

Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2020 <Under Japanese GAAP>

February 5, 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): February 10, 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 Third Quarter of the Fiscal Year Ending March 31, 2020

(April 1, 2019 to December 31, 2019)

(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 third quarter ended December 31, 2019	601,721	(2.4)	15,053	(28.1)	15,709	(29.3)	12,049	(25.2)
December 31, 2018	616,466	3.9	20,928	3.0	22,214	0.4	16,103	10.0

(Notes) Comprehensive income

Third quarter ended December 31, 2019: ¥14,866 million (116.4%)

Third quarter ended December 31, 2018: ¥6,869 million (74.7% decrease)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
For the third quarter ended December 31, 2019	97.16	—
December 31, 2018	128.73	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2019	641,646	324,032	49.4	2,554.37
March 31, 2019	567,346	312,609	54.2	2,481.01

(Reference) Equity capital

As of December 31, 2019: ¥316,772 million

As of March 31, 2019: ¥307,674 million

2. Dividends

	Annual Dividends per Share				
	1Q	2Q	3Q	Fiscal year end	Annual
	Yen	Yen	Yen	Yen	Yen
For the year ended (or ending) March 2019	—	18.00	—	24.00	42.00
March 2020	—	22.00	—		
March 2020 (estimate)				22.00	44.00

(Note) Revisions to the latest projected dividends: No

3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2020
(April 1, 2019 to March 31, 2020)

(% = year-on-year change)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of the parent		Earnings per share
Full fiscal year	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
	820,000	1.5	21,500	(14.8)	22,000	(17.4)	17,300	(14.1)	139.50

(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: Nagase Holdings America Corporation) Excluded: — (Company name:)
 (Note) Please refer to 2. *Quarterly Consolidated Financial Statements and Notes (3) Notes Related to Quarterly Consolidated Financial Statements, (Changes in Significant Subsidiaries During the Period)* on P.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: Yes
 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
 (Note) Please refer to 2. *Quarterly Consolidated Financial Statements and Notes (3) Notes Related to Quarterly Consolidated Financial Statements, (Change in Accounting Policy)* on P.9 of this document.

- (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)

December 31, 2019	127,408,285 shares	March 31, 2019	127,408,285 shares
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- ii. Number of treasury stock as of the fiscal period end

December 31, 2019	3,396,548 shares	March 31, 2019	3,396,352 shares
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- iii. Average number of shares during the period

December 31, 2019	124,011,848 shares	December 31, 2018	125,092,087 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.

Attachments

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

Although employment continues to improve, the Japanese economy experienced stagnant manufacturing and capital investment during the cumulative consolidated third quarter. Despite a push from strong corporate earnings in the United States, the slowdown in the Chinese economy due to an extended period of U.S.-China trade frictions, as well as more immediate concerns that the spread of the novel coronavirus will impact the economy, has resulted in increasing uncertainty as to the overall future direction of the global economy.

In this environment, the Company recorded domestic sales of ¥304.92 billion (-2.6% year on year) for the cumulative consolidated third quarter. Overseas sales amounted to ¥296.79 billion (-2.2%). In total, the Company recorded ¥601.72 billion (-2.4%) in net sales.

The Company recorded gross profit of ¥77.82 billion (-3.8%) in conjunction with lower sales. Lower sales together with higher general and administrative expenses led to operating income of ¥15.05 billion (-28.1%). Ordinary income amounted to ¥15.7 billion (-29.3%), while profit attributable to owners of the parent amounted to ¥12.04 billion (-25.2%).

b. Segment Summary

Functional Materials

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

The Performance Chemicals business recorded 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, from decreased sales of both electronics chemicals for the semiconductor and other related electronics industries in Japan and overseas, and of industrial oil solutions.

As a result, sales for the segment amounted to ¥129.91 billion, which was a ¥6.52 billion (-4.8%) decrease compared to the cumulative consolidated third quarter of the prior fiscal year. Operating income fell ¥130 million (-3.2%) to ¥4.09 billion for the cumulative consolidated third quarter.

Advanced Materials & Processing

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

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

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 ¥207.35 billion, which was a ¥4.28 billion (-2.0%) decrease compared to the cumulative consolidated third quarter of the prior fiscal year. Operating income was ¥6.96 billion, an increase of ¥150 million (+2.3%) year on year, mainly due to improved profitability among the Company's manufacturing subsidiaries in Japan.

