

# ANNUAL REPORT 2003

For the year ended March 31, 2003



## TAKING EARNINGS TO THE NEXT LEVEL

# NAGASE

# OVERVIEW OF NAGASE'S BUSINESSES

## MANAGEMENT VISION

**"A technology and intelligence oriented company that turns wisdom into business."**

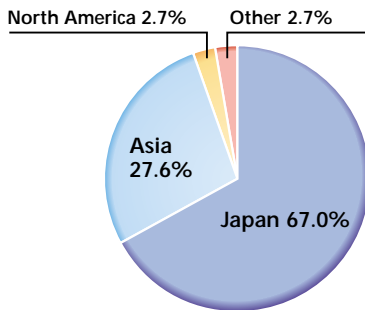
Nagase has adopted "A technology and intelligence oriented company that turns wisdom into business" as its management vision for the 21st century.

Rooted in a thoroughgoing customer-oriented approach that insists "the market provides all the answers," this vision expresses our determination to exploit our "technology," "information" and "wisdom," enhanced by experience, to create businesses that go beyond the intermediary role of the trading company.

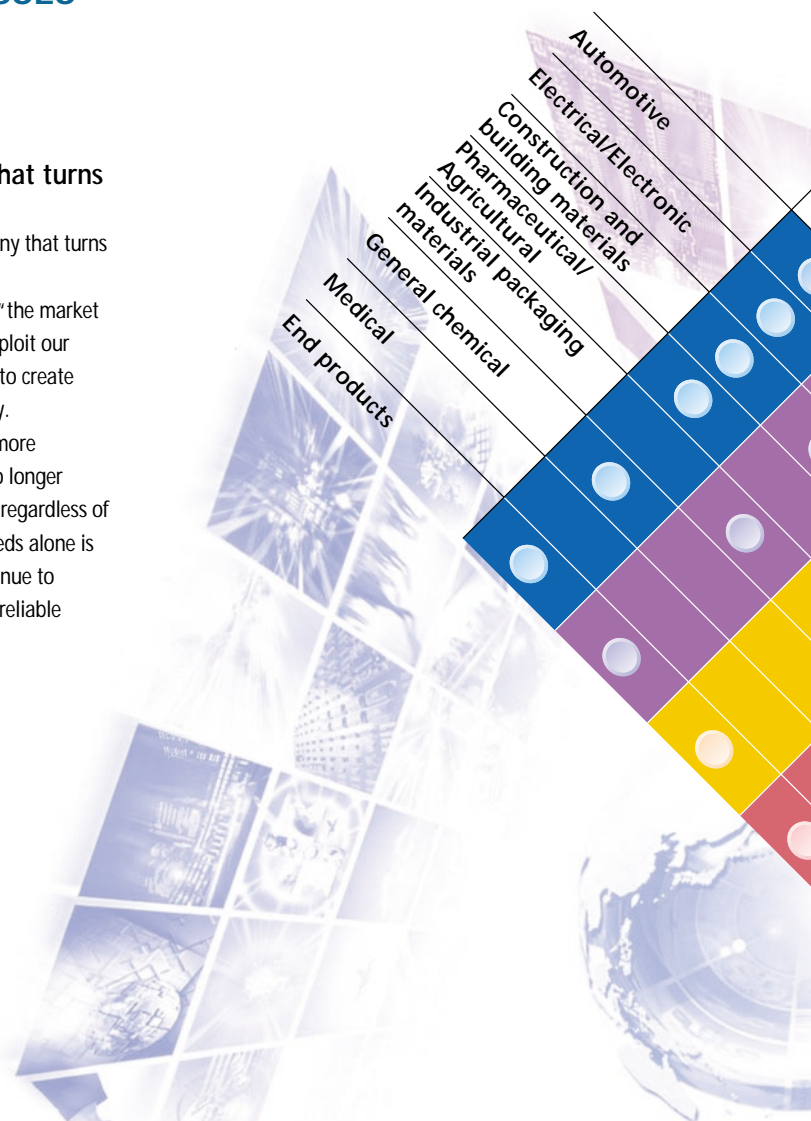
Customer demands are becoming more diverse, more complex and more sophisticated. The straightforward intermediary business approach is no longer enough to satisfy these demands. At the same time, we are aware that regardless of the industry, the era in which a single company can meet all market needs alone is long gone. To help customers create new value, therefore, we will continue to propose and develop new businesses while strengthening our role as a reliable business partner.

