



Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2017 <Under Japanese GAAP>

August 4, 2016

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

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (First Section)

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

Representative: Kenji Asakura, Representative Director and President

Contact: Akira Takami, General Manager, Accounting Division

TEL: +81-3-3665-3103

Filing of quarterly report (scheduled): August 9, 2016

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, 2017

(April 1, 2016 to June 30, 2016)

(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, 2016	173,394	(6.3)	3,525	(28.9)	3,904	(26.7)	2,236	(34.2)
June 30, 2015	185,147	2.1	4,958	11.9	5,324	4.6	3,400	(3.2)

(Notes) Comprehensive income

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

First quarter ended June 30, 2015: ¥5,123 million (24% decrease)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
For the first quarter ended June 30, 2016	17.61	—
June 30, 2015	26.77	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2016	493,718	271,516	54.1	2,102.18
March 31, 2016	512,081	279,149	53.5	2,156.67

(Reference) Equity capital

As of June 30, 2016: ¥267,041million

As of March 31, 2016: ¥273,963 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 2016	—	16.00	—	16.00	32.00
March 2017	—				
March 2017 (estimate)		16.00	—	16.00	32.00

(Note) Revisions to the latest projected dividends: No

3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2017 (April 1, 2016 to March 31, 2017)

(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	735,000	(1.0)	14,500	(19.6)	16,000	(13.0)	9,500	(22.9)	74.78

(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, 2016	127,408,285 shares	March 31, 2016	127,408,285 shares
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- ii. Number of treasury stock as of the fiscal period end

June 30, 2016	377,392 shares	March 31, 2016	377,300 shares
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- iii. Average number of shares during the period

June 30, 2016	127,030,962 shares	June 30, 2015	127,031,790 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 4 of this document.

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

Japanese corporate earnings, mainly in non-manufacturing sectors, remained steady throughout the first quarter of the consolidated fiscal year. At the same time, Japan's employment environment continued to improve. However, the combination of a strong yen and low stock prices since the beginning of the year have raised the risk of a downturn in the Japanese economy arising from weakening corporate earnings. As China and the emerging economies continue to experience slowing growth, uncertainty as to the overall direction of the global economy has increased with the worldwide impact of the British exit from the EU, the U.S. presidential election, and other factors.

In this environment, the Company recorded domestic sales of ¥88.91 billion for the consolidated first quarter, which represented a 1.3% decrease year on year. Overseas sales, impacted by a comparatively stronger yen, amounted to ¥84.48 billion (11.2% decrease). In total, the Company recorded ¥173.39 billion in net sales, a 6.3% decrease.

The Company recorded gross profit of ¥22.56 billion (4.1% decrease) in conjunction with lower revenues. Operating income amounted to ¥3.52 billion, a decrease of 28.9%. This decrease was mainly due to increase in retirement benefit expenses in connection with amortization of actuarial losses. Ordinary income amounted to ¥3.9 billion (26.7% decrease). Profit attributable to owners of the parent amounted to ¥2.23 billion (34.2% decrease), mainly due to the recording of losses on sale of subsidiaries and affiliates.

b. Segment Summary

Functional Materials

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

The performance chemicals business recorded lower net sales despite a slight recovery in demand for coatings for building and construction materials. The primary factor behind this result was a decrease in sales of coating raw materials and urethane materials due to weakness in domestic automotive production volume.

The speciality chemicals business also recorded lower net sales. While sales of chemicals for industrial lubricants and semiconductor-related products to the electronics industry were strong, sales of raw materials for plastics and other business overseas were comparatively sluggish.

As a result, the segment recorded net sales of ¥37.09 billion, representing a ¥3.34 billion (8.3%) decrease. Operating income for the segment was ¥860 million, representing a ¥240 million (21.9%) decrease. This decrease was mainly due to lower net sales and expenses incurred in relocating a domestic affiliated company.

Advanced Materials & Processing

The Advanced Materials & Processing segment reported lower sales in both domestic and overseas markets.

The colors and imaging business recorded lower net sales overall, despite increased sales of plastic resins for packaging applications. Sales of materials for LCD TV reflectors, conductive materials, dyes/additives, information printing materials, and anti-reflective optical sheets were down for the period.

The segment's business selling plastics and other products to the office equipment, appliance and video game device markets recorded lower net sales. While sales edged lower domestically, product unit price declines in connection with naphtha prices had a significant negative impact on sales in Greater China and ASEAN.

As a result, the segment recorded net sales of ¥58.69 billion, representing a ¥6.28 billion (9.7%) decrease. Operating income for the segment was ¥1.2 billion, representing a ¥130 million (9.8%) decrease.

Electronics

The Electronics segment recorded net sales level with the same period in the prior fiscal year. Overseas sales were lower, while the segment posted higher revenues in Japan.

The electronic chemicals business recorded increased sales for the period, driven by higher formulated epoxy resin sales to the heavy electric and semiconductor industries.

The electronic materials business recorded lower sales. While sales for smartphone components were higher, sales of materials for touch panels and thin glass processing were lower.

