



Consolidated Financial Statements for the Third Quarter of the Fiscal Year Ending March 31, 2018 <Under Japanese GAAP>

February 5, 2018

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

NAGASE & CO., LTD.

Stock exchange listing: Tokyo (First Section)

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

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Filing of quarterly report (scheduled): February 8, 2018

Start of distribution of dividends (scheduled): -

Supplementary documents of quarterly financial results: Yes

Quarterly investors' meeting: No

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

1. Consolidated Results for the Third Quarter of the Fiscal Year Ending March 31, 2018

(April 1, 2017 to December 31, 2017)

(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, 2017	593,564	10.5	20,319	74.2	22,119	73.6	14,637	65.3
December 31, 2016	537,090	(5.2)	11,661	(21.3)	12,738	(17.2)	8,853	(7.5)

(Notes) Comprehensive income

Third quarter ended December 31, 2017: ¥27,104 million (39.5%)

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

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
For the third quarter ended December 31, 2017	116.06	-
December 31, 2016	69.90	-

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
December 31, 2017	594,568	317,093	52.5	2,473.31
March 31, 2017	530,775	295,198	54.7	2,301.10

(Reference) Equity capital

As of December 31, 2017: ¥311,914 million

As of March 31, 2017: ¥ 290,217 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 2017	-	16.00	-	17.00	33.00
March 2018	-	17.00	-	-	-
March 2018 (estimate)	-	-	-	18.00	35.00

(Note) Revisions to the latest projected dividends: No

**3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2018
(April 1, 2017 to March 31, 2018)**

(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	771,000	6.7	23,500	56.3	25,500	55.8	16,000	54.9	126.87

(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: INKRON LIMITED) 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 page 10 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: 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)

December 31, 2017	127,408,285 shares	March 31, 2017	127,408,285 shares
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- ii. Number of treasury stock as of the fiscal period end

December 31, 2017	1,295,818 shares	March 31, 2017	1,287,366 shares
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- iii. Average number of shares during the period

December 31, 2017	126,116,626 shares	December 31, 2016	126,667,603 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 Earnings Forecasts” on page 4 of this document.

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1. Qualitative Information

(1) Business Performance

a. General Summary of Results

The Japanese economy continued to recover during the cumulative consolidated third quarter as corporate earnings rallied, while improving employment and payrolls supported a modest recovery of personal consumption. The global economy maintained a gradual recovery, with strong performance in the economies of China and the emerging economies, a moderate expansion in business conditions in the United States, and other positive factors.

In this environment, the Company recorded domestic sales of ¥297.06 billion (+8.1% year on year) for the cumulative consolidated third quarter. Overseas sales, impacted positively by the relatively weak yen compared to the year-ago period, rose to ¥296.5 billion (+13.0%). In total, the Company recorded ¥593.56 billion in net sales, an all-time record and a 10.5% improvement over the first nine months in the prior fiscal year.

The Company recorded gross profit of ¥77.9 billion, an increase of 14.2%, in conjunction with higher sales. Operating income amounted to ¥20.31 billion, an increase of 74.2% year on year. This increase was mainly due to a decrease in retirement benefit expense in connection with the amortization of actuarial differences. Ordinary income amounted to ¥22.11 billion (+73.6%), while profit attributable to owners of the parent amounted to ¥14.63 billion (+65.3%). All profit indicators marked record highs for any cumulative consolidated third quarter in the history of the Company.

b. Segment Summary

Functional Materials

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

The Performance Chemicals business recorded significantly higher sales due to improved sales of coating raw materials and urethane materials, spurred by strong automotive production in Japan and overseas. Another contributing factor was a jump in sales associated with the Company's acquisition of a distributor in the United States.

The Speciality Chemicals business recorded higher sales overall. Sales of fluorochemicals, electronics chemicals, and raw materials for industrial oil solutions were higher for the semiconductor and other electronics industry in Japan. Overseas, sales were higher for electronics chemicals and other products.

As a result, sales for the segment amounted to ¥130.21 billion, which was a ¥16.55 billion (+14.6%) increase year on year. Segment operating income grew ¥980 million (+33.3%), reaching ¥3.95 billion for the consolidated third quarter.

Advanced Materials & Processing

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

The Colors & Advanced Processing business recorded higher sales as a whole, driven by growth in plastic resins for industrial and packaging applications, dyes/additives, and digital print processing materials in Japan. Overseas, strong sales of print-related business products contributed to higher overall performance.

The Polymer Global Account business mainly sells plastics to the office equipment, appliance, and video game device markets. The sales of those business were higher overall, driven by growth in Japan, Greater China, and ASEAN.

As a result, sales for the segment amounted to ¥201.21 billion, which was a ¥19.86 billion (+11.0%) increase compared to the cumulative consolidated third quarter of the prior fiscal year. Segment operating income grew ¥1.55 billion (+38.7%), reaching ¥5.58 billion for the cumulative consolidated third quarter.

Electronics

The Electronics segment recorded higher sales in Japan and overseas.

