

Consolidated Financial Statements for the First Quarter of the Fiscal Year Ending March 31, 2023

<Under Japanese GAAP>

August 4, 2022

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 (Prime Market)

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

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Filing of quarterly report (scheduled): August 10, 2022

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, 2023

(April 1, 2021 to June 30, 2022)

(1) Consolidated Operating Results

(% = year-on-year change)

	Net sales		Gross profit		Operating income		Ordinary income		Profit attributable to owners of the parent	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the first quarter ended June 30, 2022	219,571	19.1	39,904	15.4	10,871	11.6	11,542	8.3	7,969	11.2
June 30, 2021	184,389	36.9	34,589	32.7	9,738	165.1	10,660	151.6	7,169	5.3

(Note) Comprehensive income

First quarter ended June 30, 2022: ¥17,047 million (57.6%)

First quarter ended June 30, 2021: ¥10,814 million (8.7% decrease)

	Earnings per share	Earnings per share (diluted)
	Yen	Yen
For the first quarter ended June 30, 2022	66.69	—
June 30, 2021	58.37	—

(2) Consolidated Financial Position

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
June 30, 2022	782,013	366,387	45.4	2,980.41
March 31, 2022	739,720	355,092	46.5	2,868.22

(Reference) Equity capital

As of June 30, 2022: ¥ 354,673 million

As of March 31, 2022: ¥ 344,261 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 2022	—	24.00	—	30.00	54.00
March 2023	—	—	—	—	—
March 2023 (forecast)	—	30.00	—	30.00	60.00

(Note) Revisions to the latest dividends forecast: No

3. Consolidated Earnings Forecast for the Fiscal Year Ending March 31, 2023

(April 1, 2022 to March 31, 2023)

(% = year-on-year change)

	Gross profit		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
	159,000	14.0	38,000	7.8	39,000	6.9	28,500	9.9	241.35

(Note) Revisions to the latest consolidated earnings forecast: 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: Yes

(Note) For details, please refer to 2. *Quarterly Consolidated Financial Statements and Notes*, (3) *Notes Related to Quarterly Consolidated Financial Statements (Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)*, on P.10 of this document.

- (3) Changes in accounting policies, changes in accounting estimates, and restatement of prior period financial statements after error corrections

- Changes in accordance with revisions to accounting and other standards: No
- Changes in items other than (i) above: No
- Changes in accounting estimates: No
- 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, 2022	120,908,285 shares	March 31, 2022	120,908,285 shares
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- ii. Number of treasury stock as of the fiscal period end

June 30, 2022	1,906,567 shares	March 31, 2022	881,767 shares
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- iii. Average number of shares during the period

June 30, 2022	119,507,343 shares	June 30, 2021	122,837,754 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.

For matters related to earnings forecasts, please refer to 1. *Qualitative Information*, (3) *Qualitative Information Related to Consolidated Earnings Forecasts*, on P.5 of this document.

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1. Qualitative Information

(1) Review of Business Performance

a. General Summary of Results

Despite the prolonged impact of the COVID-19 pandemic during the first quarter of the current consolidated fiscal year, the global economy showed signs of improvement toward socioeconomic normalization in response to a recovery in personal consumption and other factors. However, the outlook remains uncertain due to food shortages caused by the protracted situation in Ukraine and continued high prices for resources, as well as ongoing disruptions in the global supply chain due to the Shanghai lockdowns, etc. Further, concerns are rising regarding a recession caused by monetary tightening in response to accelerating inflation.

As an overview of the regions in which our group does business, in Greater China, the economy stagnated for a period of time due to the lockdowns and a Zero Covid policy. However, consumer spending and manufacturing production have begun to recover since the easing of restrictions. In the Americas, a possible economic slowdown has emerged due to continued high resource prices and repeated interest rate hikes due to concerns about inflation caused by labor shortages and rising wages. Despite shades of gray from country to country, economic activity resumed in ASEAN and is recovering. In Japan, there are concerns of an economic slowdown due to rising energy and raw materials prices, as well as the impact of a weak yen on increasing consumer prices. However, COVID-19-related restrictions on activities have been eased and economic activity is normalizing. More recently, infections have been on the rise due to variant strains, but we believe the impact on the economy will be limited in nature.

Under these conditions, NAGASE Group performance was favorable, driven by growth in food-related and semiconductor-related products, business which are focus areas of our medium-term management plan. Further, the depreciation of the yen has had an upward impact on group profit.