As a result, the segment recorded net sales of ¥29.88 billion, representing a ¥10 million (0.0%) decrease. Operating income for the segment was ¥1.48 billion, representing a ¥40 million (3.0%) decrease. This decrease was mainly due to lower operating rates at overseas manufacturing businesses.

Automotive & Energy

The automobile-related business recorded lower net sales in total. Sales were down slightly in Japan due to decreased automotive production domestically. While sales improved favorably overseas in the Americas and ASEAN, sales in China were lower due to decreased automotive production in that country.

As a result, the segment recorded net sales of ¥26.22 billion, representing a ¥2.45 billion (8.6%) decrease year on year. Operating income amounted to ¥270 million, ¥280 million (51.3%) lower than the same period in the prior fiscal year. This decrease was mainly due to the fact that costs incurred to launch a new business in Japan during the prior year extended into the first quarter of the current fiscal year.

Life & Healthcare

The Life & Healthcare segment recorded net sales level with the same period in the prior fiscal year. While sales rose domestically, revenues from Greater China and other overseas regions were lower.

The life & healthcare products business recorded lower sales of TREHA™ and other products to the food materials industry, while sales of enzyme products increased. Although the business recorded lower sales of AA2G™ to the skin care and toiletries field, sales from raw materials sales to the same field grew year on year. In the medical and pharmaceutical fields, sales of raw materials and intermediates grew, while sales of medical materials were lower. As a result, the business reported lower net sales for the period.

The beauty care products business, which includes sales of cosmetics and health foods, recorded an increase in net sales. While net sales for existing products were level with the same period in the prior fiscal year, new products experienced sales growth.

As a result, net sales for the segment amounted to ¥21.32 billion, which was a ¥350 million (1.7%) increase. Operating income increased ¥270 million (28.0%) year on year to ¥1.25 billion. This increase was mainly due to improvements in domestic business profit ratios.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated first quarter, current assets amounted to ¥300.43 billion. This represents a decrease of ¥11.89 billion compared to the end of the prior consolidated fiscal year, mainly due to decreases in cash, time deposits, notes and accounts receivable. Non-current assets amounted to ¥193.28 billion, down ¥6.46 billion. This result was mainly due a decrease in investments in securities resulting from a decline in fair values and the sale of affiliates. As a result, total assets decreased by ¥18.36 billion, down to ¥493.71 billion as of the end of the consolidated first quarter.

Liabilities amounted to ¥222.2 billion, ¥10.73 billion decrease compared to the end of the prior consolidated fiscal year, mainly due to decreases in accrued income taxes.

Net assets amounted to ¥271.51 billion, down ¥7.63 billion. This decrease was mainly due to decreases in translation adjustments and net unrealized holding gain on securities, despite the Company recording profit attributable to owners of the parent in the amount of ¥2.23 billion.

As a result, the Company reported a shareholders' equity ratio of 54.1%, up 0.6 points compared to the end of the prior consolidated fiscal year.

(3) Qualitative Information related to Earnings Forecasts

The Company has made no changes its full-year consolidated earnings forecasts as originally published on May 6, 2016.

2. Summary Information (Notes)

(1) Changes in significant subsidiaries during the period

No matters to report.

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

No matters to report.

(3) Changes in accounting policies, estimates and restatements

No matters to report.

(4) Additional Information

(Application of Implementation Guidance on Recoverability of Deferred Tax Assets)

The Company has adopted Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26; March 28, 2016), effective the first quarter of the current consolidated fiscal year.

3. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2016)	First Quarter, Current Consolidated Fiscal Year (June 30, 2016)
ASSETS		
Current assets		
Cash and time deposits	43,283	37,390
Notes and accounts receivable	196,335	193,301
Merchandise and finished goods	57,404	55,238
Work in process	1,726	1,665
Raw materials and supplies	3,789	3,791
Deferred tax assets	2,842	2,015
Other	7,843	8,022
Less allowance for doubtful accounts	(890)	(989)
Total current assets	312,334	300,435
Non-current assets		
Property, plant and equipment	66,474	67,880
Intangible fixed assets		
Goodwill	24,582	24,138
Technology-based assets	15,366	14,972
Other	4,567	4,518
Total intangible fixed assets	44,516	43,630
Investments and other assets		
Investments in securities	81,345	75,417
Long-term loans receivable	1,023	605
Deferred tax assets	1,544	1,376
Other	5,017	4,544
Less allowance for doubtful accounts	(174)	(170)
Total investments and other assets	88,755	81,773
Total non-current assets	199,747	193,283
Total assets	512,081	493,718