The Electronic Chemicals business recorded significantly higher sales due to growth in photolithography material and equipment-related sales, as well as strong performance of formulated epoxy resins for the electric and electronics industries.

The Electronic Materials business recorded lower sales compared to the same period in the prior fiscal year due to lower performance in processed materials caused by smartphone model changeovers.

As a result, sales for the segment amounted to ¥100.73 billion, which was a ¥4.46 billion (+4.6%) increase. Segment operating income grew ¥2.61 billion (+55.9%) year on year, reaching ¥7.28 billion for the cumulative consolidated third quarter.

Automotive & Energy

The Automotive Solutions business recorded higher sales, driven by strong performance in our resins business in Japan, Greater China, and ASEAN.

As a result, sales for the segment amounted to ¥96.47 billion, which was a ¥13.93 billion (+16.9%) increase compared to the cumulative consolidated third quarter of the prior fiscal year. Segment operating income grew ¥1.16 billion (+121.1%), reaching ¥2.12 billion for the cumulative consolidated third quarter.

Life & Healthcare

The Life & Healthcare segment recorded net sales slightly higher compared to the same period in the prior fiscal year. While sales were level domestically, sales increased overseas.

Sales of TREHA™ and other products to food ingredient makers in our Life & Healthcare Products business were level, while sales in Europe and other regions overseas grew. Although the business recorded lower sales of AA2G™ to major customers in the skin care and toiletries field overseas, sales to major customers in Japan were higher. In the medical and pharmaceutical field, sales of pharmaceutical raw materials and intermediates and medical materials were level with the year-ago period, while sales of pharmaceutical business products were lower. As a result, the business recorded higher sales compared to the prior year.

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

As a result, sales for the segment amounted to ¥64.48 billion, which was a ¥1.68 billion (+2.7%) increase compared to the cumulative consolidated third quarter of the prior fiscal year. Segment operating income grew ¥720 million (+25.4%), reaching ¥3.56 billion for the cumulative consolidated third quarter.

Other

No special matters to disclose.

(2) Financial Position

As of the end of the consolidated third quarter, current assets amounted to ¥367.72 billion. This represents an increase of ¥46.5 billion compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in accounts receivable and inventories. Non-current assets amounted to ¥226.84 billion, up ¥17.28 billion. This increase was mainly due to increases in fair values of shares retained and goodwill recorded by the Company during the period. As a result of these various factors, total assets increased ¥63.79 billion to ¥594.56 billion as of the end of the consolidated third quarter.

Liabilities amounted to ¥277.47 billion, a ¥41.89 billion increase compared to the end of the prior consolidated fiscal year. This increase was mainly due to increases in accounts payable and loans, which exceeded redemptions of bonds.

Net assets amounted to ¥317.09 billion, up ¥21.89 billion. This increase was mainly due to ¥14.63 billion in profit attributable to owners of the parent and an increase in net unrealized holding gains on securities.

As a result, the Company recorded a shareholders' equity ratio of 52.5%, down 2.2 points compared to the end of the prior consolidated fiscal year.

(3) Qualitative Information related to Earnings Forecasts

The Company has made no changes to its full-year consolidated earnings forecasts announced on November 2, 2017.

2. Quarterly Consolidated Financial Statements and Notes

(1) Quarterly Consolidated Balance Sheets

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2017)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2017)
ASSETS		
Current assets		
Cash and time deposits	39,830	45,771
Notes and accounts receivable	206,846	238,277
Merchandise and finished goods	58,162	66,733
Work in process	1,309	2,040
Raw materials and supplies	3,648	4,364
Deferred tax assets	2,375	2,271
Other	9,681	8,939
Less allowance for doubtful accounts	(638)	(679)
Total current assets	321,215	367,721
Non-current assets		
Property, plant and equipment	67,619	69,525
Intangible fixed assets		
Goodwill	23,034	26,535
Technology-based assets	13,791	12,609
Other	3,916	3,392
Total intangible fixed assets	40,742	42,537
Investments and other assets		
Investments in securities	94,548	108,427
Long-term loans receivable	482	133
Deferred tax assets	1,524	1,389
Other	4,931	5,084
Less allowance for doubtful accounts	(289)	(250)
Total investments and other assets	101,197	114,784
Total non-current assets	209,559	226,847
Total assets	530,775	594,568

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2017)	Third Quarter, Current Consolidated Fiscal Year (December 31, 2017)
LIABILITIES		
Current liabilities		
Notes and accounts payable	102,076	123,650
Short-term loans	28,162	36,098
Current portion of long-term loans	3,522	774
Commercial paper	-	10,000
Current portion of bonds	10,000	-
Accrued income taxes	1,849	1,839
Deferred tax liabilities	37	42
Accrued bonuses for employees	4,512	3,114
Accrued bonuses for directors	171	171
Other	16,161	18,775
Total current liabilities	166,494	194,466
Long-term liabilities		
Bonds	20,000	20,000
Long-term loans	20,078	28,600
Deferred tax liabilities	13,503	18,929
Net defined benefit liability	14,625	14,606
Other	874	872
Total long-term liabilities	69,082	83,008
Total liabilities	235,576	277,475
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	11,590	11,174
Retained earnings	219,721	230,063
Less treasury stock, at cost	(1,337)	(1,353)
Total shareholders' equity	239,674	249,583
Accumulated other comprehensive income (loss)		
Net unrealized holding gain on securities	47,683	57,025
Deferred gain (loss) on hedges	4	(3)
Translation adjustments	3,129	5,420
Remeasurements of defined benefit plans	(274)	(111)
Total accumulated other comprehensive income	50,542	62,331
Non-controlling interests	4,981	5,178
Total net assets	295,198	317,093
Total liabilities and net assets	530,775	594,568