Electronics

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

As a result, sales for the segment amounted to ¥87.32 billion, which was a ¥7.35 billion (-7.8%) decrease compared to the cumulative consolidated third quarter of the prior fiscal year. Operating income fell ¥2.05 billion (-33.2%) to ¥4.14 billion for the cumulative consolidated third quarter.

Mobility & Energy

The Mobility Solution business recorded lower sales both in Japan and overseas, mainly due to lower sales in car electronics-related products in Japan as well as lower sales in the resins business in Japan and overseas.

As a result, sales for the segment amounted to ¥98.02 billion, which was a ¥7.48 billion (-7.1%) decrease compared to the cumulative consolidated third quarter of the prior fiscal year. Operating income fell ¥900 million (-36.8%) to ¥1.56 billion for the cumulative consolidated third quarter.

(Note) As of the consolidated first quarter, the name of the former *Automotive & Energy Segment* has been changed to the *Mobility & Energy Segment*.

Life & Healthcare

Despite slightly lower domestic sales, the Life & Healthcare segment recorded higher sales due to materially higher overseas sales.

Sales of TREHA™ and other products in the food ingredients field in the Life & Healthcare Products business were higher overseas and level in Japan. Further, due to the addition of sales from the Prinova Group, newly-acquired by the Company in the consolidated second quarter of the fiscal year, Overseas sales materially increased. Sales of AA2G™ to customers in the skin care and toiletries sectors were lower in Japan. However, overseas sales were higher due to favorable sales primarily in Europe. In the medical and pharmaceutical field, though sales in the pharmaceutical business decreased, sales of pharmaceutical raw materials and intermediates as well as medical materials increased, driving increased sales for the business as a whole.

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

As a result, sales for the segment amounted to ¥78.71 billion, which was a ¥10.97 billion (+16.2%) increase compared to the cumulative consolidated third quarter of the prior fiscal year. Operating income decreased ¥1.07 billion (-29.1%) to ¥2.62 billion, mainly due to weaker profitability among the Company's manufacturing subsidiaries in Japan.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated third quarter, current assets amounted to ¥390.37 billion. This represents an increase of ¥24.54 billion compared to the end of the prior consolidated fiscal year, mainly due to an increase in assets related to the new consolidation of subsidiaries, despite decreases in cash and deposits, inventories, etc. among existing group companies. Non-current assets amounted to ¥251.27 billion, up ¥49.75 billion from the end of the prior consolidated fiscal year. This increase was mainly due to an increase of assets and the recording of goodwill and other intangible assets related to the new consolidation of subsidiaries, as well as an increase in investments in securities stemming from a rise in the fair value of stock owned by the Company. As a result, total assets increased ¥74.29 billion compared to the end of the prior consolidated fiscal year to ¥641.64 billion.

Liabilities amounted to ¥317.61 billion, an increase of ¥62.87 billion compared to the end of the prior consolidated fiscal year.

This increase was mainly due to increases in commercial paper, long-term loans, and bonds.

Net assets amounted to ¥324.03 billion, up ¥11.42 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 ¥12.04 billion, as well as an increase in net unrealized holding gain on securities.

As a result, the Company recorded a shareholders' equity ratio of 49.4%, down 4.8 points compared to 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 November 1, 2019.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Prior Consolidated Fiscal Year (March 31, 2019)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2019)
ASSETS		
Current assets		
Cash and time deposits	44,068	38,351
Notes and accounts receivable	230,459	245,936
Merchandise and finished goods	74,471	85,052
Work in process	1,847	1,707
Raw materials and supplies	4,683	7,667
Other	10,651	12,408
Less allowance for doubtful accounts	(355)	(753)
Total current assets	365,827	390,370
Non-current assets		
Property, plant and equipment	66,467	74,424
Intangible fixed assets		
Goodwill	23,866	33,423
Technology-based assets	10,639	9,458
Other	2,772	27,886
Total intangible fixed assets	37,279	70,767
Investments and other assets		
Investments in securities	90,263	96,602
Long-term loans receivable	243	454
Retirement benefit asset	109	1,907
Deferred tax assets	2,290	2,147
Other	4,959	5,057
Less allowance for doubtful accounts	(92)	(85)
Total investments and other assets	97,771	106,083
Total non-current assets	201,518	251,275
Total assets	567,346	641,646

