



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

February 3, 2017

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

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (First Section)

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

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

Start of distribution of dividends (scheduled): -

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: No

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

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending March 31, 2017

(April 1, 2016 to December 31, 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 third quarter ended December 31, 2016	537,090	(5.2)	11,661	(21.3)	12,738	(17.2)	8,853	(7.5)
December 31, 2015	566,524	(1.0)	14,825	4.2	15,377	(5.8)	9,569	(13.7)

(Notes) Comprehensive income

Third quarter ended December 31, 2016: ¥19,426 million (131.6%)

Third quarter ended December 31, 2015: ¥8,386 million (74.8% decrease)

	Earnings per share		Earnings per share (diluted)	
	Yen		Yen	
For the third quarter ended December 31, 2016	69.90		-	
December 31, 2015	75.33		-	

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2016	548,423	293,010	52.5	2,283.25
March 31, 2016	512,081	279,149	53.5	2,156.67

(Reference) Equity capital

As of December 31, 2016: ¥287,969 million

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	-	16.00	-	-	-
March 2017 (estimate)	-	-	-	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: Yes

iii. Changes in accounting estimates: No

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

(Note) Please refer to “2. Summary Information (Notes) (3) Changes in Accounting Policies, Estimates and Restatements.” on page 4 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, 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

December 31, 2016	1,285,832 shares	March 31, 2016	377,300 shares
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iii. Average number of shares during the period

December 31, 2016	126,667,603 shares	December 31, 2015	127,031,533 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

Improved employment and payrolls, as well as a gradual recovery in corporate earnings, led to a more favorable business sentiment during the cumulative consolidated third quarter in the Japanese economy. However, we continued to see stagnation in personal spending and constrained external demand. At the same time, growth is slowing in China and other emerging economies. This, combined with the British exit from the EU, the impact of economic and trade policies of the new U.S. administration, and other factors, mean that the future direction of the global economy remains uncertain.

In this environment, the Company recorded domestic sales of ¥274.68 billion for the cumulative consolidated third quarter, which represented a 0.9% increase year on year. Overseas sales, impacted by comparatively strong yen, fell to ¥262.4 billion (10.8% decrease). In total, the Company recorded ¥537.09 billion in net sales, a decrease of 5.2%.

The Company recorded gross profit of ¥68.22 billion (2.3% decrease) in conjunction with lower revenues. Operating income amounted to ¥11.66 billion, a decrease of 21.3%. This decrease was mainly due to an increase in retirement benefit expense in connection with the amortization of actuarial losses. Ordinary income amounted to ¥12.73 billion (17.2% decrease), while profit attributable to owners of the parent amounted to ¥8.85 billion (7.5% decrease).

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 as a whole. While sales of coating raw materials for automotive industry grew in ASEAN, lower naphtha prices resulted in lower sales elsewhere, most notably in Japan.

The Speciality Chemicals business recorded slightly higher net sales. This result was mainly due to strong sales of raw materials for fiber lubricants and fluorochemicals for the electronics industry in Japan, silicone materials sales in the U.S., and raw materials for plastic in Korea.

As a result, net sales for the segment amounted to ¥113.66 billion for the period, representing a ¥5.35 billion (4.5%) decrease. Operating income for the segment was ¥2.96 billion, representing a ¥10 million (0.5%) decrease.

Advanced Materials & Processing

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

The Colors & Advanced Processing business recorded lower net sales overall, despite higher sales of plastic resins for packaging and container applications and conductive materials in Japan. Sales of digital print processing materials were lower both in Japan and overseas.

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. Here, sales were up slightly as a whole. While sales were level in Japan and slightly lower in Greater China, sales in ASEAN grew year on year.

As a result, the segment recorded net sales of ¥181.34 billion, representing a ¥16.24 billion (8.2%) decrease. Meanwhile, operating income increased ¥110 million (2.8%) to ¥4.02 billion, mainly due to improved gross profit ratios among the Company's domestic manufacturing subsidiaries.

Electronics

The Electronics segment recorded lower sales as a whole. Domestic sales were higher, driven by the performance of domestic manufacturing subsidiaries. However, overseas sales were lower in Greater China and the Americas.

The Electronic Chemicals business recorded increased sales for the period, driven by higher sales of formulated epoxy resin to the electronic components and semiconductor industries.

The Electronic Materials business recorded lower net sales, mainly due to lower sales of materials for touch panels and glass slimming process.

As a result, the segment recorded net sales of ¥96.27 billion for the period, representing a ¥3.02 billion (3.1%) decrease. Operating income for the segment was ¥4.67 billion, representing a ¥640 million (12.1%) decrease. This decrease was mainly due to lower operating rates at our overseas manufacturing businesses.

Automotive & Energy

The Automotive Solutions business recorded improved sales for the period. While lower naphtha prices had a negative impact on revenues in Japan, the resins business experienced growth. Despite favorable volume trends overseas, the strong yen drove sales downward, resulting in lower performance for the business.