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

(Quarterly Consolidated Statements of Income)

Nine-month periods ended December 31, 2017 and 2016

(Millions of yen)

	Nine-month period ended December 31, 2016 (April 1, 2016 -December 31, 2016)	Nine-month period ended December 31, 2017 (April 1, 2017 - December 31, 2017)
Net sales	537,090	593,564
Cost of sales	468,869	515,654
Gross profit	68,220	77,909
Selling, general and administrative expenses	56,559	57,590
Operating income	11,661	20,319
Non-operating income		
Interest income	142	152
Dividend income	1,442	1,479
Rent income	228	203
Equity in earnings of affiliates	-	690
Foreign exchange gain	-	114
Other	458	311
Total non-operating income	2,272	2,951
Non-operating expenses		
Interest expenses	767	900
Equity in losses of affiliates	27	-
Foreign exchange losses	44	-
Other	355	250
Total non-operating expenses	1,195	1,151
Ordinary income	12,738	22,119
Extraordinary gains		
Gain on sale of non-current assets	226	28
Gain on sale of investment securities	495	8
Gain on negative goodwill	-	229
Other	76	-
Total extraordinary gains	798	267
Extraordinary losses		
Loss on sale of non-current assets	40	24
Loss on disposal of non-current assets	169	66
Impairment losses	52	259
Loss on sale of investments securities	25	-
Loss on valuation of investments securities	92	3
Loss on sales of shares of subsidiaries and affiliates	291	0
Loss on business withdrawal	-	457
Loss on step acquisitions	-	294
Other	60	-
Total extraordinary losses	731	1,105
Income before income taxes and non-controlling interests	12,804	21,280
Income taxes - current	3,168	4,748
Income taxes - deferred	551	1,588
Total income taxes	3,720	6,336
Profit for the period	9,084	14,944
Profit attributable to non-controlling interests	230	307
Profit attributable to owners of the parent	8,853	14,637

(Quarterly Consolidated Statements of Comprehensive Income)

Nine-month periods ended December 31, 2017 and 2016

(Millions of yen)

	Nine-month period ended December 31, 2016 (April 1, 2016 -December 31, 2016)	Nine-month period ended December 31, 2017 (April 1, 2017 - December 31, 2017)
Profit for the period	9,084	14,944
Other comprehensive income		
Net unrealized holding gain on securities	8,865	9,333
Deferred gain (loss) on hedges	15	(8)
Translation adjustments	(12)	2,494
Remeasurements of defined benefit plans	1,613	162
Share of other comprehensive income of affiliates accounted for by the equity method	(140)	177
Total other comprehensive income	10,342	12,160
Comprehensive income	19,426	27,104
Comprehensive income attributable to:		
Shareholders of the parent	19,279	26,531
Non-controlling interests	146	572

(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, 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 Financial Statements (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.

II Nine-month period ended December 31, 2017 (consolidated)

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

(Millions of yen)

	Reportable Segments						Other (Note) 1.	Total	Corporate (Note) 2.	Adjustments (Note) 3.	To Quarterly Consolidated Financial Statements (Note) 4.
	Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total					
Net sales											
Sales to customers	130,217	201,210	100,732	96,479	64,481	593,121	442	593,564	-	-	593,564
Intersegment sales/transfers	1,819	1,698	1,557	2,094	360	7,530	3,512	11,043	-	(11,043)	-
Total	132,037	202,909	102,289	98,573	64,842	600,652	3,954	604,607	-	(11,043)	593,564
Segment income (loss)	3,951	5,587	7,283	2,122	3,566	22,510	255	22,766	(2,775)	328	20,319

(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)

No matters to report.

(Changes in Significant Subsidiaries during the Period)

During the consolidated first quarter, the Company acquired shares of INKRON LIMITED (specified subsidiary). Accordingly, the Company included INKRON LIMITED and two INKRON LIMITED subsidiaries (Inkron Oy and Inkron Technologies GmbH) in the scope of consolidation.

3. Supplementary Information

(1) Overseas Sales

I 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

II Nine-month period ended December 31, 2017 (consolidated)

	Greater China	ASEAN	Americas	Europe	Other	Total
I Overseas sales (Millions of yen)	160,727	81,901	26,820	10,967	16,086	296,503
II Consolidated sales (Millions of yen)						593,564
III Ratio of overseas sales to consolidated sales (%)	27.2	13.8	4.5	1.8	2.7	50.0

(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