In this environment, earnings for the cumulative consolidated first quarter of the current fiscal year are as follows.

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	184,389	219,571	35,182	19.1
Gross profit	34,589	39,904	5,314	15.4
Operating income	9,738	10,871	1,132	11.6
Ordinary income	10,660	11,542	881	8.3
Profit before income taxes	10,881	11,438	557	5.1
Profit attributable to owners of the parent	7,169	7,969	799	11.2

- Record-high profits for the first quarter of the current consolidated fiscal year in all stages of profit below gross profit for the NAGASE Group.
- Despite lower profit in the Advanced Materials & Processing segment, profit increased mainly due to the Prinova Group driving significant performance growth in the Life & Healthcare Segment, as well as strong performance in the Functional Materials segment. See *b. Segment Summary* for more.
- As a result of the preceding, profit attributable to owners of the parent increased ¥700 million to ¥7.9 billion.

b. Segment Summary

The following describes performance by segment.

Functional Materials

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	24,634	28,654	4,020	16.3
Gross profit	4,868	5,816	948	19.5
Operating income	1,981	2,388	406	20.5

- Sales increased for coating and urethane raw materials, due in part to soaring market prices and the weakening of the yen
- Sales increased for raw materials for industrial oil solutions and resins
- Sales increased for electronics chemicals to the electronics industry, including semiconductor-related products
- Operating income increased due to an increase in gross profit

Advanced Materials & Processing

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	61,799	65,131	3,331	5.4
Gross profit	8,269	8,161	(107)	(1.3)
Operating income	3,299	2,599	(700)	(21.2)

- Despite the positive impact of the weak yen on sales, profitability decreased for resin sales to the office equipment, appliance, and video game device market due to a reactionary decline stemming from increased profit ratios in connection with soaring market conditions in the year-ago period
- Sales decreased for dyes and additives
- Sales increased for resins for industrial and packaging applications
- Sales of conductive materials were strong; however, sales of digital print processing materials were slow
- Operating income decreased due to a decrease in gross profit

Electronics & Energy

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	29,949	33,933	3,984	13.3
Gross profit	7,239	7,893	654	9.0
Operating income	2,554	2,617	62	2.5

- Sales increased for products related to precision processing materials for semiconductors
- Sales of display materials were slow, although profitability improved due to the weak yen, etc.
- Sales of formulated epoxy resins were strong for semiconductor applications, but slow for mobile devices
- Sales of photolithography materials for displays were firm, but profitability was lower due to soaring raw materials prices, etc.
- Operating income increased due to an increase in gross profit

Mobility

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	23,225	27,018	3,792	16.3
Gross profit	2,999	3,215	215	7.2
Operating income	994	932	(61)	(6.2)

- Sales increased for resins due to the weak yen, etc., despite lower automobile production
- Sales increased for functional materials and functional components for interior and exterior fittings and electrification
- Although gross profit increased, operating income declined due to higher selling, general and administrative expenses

Life & Healthcare

(Millions of yen)

	Three-month period ended June 30, 2021	Three-month period ended June 30, 2022	Change	Change (%)
Net sales	44,715	64,814	20,099	45.0
Gross profit	11,150	14,796	3,645	32.7
Operating income	2,713	4,144	1,431	52.8

- Materials sales, manufacturing, and processing in the nutrition-related business performed well
- Sales increased for food materials, primarily TREHA™
- Sales of cosmetics materials, primarily for AA2G™, decreased due to lower demand, mainly overseas
- Sales increased for pharmaceutical raw materials
- Operating income increased due to an increase in gross profit

Others

No special matters to disclose.

(2) Review of Financial Position

(Millions of yen)

	Prior Consolidated Fiscal Year (March 31, 2022)	First Quarter, Current Consolidated Fiscal Year (June 30, 2022)	Change	Change (%)
Current assets	514,286	552,789	38,502	7.5
Non-current assets	225,434	229,224	3,789	1.7
Net assets	739,720	782,013	42,292	5.7
Liabilities	384,628	415,625	30,997	8.1
Net assets	355,092	366,387	11,295	3.2
Shareholders' equity ratio (%)	46.5	45.4	(1.1) p	—

- Current assets increased mainly due to an increase in inventories and accounts receivable
- Non-current assets increased slightly due to an increase in property, plant and equipment and intangible fixed assets, despite lower fair values of investments in securities
- Liabilities increased mainly due to an increase in commercial paper and short-term loans
- Net assets increased mainly due to the recording of quarterly profit attributable to owners of the parent and an increase in translation adjustments, despite decreases from purchases of treasury stock and payments of dividends
- As a result, the Company recorded a shareholders' equity ratio of 45.4%, down 1.1 points compared to 46.5% from 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 May 10, 2022.