As a result, the segment recorded sales of ¥82.54 billion for the period, down ¥4.7 billion (5.4%). Operating income decreased ¥60 million (6.2%) year on year, down to ¥960 million.

Life & Healthcare

The Life & Healthcare segment recorded sales level with the same period in the prior fiscal year. While sales rose domestically, sales were lower overseas, mainly in Greater China and Europe.

The Life & Healthcare Products business recorded lower sales of TREHA™ in overseas markets, while sales of this product were level in Japan. Although the business recorded lower sales of AA2G™ to major customers in the Japanese skin care and toiletries field, sales to major customers overseas were higher. In the pharmaceuticals and medicals fields, sales of raw pharmaceuticals, intermediates, and medical materials were higher. As a result, the business recorded period sales level with the prior year.

The Beauty Care Products business, which includes sales of cosmetics and health foods, recorded slightly higher sales, mainly due to strong performance of new products in contrast to weakness in the performance of older products.

As a result, net sales for the segment amounted to ¥62.79 billion, which was a ¥60 million (0.1%) decrease. Operating income for the segment was ¥2.84 billion, representing a ¥200 million (7.6%) increase. This increase in operating income was mainly due to improved gross profit ratios among domestic manufacturing subsidiaries.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated third quarter, current assets amounted to ¥339.14 billion. This represents an increase of ¥26.8 billion compared to the end of the prior consolidated fiscal year. While inventories decreased for the period, accounts receivable increased. Non-current assets amounted to ¥209.28 billion, up ¥9.53 billion. Although the Company sold shares of affiliates during the period, higher fair values for shares retained resulted in an increase in investments in securities. As a result of these various factors, total assets increased by ¥36.34 billion to ¥548.42 billion as of the end of the consolidated third quarter.

Liabilities amounted to ¥255.41 billion, a ¥22.48 billion increase compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in accounts payable.

Net assets amounted to ¥293.01 billion, up ¥13.86 billion. This increase was mainly due to ¥8.85 billion in profit attributable to owners of the parent and an increase in net unrealized holding gain in securities.

As a result, the Company recorded a shareholders' equity ratio of 52.5%, down 1 point 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

(Change in Inventory Valuation Method)

The Company and certain domestic affiliates had valued inventory according to the weighted-average method. In the consolidated second quarter of the current fiscal year, these entities have changed to the moving-average method of inventory valuation. This change in inventory valuation method was made in conjunction with the adoption of a new enterprise system in August 2016. By calculating payout costs on a more timely basis, the Company believes it will be able to determine periodic income or loss more promptly and accurately.

The Company has not applied this change retroactively to restate prior financial statements, as management has not judged the impact of this change to be material.

(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)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2016)
ASSETS		
Current assets		
Cash and time deposits	43,283	43,392
Notes and accounts receivable	196,335	224,444
Merchandise and finished goods	57,404	55,069
Work in process	1,726	1,444
Raw materials and supplies	3,789	3,798
Deferred tax assets	2,842	2,280
Other	7,843	9,190
Less allowance for doubtful accounts	(890)	(478)
Total current assets	312,334	339,141
Non-current assets		
Property, plant and equipment	66,474	68,426
Intangible fixed assets		
Goodwill	24,582	23,445
Technology-based assets	15,366	14,184
Other	4,567	4,321
Total intangible fixed assets	44,516	41,952
Investments and other assets		
Investments in securities	81,345	91,978
Long-term loans receivable	1,023	618
Deferred tax assets	1,544	1,447
Other	5,017	5,165
Less allowance for doubtful accounts	(174)	(307)
Total investments and other assets	88,755	98,903
Total non-current assets	199,747	209,282
Total assets	512,081	548,423

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2016)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2016)
LIABILITIES		
Current liabilities		
Notes and accounts payable	97,800	116,424
Short-term loans	25,294	30,700
Current portion of long-term loans	8,823	10,119
Current portion of bonds	-	10,000
Accrued income taxes	4,305	1,218
Deferred tax liabilities	13	-
Accrued bonuses for employees	4,224	2,560
Accrued bonuses for directors	194	120
Other	15,461	16,175
Total current liabilities	156,118	187,318
Long-term liabilities		
Bonds	30,000	20,000
Long-term loans	23,108	20,230
Deferred tax liabilities	8,433	12,569
Net defined benefit liability	14,060	14,360
Other	1,211	934
Total long-term liabilities	76,813	68,094
Total liabilities	232,932	255,413
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,615	11,604
Retained earnings	213,572	218,342
Less treasury stock, at cost	(230)	(1,335)
Total shareholders' equity	234,657	238,311
Accumulated other comprehensive income (loss)		
Net unrealized holding gain on securities	37,074	45,947
Deferred (loss) gain on hedges	(9)	6
Translation adjustments	4,411	4,260
Remeasurements of defined benefit plans	(2,169)	(556)
Total accumulated other comprehensive income	39,305	49,657
Non-controlling interests	5,185	5,041
Total net assets	279,149	293,010
Total liabilities and net assets	512,081	548,423