	(Millions of yen)	
	Prior Consolidated Fiscal Year (March 31, 2019)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2019)
LIABILITIES		
Current liabilities		
Notes and accounts payable	117,256	123,271
Short-term loans	34,964	29,360
Current portion of long-term loans	949	933
Commercial paper	12,000	33,000
Current portion of bonds	10,000	-
Accrued income taxes	3,594	1,899
Accrued bonuses for employees	5,355	3,114
Accrued bonuses for directors	287	149
Other	17,457	22,230
Total current liabilities	201,866	213,958
Long-term liabilities		
Bonds	10,000	30,000
Long-term loans	17,577	42,193
Deferred tax liabilities	12,075	15,366
Retirement benefit liability	12,461	13,811
Other	757	2,283
Total long-term liabilities	52,870	103,654
Total liabilities	254,737	317,613
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	10,647	10,646
Retained earnings	247,617	254,030
Less treasury stock, at cost	(5,070)	(5,071)
Total shareholders' equity	262,892	269,306
Accumulated other comprehensive income		
Net unrealized holding gain on securities	41,857	45,668
Deferred (loss) gain on hedges	(7)	12
Translation adjustments	3,224	1,922
Remeasurements of defined benefit plans	(292)	(136)
Total accumulated other comprehensive income	44,781	47,466
Non-controlling interests	4,934	7,260
Total net assets	312,609	324,032
Total liabilities and net assets	567,346	641,646

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

(Quarterly Consolidated Statements of Income)

Nine-month periods ended December 31, 2019 and 2018

(Millions of yen)

	Nine-month period ended December 31, 2018 (April 1, 2018 - December 31, 2018)	Nine-month period ended December 31, 2019 (April 1, 2019 - December 31, 2019)
Net sales	616,466	601,721
Cost of sales	535,568	523,899
Gross profit	80,898	77,821
Selling, general and administrative expenses	59,970	62,767
Operating income	20,928	15,053
Non-operating income		
Interest income	145	107
Dividend income	1,624	1,865
Rent income	199	199
Equity in earnings of affiliates	618	-
Other	475	314
Total non-operating income	3,063	2,487
Non-operating expenses		
Interest expenses	1,249	1,078
Equity in losses of affiliates	-	156
Foreign exchange losses	235	130
Other	291	466
Total non-operating expenses	1,777	1,831
Ordinary income	22,214	15,709
Extraordinary gains		
Gain on sales of non-current assets	136	20
Gain on sales of investment securities	321	3,763
Gain on sales of shares of subsidiaries and affiliates	6	-
Subsidy income	-	27
Total extraordinary gains	464	3,810
Extraordinary losses		
Loss on sales of non-current assets	70	43
Loss on disposal of non-current assets	155	146
Impairment losses	17	1,041
Loss on sales of investment securities	2	-
Loss on valuation of investment securities	202	22
Loss on business withdrawal	187	-
Total extraordinary losses	635	1,254
Income before income taxes and non-controlling interests	22,043	18,266
Income taxes - current	4,321	4,585
Income taxes - deferred	1,402	1,365
Total income taxes	5,723	5,950
Profit for the period	16,319	12,315
Profit attributable to non-controlling interests	215	266
Profit attributable to owners of the parent	16,103	12,049

(Quarterly Consolidated Statements of Comprehensive Income)

Nine-month periods ended December 31, 2019 and 2018

(Millions of yen)

	Nine-month period ended December 31, 2018 (April 1, 2018 - December 31, 2018)	Nine-month period ended December 31, 2019 (April 1, 2019 - December 31, 2019)
Profit for the period	16,319	12,315
Other comprehensive income		
Net unrealized holding (loss) gain on securities	(9,394)	3,811
Deferred gain on hedges	18	20
Translation adjustments	(179)	(1,287)
Remeasurements of defined benefit plans	172	155
Share of other comprehensive loss of affiliates accounted for by the equity method	(66)	(149)
Total other comprehensive income	(9,449)	2,550
Comprehensive income	6,869	14,866
Comprehensive income attributable to:		
Shareholders of the parent	6,829	14,740
Non-controlling interests	39	126

(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.

(Changes in Significant Subsidiaries During the Period)

The Company established Nagase Holdings America Corporation in the U.S. on April 1, 2019, including Nagase Holdings America Corporation within the scope of consolidation from the consolidated first quarter. Subsequently, the Company made a capital increase in Nagase Holdings America Corporation on August 2, 2019, making it a specified subsidiary.