2. Quarterly Consolidated Financial Statements

(1) Quarterly Consolidated Balance Sheets

	(Millions of yen)	
	Prior Consolidated Fiscal Year (March 31, 2022)	First Quarter, Current Consolidated Fiscal Year (June 30, 2022)
ASSETS		
Current assets		
Cash and time deposits	54,211	52,152
Notes and accounts receivable	289,862	303,861
Merchandise and finished goods	142,590	160,643
Work in process	2,401	2,516
Raw materials and supplies	12,533	14,259
Other	13,935	20,554
Less allowance for doubtful accounts	(1,248)	(1,198)
Total current assets	514,286	552,789
Non-current assets		
Property, plant and equipment	72,554	75,729
Intangible fixed assets		
Goodwill	29,492	29,986
Technology-based assets	5,912	5,518
Other	29,664	31,827
Total intangible fixed assets	65,070	67,333
Investments and other assets		
Investments in securities	75,600	73,757
Long-term loans receivable	24	21
Retirement benefit asset	3,139	3,194
Deferred tax assets	3,572	3,627
Other	5,583	5,673
Less allowance for doubtful accounts	(112)	(112)
Total investments and other assets	87,809	86,162
Total non-current assets	225,434	229,224
Total assets	739,720	782,013

	(Millions of yen)	
	Prior Consolidated Fiscal Year (March 31, 2022)	First Quarter, Current Consolidated Fiscal Year (June 30, 2022)
LIABILITIES		
Current liabilities		
Notes and accounts payable	149,036	151,875
Short-term loans	73,121	79,517
Current portion of long-term loans	8,752	8,329
Commercial paper	25,000	49,000
Current portion of bonds	10,000	—
Accrued income taxes	7,100	3,663
Accrued bonuses for employees	7,648	4,140
Accrued bonuses for directors	497	156
Other	26,678	29,903
Total current liabilities	307,836	326,586
Long-term liabilities		
Bonds	20,000	30,000
Long-term loans	28,244	28,879
Deferred tax liabilities	12,310	11,708
Retirement benefit liability	13,238	13,443
Other	2,998	5,007
Total long-term liabilities	76,791	89,038
Total liabilities	384,628	415,625
NET ASSETS		
Shareholders' equity		
Common stock	9,699	9,699
Capital surplus	10,639	10,639
Retained earnings	280,015	284,149
Less treasury stock, at cost	(1,534)	(3,400)
Total shareholders' equity	298,820	301,089
Accumulated other comprehensive income		
Net unrealized holding gain on securities	31,732	30,147
Deferred gain on hedges	178	512
Translation adjustments	13,690	23,043
Remeasurements of defined benefit plans	(161)	(118)
Total accumulated other comprehensive income	45,441	53,584
Non-controlling interests	10,830	11,714
Total net assets	355,092	366,387
Total liabilities and net assets	739,720	782,013

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

(Quarterly Consolidated Statements of Income)

Three-month periods ended June 30, 2022 and 2021

(Millions of yen)

	Three-month period ended June 30, 2021 (April 1, 2021 - June 30, 2021)	Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)
Net sales	184,389	219,571
Cost of sales	149,799	179,666
Gross profit	34,589	39,904
Selling, general and administrative expenses	24,851	29,033
Operating income	9,738	10,871
Non-operating income		
Interest income	41	18
Dividend income	576	672
Rent income	71	62
Equity in gains of affiliates	—	83
Foreign exchange gains	531	328
Other	91	186
Total non-operating income	1,312	1,352
Non-operating expenses		
Interest expenses	290	490
Equity in losses of affiliates	4	—
Other	95	191
Total non-operating expenses	390	681
Ordinary income	10,660	11,542
Extraordinary gains		
Gain on sales of non-current assets	2	123
Gain on sales of investment securities	571	43
Other	178	—
Total extraordinary gains	752	166
Extraordinary losses		
Loss on sales of non-current assets	155	3
Loss on disposal of non-current assets	242	179
Loss on sales of investment securities	—	7
Loss on valuation of investment securities	3	79
Other	130	—
Total extraordinary losses	531	270
Income before income taxes	10,881	11,438
Income taxes	3,207	3,194
Profit for the period	7,674	8,244
Profit attributable to non-controlling interests	504	275
Profit attributable to owners of the parent	7,169	7,969