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

(Quarterly Consolidated Statements of Income)

Nine-month periods ended December 31, 2016 and 2015

(Millions of yen)

	Nine-month period ended December 31, 2015 (April 1, 2015 -December 31, 2015)	Nine-month period ended December 31, 2016 (April 1, 2016 -December 31, 2016)
Net sales	566,524	537,090
Cost of sales	496,720	468,869
Gross profit	69,803	68,220
Selling, general and administrative expenses	54,978	56,559
Operating income	14,825	11,661
Non-operating income		
Interest income	154	142
Dividend income	1,264	1,442
Rent income	220	228
Other	463	458
Total non-operating income	2,103	2,272
Non-operating expenses		
Interest expenses	804	767
Equity in losses of affiliates	109	27
Foreign exchange losses	259	44
Other	376	355
Total non-operating expenses	1,550	1,195
Ordinary income	15,377	12,738
Extraordinary gains		
Gain on sale of non-current assets	38	226
Gain on sale of investment securities	70	495
Other	-	76
Total extraordinary gains	109	798
Extraordinary losses		
Loss on sale of non-current assets	19	40
Loss on disposal of non-current assets	117	169
Impairment loss	764	52
Loss on sale of investments securities	9	25
Loss on valuation of investments securities	-	92
Loss on sales of shares of subsidiaries and affiliates	-	291
Other	6	60
Total extraordinary losses	917	731
Income before income taxes and non-controlling interests	14,569	12,804
Income taxes - current	4,284	3,168
Income taxes - deferred	533	551
Total income taxes	4,818	3,720
Profit for the period	9,751	9,084
Profit attributable to non-controlling interests	181	230
Profit attributable to owners of the parent	9,569	8,853

(Quarterly Consolidated Statements of Comprehensive Income)

Nine-month periods ended December 31, 2016 and 2015

(Millions of yen)

	Nine-month period ended December 31, 2015 (April 1, 2015 -December 31, 2015)	Nine-month period ended December 31, 2016 (April 1, 2016 -December 31, 2016)
Profit for the period	9,751	9,084
Other comprehensive income		
Net unrealized holding gain on securities	1,560	8,865
Deferred (loss) gain on hedges	(3)	15
Translation adjustments	(2,129)	(12)
Remeasurements of defined benefit plans	(478)	1,613
Share of other comprehensive income of affiliates accounted for by the equity method	(313)	(140)
Total other comprehensive income	(1,364)	10,342
Comprehensive income	8,386	19,426
Comprehensive income attributable to:		
Shareholders of the parent	8,481	19,279
Non-controlling interests	(95)	146

(3) Notes related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Segment Information, etc.)

Segment Information

I Nine-month period ended December 31, 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	119,024	197,587	99,299	87,242	62,861	566,016	508	566,524	—	—	566,524
Intersegment sales/transfers	1,462	1,707	782	1,953	369	6,275	4,578	10,853	—	(10,853)	—
Total	120,487	199,294	100,081	89,196	63,231	572,292	5,086	577,378	—	(10,853)	566,524
Segment income (loss)	2,980	3,919	5,315	1,023	2,643	15,882	191	16,073	(1,586)	338	14,825

(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 Nine-month period ended December 31, 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	113,665	181,345	96,271	82,542	62,793	536,619	471	537,090	—	—	537,090
Intersegment sales/transfers	1,379	1,793	1,314	1,965	364	6,817	4,157	10,974	—	(10,974)	—
Total	115,045	183,138	97,586	84,508	63,158	543,437	4,628	548,065	—	(10,974)	537,090
Segment income (loss)	2,965	4,029	4,672	960	2,843	15,470	138	15,608	(4,341)	395	11,661

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

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

3. Adjustments are eliminations of intersegment transactions.

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

(Significant Fluctuations in Shareholders' Equity)

At a meeting held September 20, 2016, the Company's Board of Directors resolved to repurchase 908,000 shares of Company stock in accordance with the provisions of Article 156 of the Companies Act as applied *mutatis mutandis* to the provisions of Article 165(3) of the same act.

As a result, treasury stock increased ¥1,104 million, amounting to ¥1,335 million as of the end of the consolidated third quarter. Stock repurchases under the resolution in question were completed as of September 21, 2016.

(Significant Subsequent Events)

No matters to report.

4. Supplementary Information

(1) Overseas Sales

Nine-month period ended December 31, 2015 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	164,346	84,116	24,143	9,880	11,776	294,263
II Consolidated sales (Millions of yen)						566,524
III Ratio of overseas sales to consolidated sales (%)	29.0	14.9	4.3	1.7	2.0	51.9

Nine-month period ended December 31, 2016 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	146,130	74,886	21,584	8,385	11,416	262,403
II Consolidated sales (Millions of yen)						537,090
III Ratio of overseas sales to consolidated sales (%)	27.2	14.0	4.0	1.6	2.1	48.9

(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

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