrealized holding gain on securities.

As a result, the Company recorded a shareholders' equity ratio of 52.4%, up 2.5 points compared to the end of the prior consolidated fiscal year.

(3) Qualitative Information Related to Consolidated Earnings Forecasts

Our consolidated earnings forecasts for the current fiscal year were created based on the assumption that the impact of the COVID-19 pandemic will largely abate in the second half. However, our sales for the consolidated first quarter were relatively stronger than those in the previous earnings forecasts, mainly due to a temporary increase in the demand caused by a supply uncertainty attributable to the spread of the COVID-19 pandemic.

We forecast that, though there is a concern that the recovery of the economy may be delayed by the further spread of the COVID-19 pandemic, the economy will gradually recover in the second half. Therefore, at this point, we will not make changes to the consolidated earnings forecasts released on May 14, 2020.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2020)	First Quarter, Current Consolidated Fiscal Year (June 30, 2020)
ASSETS		
Current assets		
Cash and time deposits	51,408	41,715
Notes and accounts receivable	221,116	204,876
Merchandise and finished goods	86,166	92,022
Work in process	1,789	1,683
Raw materials and supplies	7,730	8,065
Other	11,859	13,808
Less allowance for doubtful accounts	(732)	(648)
Total current assets	379,337	361,522
Non-current assets		
Property, plant and equipment	74,309	73,734
Intangible fixed assets		
Goodwill	35,246	34,478
Technology-based assets	9,064	8,670
Other	28,286	27,802
Total intangible fixed assets	72,597	70,951
Investments and other assets		
Investments in securities	76,124	84,913
Long-term loans receivable	391	381
Retirement benefit asset	1,754	1,802
Deferred tax assets	2,085	1,864
Other	4,967	4,866
Less allowance for doubtful accounts	(91)	(93)
Total investments and other assets	85,232	93,733
Total non-current assets	232,139	238,419
Total assets	611,477	599,942

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2020)	First Quarter, Current Consolidated Fiscal Year (June 30, 2020)
LIABILITIES		
Current liabilities		
Notes and accounts payable	108,285	94,793
Short-term loans	30,590	29,861
Current portion of long-term loans	1,277	7,735
Commercial paper	30,000	25,000
Accrued income taxes	4,625	1,996
Accrued bonuses for employees	5,123	2,736
Accrued bonuses for directors	170	57
Other	20,360	22,154
Total current liabilities	200,434	184,334
Long-term liabilities		
Bonds	30,000	30,000
Long-term loans	42,621	35,258
Deferred tax liabilities	9,280	12,015
Retirement benefit liability	13,677	13,861
Other	2,221	2,106
Total long-term liabilities	97,800	93,242
Total liabilities	298,234	277,577
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	10,646	10,646
Retained earnings	257,067	261,147
Less treasury stock, at cost	(5,071)	(5,071)
Total shareholders' equity	272,342	276,422
Accumulated other comprehensive income		
Net unrealized holding gain on securities	32,618	37,850
Deferred gain on hedges	3	11
Translation adjustments	1,051	651
Remeasurements of defined benefit plans	(694)	(556)
Total accumulated other comprehensive income	32,979	37,957
Non-controlling interests	7,921	7,985
Total net assets	313,243	322,364
Total liabilities and net assets	611,477	599,942

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

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2020 and 2019

(Millions of yen)

	Three-month period ended June 30, 2019 (April 1, 2019 - June 30, 2019)	Three-month period ended June 30, 2020 (April 1, 2020 - June 30, 2020)
Net sales	192,986	180,569
Cost of sales	167,587	154,510
Gross profit	25,399	26,058
Selling, general and administrative expenses	20,142	22,385
Operating income	5,257	3,673
Non-operating income		
Interest income	26	40
Dividend income	904	385
Rent income	66	66
Equity in earnings of affiliates	18	-
Foreign exchange gains	-	325
Other	156	155
Total non-operating income	1,173	974
Non-operating expenses		
Interest expenses	358	254
Equity in losses of affiliates	-	96
Foreign exchange losses	122	-
Other	100	59
Total non-operating expenses	582	410
Ordinary income	5,848	4,237
Extraordinary gains		
Gain on sales of non-current assets	9	0
Gain on sales of investment securities	17	5,597
Subsidy income	25	-
Total extraordinary gains	52	5,597
Extraordinary losses		
Loss on sales of non-current assets	1	-
Loss on disposal of non-current assets	18	12
Impairment losses	-	7
Loss on valuation of investment securities	-	14
Loss on sales of shares of subsidiaries and affiliates	-	1
Total extraordinary losses	20	36
Income before income taxes	5,879	9,798
Income taxes - current	912	2,233
Income taxes - deferred	764	655
Total income taxes	1,676	2,888
Profit for the period	4,203	6,909
Profit attributable to non-controlling interests	47	101
Profit attributable to owners of the parent	4,156	6,807