(Change in Accounting Policy)

Beginning from the consolidated first quarter, the Company has applied IFRS 16 *Leases* for overseas consolidated subsidiaries that have adopted International Financial Reporting Standards. The impact of this accounting standard on quarterly consolidated financial statements is minor.

(Segment Information, etc.)

Segment Information

I Nine-month period ended December 31, 2018 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 2	Total	Corporate (Note) 3	Adjustments (Note) 4	Consolidated (Note) 5
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy (Note) 1	Life & Healthcare	Total					
Net sales											
Sales to customers	136,441	211,638	94,686	105,507	67,747	616,022	444	616,466	-	-	616,466
Intersegment sales/transfers	2,329	1,843	1,269	2,118	301	7,863	4,118	11,982	-	(11,982)	-
Total	138,770	213,482	95,956	107,626	68,048	623,885	4,563	628,448	-	(11,982)	616,466
Segment income (loss)	4,224	6,807	6,198	2,469	3,707	23,407	286	23,694	(3,151)	385	20,928

(Note) 1. As of the consolidated first quarter, the name of the former *Automotive & Energy Segment* has been changed to the *Mobility & Energy Segment*.

2. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes logistics services, information processing services, and professional services.
3. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
4. Adjustments are eliminations of intersegment transactions.
5. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating profit as presented in "Consolidated".

II Nine-month period ended December 31, 2019 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 2	Total	Corporate (Note) 3	Adjustments (Note) 4	Consolidated (Note) 5
	Functional Materials	Advanced Materials & Processing	Electronics	Mobility & Energy (Note) 1	Life & Healthcare	Total					
Net sales											
Sales to customers	129,917	207,356	87,329	98,020	78,718	601,341	379	601,721	-	-	601,721
Intersegment sales/transfers	1,374	1,666	1,428	2,211	370	7,051	4,113	11,164	-	(11,164)	-
Total	131,291	209,022	88,757	100,231	79,089	608,392	4,492	612,885	-	(11,164)	601,721
Segment income (loss)	4,090	6,961	4,140	1,561	2,628	19,381	164	19,546	(4,793)	301	15,053

(Note) 1. As of the consolidated first quarter, the name of the former *Automotive & Energy Segment* has been changed to the *Mobility & Energy Segment*.

2. "Others" is a business segment consisting of businesses not included in Reportable Segments, and includes logistics services, information processing services, and professional services.
3. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
4. Adjustments are eliminations of intersegment transactions.
5. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating profit as presented in "Consolidated".

2. Information about assets for each reportable segment

(Significant increases in assets due to acquisition of subsidiaries)

During the consolidated second quarter, the Company acquired equity in Prinova Group, LLC, adding a total of 18 companies including Prinova Group, LLC and its subsidiaries to the scope of consolidation. In connection with this transaction, assets of the Life & Healthcare segment as of the end of the consolidated third quarter of this fiscal year increased ¥73,000 million compared to the end of the prior consolidated fiscal year.

3. Information about impairment loss of non-current assets or goodwill, etc. for each reportable segment

(Significant impairment losses of non-current assets)

In the Electronics segment, as a result of worsening profitability of the thin processing business for glass substrate, the carrying amounts of the related business assets were reduced to their recoverable amounts. The recorded loss on impairment of fixed assets in this instance was ¥1,039 million in the cumulative consolidated third quarter.

(Significant changes in goodwill)

During the consolidated second quarter, the Company acquired equity in Prinova Group, LLC, adding a total of 18 companies including Prinova Group, LLC and its subsidiaries to the scope of consolidation. In connection with this transaction, the Company recorded ¥10,856 million in goodwill within the Life & Healthcare segment.

The allocation of acquisition costs has not been completed. Accordingly, the amount of goodwill stated here represents a provisional calculation based on obtainable, reasonable information.

3. Supplementary Information

(1) Overseas Sales

I Nine-month period ended December 31, 2018 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	160,734	89,637	28,660	11,404	12,953	303,391
II Consolidated sales (Millions of yen)						616,466
III Ratio of overseas sales to consolidated sales (%)	26.1	14.5	4.6	1.9	2.1	49.2

II Nine-month period ended December 31, 2019 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	151,279	83,863	34,170	14,702	12,775	296,791
II Consolidated sales (Millions of yen)						601,721
III Ratio of overseas sales to consolidated sales (%)	25.2	13.9	5.7	2.4	2.1	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, Vietnam

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

(4) Europe.....Germany

(5) Other.....Korea