(Quarterly Consolidated Statements of Comprehensive Income)

Three-month periods ended June 30, 2022 and 2021

(Millions of yen)

	Three-month period ended June 30, 2021 (April 1, 2021 - June 30, 2021)	Three-month period ended June 30, 2022 (April 1, 2022 - June 30, 2022)
Profit for the period	7,674	8,244
Other comprehensive income		
Net unrealized holding loss on securities	(1,840)	(1,582)
Deferred (loss) gain on hedges	(16)	333
Translation adjustments	5,034	9,542
Remeasurements of defined benefit plans	(70)	43
Share of other comprehensive income of affiliates accounted for by the equity method	33	466
Total other comprehensive income	3,140	8,802
Comprehensive income	10,814	17,047
Comprehensive income attributable to:		
Shareholders of the parent	9,978	16,112
Non-controlling interests	835	934

(3) Notes Related to Quarterly Consolidated Financial Statements

(Assumption for Going Concern)

No matters to report.

(Significant Fluctuations in Shareholders' Equity)

Following a resolution by the Company's board of directors at a meeting held February 9, 2022, the Company acquired 1,024,800 shares of treasury stock in the first quarter of the current consolidated fiscal year. As a result, treasury stock increased by ¥1,866 million, with treasury stock holdings of ¥3,400 million as of the end of the consolidated first quarter.

(Special Accounting Treatment Applied in the Preparation of Quarterly Consolidated Financial Statements)

(Calculation of Tax Expenses)

Tax expenses are calculated by rationally estimating an effective tax rate after applying tax effect accounting to profit before income taxes for the consolidated fiscal year, including the current first quarter, and multiplying profit before income taxes for the first quarter by the estimated effective tax rate.

In the event that the calculated tax expenses using this estimated effective tax rate lead to significantly unreasonable results, this shall be calculated by multiplying the statutory effective tax rate after adjusting significant non-temporary differences by the profit before income taxes.

Deferred income taxes are included in income tax.

(Segment Information, etc.)

Segment Information

I Three-month period ended June 30, 2021 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total					
Net sales											
Sales to customers	24,634	61,799	29,949	23,225	44,715	184,324	64	184,389	-	-	184,389
Intersegment sales/transfers	137	171	520	643	98	1,571	854	2,426	-	(2,426)	-
Total	24,771	61,971	30,469	23,869	44,814	185,896	918	186,815	-	(2,426)	184,389
Segment income (loss)	1,981	3,299	2,554	994	2,713	11,543	8	11,551	(1,948)	134	9,738

- (Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services and professional services.
2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
3. Adjustments are eliminations of intersegment transactions.
4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.

II Three-month period ended June 30, 2022 (consolidated)

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

(Millions of yen)

	Reportable Segments						Others (Note) 1	Total	Corporate (Note) 2	Adjustments (Note) 3	Consolidated (Note) 4
	Functional Materials	Advanced Materials & Processing	Electronics & Energy	Mobility	Life & Healthcare	Total					
Net sales											
Sales to customers	28,654	65,131	33,933	27,018	64,814	219,553	18	219,571	-	-	219,571
Intersegment sales/transfers	283	198	284	386	128	1,282	1,372	2,654	-	(2,654)	-
Total	28,937	65,329	34,218	27,405	64,943	220,835	1,391	222,226	-	(2,654)	219,571
Segment income (loss)	2,388	2,599	2,617	932	4,144	12,682	(13)	12,668	(1,982)	185	10,871

- (Note) 1. “Others” is a business segment consisting of businesses not included in Reportable Segments, and includes information processing services and professional services.
2. Corporate segment income (loss) represents expenses not allocated to Reportable Segments or Others.
3. Adjustments are eliminations of intersegment transactions.
4. The sum of segment income (loss) Total, Corporate, and Adjustments is equivalent to operating income as presented in “Consolidated”.