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2016)	First Quarter, Current Consolidated Fiscal Year (June 30, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable	97,800	96,006
Short-term loans	25,294	23,916
Current portion of long-term loans	8,823	8,584
Current portion of bonds	-	10,000
Accrued income taxes	4,305	1,191
Deferred tax liabilities	13	24
Accrued bonuses for employees	4,224	2,176
Accrued bonuses for directors	194	52
Other	15,461	15,506
Total current liabilities	156,118	157,458
Long-term liabilities		
Bonds	30,000	20,000
Long-term loans	23,108	22,201
Deferred tax liabilities	8,433	7,172
Net defined benefit liability	14,060	14,112
Other	1,211	1,256
Total long-term liabilities	76,813	64,743
Total liabilities	232,932	222,202
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,615	11,604
Retained earnings	213,572	213,765
Less treasury stock, at cost	(230)	(230)
Total shareholders' equity	234,657	234,839
Accumulated other comprehensive income (loss)		
Net unrealized holding gain on securities	37,074	34,771
Deferred (loss) gain on hedges	(9)	16
Translation adjustments	4,411	(953)
Remeasurements of defined benefit plans	(2,169)	(1,631)
Total accumulated other comprehensive income	39,305	32,202
Non-controlling interests	5,185	4,475
Total net assets	279,149	271,516
Total liabilities and net assets	512,081	493,718

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

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2016 and 2015

(Millions of yen)

	Three-month period ended June 30, 2015 (April 1, 2015 - June 30, 2015)	Three-month period ended June 30, 2016 (April 1, 2016 - June 30, 2016)
Net sales	185,147	173,394
Cost of sales	161,619	150,829
Gross profit	23,527	22,564
Selling, general and administrative expenses	18,568	19,039
Operating income	4,958	3,525
Non-operating income		
Interest income	62	51
Dividend income	623	729
Rent income	74	78
Other	115	129
Total non-operating income	876	988
Non-operating expenses		
Interest expenses	255	228
Equity in losses of affiliates	8	85
Foreign exchange losses	61	192
Other	185	102
Total non-operating expenses	510	609
Ordinary income	5,324	3,904
Extraordinary gains		
Gain on sale of non-current assets	1	15
Gain on sale of investment securities	36	60
Total extraordinary gains	38	75
Extraordinary losses		
Loss on sale of non-current assets	0	10
Loss on disposal of non-current assets	31	49
Impairment loss	9	10
Loss on sale of investments securities	9	24
Loss on valuation of investments securities	-	151
Loss on sales of shares of subsidiaries and affiliates	-	257
Other	-	57
Total extraordinary losses	50	560
Income before income taxes and non-controlling interests	5,312	3,418
Income taxes - current	1,046	690
Income taxes - deferred	692	450
Total income taxes	1,739	1,141
Profit for the period	3,573	2,277
Profit attributable to non-controlling interests	172	41
Profit attributable to owners of the parent	3,400	2,236

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2016 and 2015

(Millions of yen)

	Three-month period ended June 30, 2015 (April 1, 2015 - June 30, 2015)	Three-month period ended June 30, 2016 (April 1, 2016 - June 30, 2016)
Profit for the period	3,573	2,277
Other comprehensive income		
Net unrealized holding (loss) gain on securities	680	(2,301)
Deferred (loss) gain on hedges	(13)	26
Translation adjustments	1,031	(5,448)
Remeasurements of defined benefit plans	(159)	537
Share of other comprehensive income of affiliates accounted for by the equity method	11	(435)
Total other comprehensive income	1,550	(7,620)
Comprehensive income	5,123	(5,342)
Comprehensive income attributable to:		
Shareholders of the parent	4,805	(4,843)
Non-controlling interests	318	(499)

(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, 2015 (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	40,439	64,974	29,899	28,680	20,977	184,971	176	185,147	-	-	185,147
Intersegment sales/transfers	510	573	188	625	106	2,003	1,371	3,374	-	(3,374)	-
Total	40,949	65,547	30,088	29,305	21,083	186,974	1,547	188,522	-	(3,374)	185,147
Segment income (loss)	1,110	1,331	1,526	558	978	5,506	40	5,547	(715)	126	4,958

(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) Total, Corporate, and Adjustments is equivalent to operating profit as presented in the consolidated statements of income.

II 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) Total, 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.

(Significant Subsequent Events)

No matters to report.

4. Supplementary Information

(1) Overseas Sales

Three-month period ended June 30, 2015 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	52,285	26,940	8,457	3,383	4,041	95,108
II Consolidated sales (Millions of yen)						185,147
III Ratio of overseas sales to consolidated sales (%)	28.2	14.6	4.6	1.8	2.2	51.4

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

(Note)

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

(1) Greater China.....China, Hong Kong, Taiwan

(2) ASEAN Thailand, Singapore

(3) Americas U.S., Mexico

(4) EuropeGermany

(5) Other Korea

4. Change in region classifications

The Company had classified its regions as Northeast Asia, Southeast Asia, North America, and Europe & Others. Beginning with the first quarter of the current consolidated fiscal year, the Company has renamed and reclassified its regions for coordination with the Company's *ACE-2020*, our mid-term management plan.

(1) Northeast Asia renamed as Greater China; Southeast Asia renamed as ASEAN; North America renamed as Americas.
Europe & Others categorized separately into Europe and Other.

(2) Brazil, formerly classified under Europe & Others, now included in Americas

(3) Korea, formerly classified under Northeast Asia, now included in Other