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2020 and 2019

(Millions of yen)

	Three-month period ended June 30, 2019 (April 1, 2019 - June 30, 2019)	Three-month period ended June 30, 2020 (April 1, 2020 - June 30, 2020)
Profit for the period	4,203	6,909
Other comprehensive income		
Net unrealized holding (loss) gain on securities	(1,737)	5,228
Deferred (loss) gain on hedges	(332)	8
Translation adjustments	(2,075)	(428)
Remeasurements of defined benefit plans	53	138
Share of other comprehensive loss of affiliates accounted for by the equity method	(163)	(5)
Total other comprehensive income	(4,255)	4,941
Comprehensive income	(52)	11,850
Comprehensive income attributable to:		
Shareholders of the parent	113	11,785
Non-controlling interests	(165)	64

(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)

(Application of Tax Effect Accounting for Transition from Consolidated Taxation System to Group Tax Sharing System)

The Company and certain domestic consolidated subsidiaries have calculated the amounts of deferred tax assets and deferred tax liabilities in accordance with the provisions of tax laws in Japan prior to the amendments based on the treatments stipulated in Paragraph 3 of *Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System* (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force No. 39, March 31, 2020) instead of applying the provision of Paragraph 44 of *Implementation Guidance on Tax Effect Accounting* (ASBJ Guidance No. 28, February 16, 2018), regarding the transition to group tax sharing system provided for in *Act for Partial Amendment of the Income Tax Act, etc.* (Act No. 8 of 2020), and items for which the non-consolidated taxation system has been reviewed in line with the transition to the group tax sharing system.

(Effects of COVID-19 Pandemic When Making Accounting Estimates)

The Group made accounting estimates related to impairment loss on non-current assets and recoverability of deferred tax assets, etc., based on information available at the time the consolidated financial statements were prepared.

Regarding the impact of the novel coronavirus disease (COVID-19), the Group's accounting estimates reflect the assumption that the impact will gradually recover in the second half of the fiscal year ending March 31, 2021. However, no material changes are made to the assumption of estimates described in Additional Information of Annual Securities Report for the previous consolidated fiscal year. There are still many uncertain factors regarding the impact of COVID-19 and it may affect the financial condition and operating performance of the Group in the consolidated second and subsequent quarters.

(Segment Information, etc.)

Segment Information

I Three-month period ended June 30, 2019 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	43,606	67,394	26,612	32,546	22,692	192,852	134	192,986	-	-	192,986
Intersegment sales/transfers	456	541	431	727	128	2,285	1,484	3,770	-	(3,770)	-
Total	44,063	67,936	27,044	33,273	22,820	195,138	1,618	196,756	-	(3,770)	192,986
Segment income (loss)	1,495	2,030	1,274	529	1,396	6,726	50	6,777	(1,651)	131	5,257

(Note) 1. "Others" 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 Others.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in "Consolidated".

II Three-month period ended June 30, 2020 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	34,369	58,238	26,060	18,973	42,823	180,464	104	180,569	-	-	180,569
Intersegment sales/transfers	406	538	280	494	102	1,822	1,394	3,217	-	(3,217)	-
Total	34,776	58,776	26,341	19,467	42,925	182,287	1,499	183,787	-	(3,217)	180,569
Segment income (loss)	910	1,461	1,734	(166)	1,394	5,332	100	5,433	(1,897)	137	3,673

(Note) 1. "Others" 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 Others.

3. Adjustments are eliminations of intersegment transactions.

4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in "Consolidated".

3. Supplementary Information

(1) Overseas Sales

I Three-month period ended June 30, 2019 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	46,678	27,789	9,172	3,766	3,874	91,280
II Consolidated sales (Millions of yen)						192,986
III Ratio of overseas sales to consolidated sales (%)	24.1	14.4	4.8	2.0	2.0	47.3

II Three-month period ended June 30, 2020 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	44,025	19,428	20,170	10,768	4,001	98,394
II Consolidated sales (Millions of yen)						180,569
III Ratio of overseas sales to consolidated sales (%)	24.3	10.8	11.2	6.0	2.2	54.5

(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, Vietnam

(3) Americas.....U.S., Mexico

(4) Europe.....Germany, UK

(5) Other.....Korea