### Net Sales by Region

(Net sales in fiscal 2002: ¥503.68 billion)



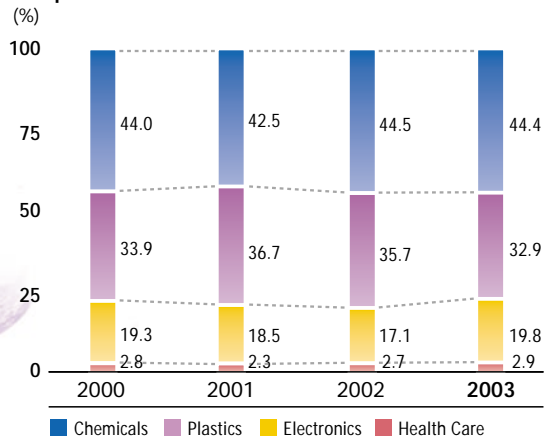
Business	Customer Segment	Main Products Handled
<b>CHEMICALS</b>		
<b>Performance Chemicals Group</b>	Resins, synthetic fiber, ink and paint, surfactants, other chemical intermediates	Petrochemical products, plastics raw materials and additives, pigments, electronics chemicals, catalysts, raw materials for toiletries, surfactants, fluorine chemicals, silicon
<b>Coating and Imaging Materials Group</b>	IT, automotive, household electronics, ink and paint	Products and materials for imaging and recording, chemicals for paper manufacturing, raw materials for paints and inks
<b>Fine Chemicals Group</b>	Pharmaceuticals, foods, agriculture, household	Pharmaceuticals (raw materials, intermediates, APIs, formulations, additives), diagnostic materials, reagents, agricultural chemicals (intermediates, bulks, formulations, submaterials), household insecticides (intermediates, bulks), enzymes, enzyme products, toiletry raw materials, functional food ingredients, health food materials, food additives, nutritional supplements, feed and culturing products
<b>Dyestuffs Division</b>	Textiles	Dyestuffs, dyeing auxiliaries, industrial chemicals, finishing agents, textile-processing resins, adhesives for textiles, functionality-added finishing agents including anti-bacterial agents, deodorizing agents and shape-memory agents, consulting services on processing the above products



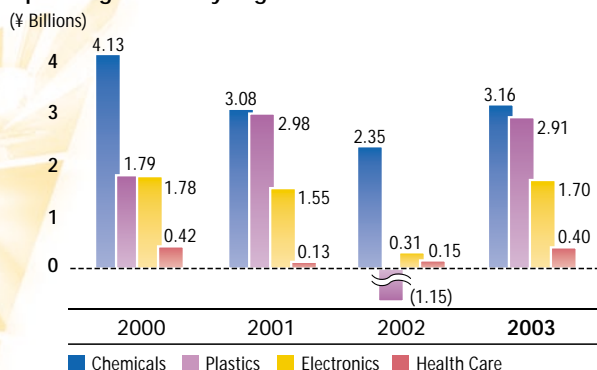
# Comprehensive Strengths of the Nagase Group



Composition of Net Sales



Operating Income by Segment



Business	Customer Segment	Main Products Handled
<p><b>PLASTICS</b></p> <p>Plastics First Group Plastics Second Group Plastics Third Group</p>	Automotive, electrical, electronics, civil engineering	General purpose resins, functional resins, auxiliaries, plastic products, plastic-related equipment, devices and dies, software engineering
<p><b>ELECTRONICS</b></p> <p>Electronics First Group</p>	Electronics components, semiconductors, liquid crystal	Semiconductor manufacturing equipment, chemicals management systems, semiconductor and photolithography chemicals for liquid crystal manufacture, semiconductor packaging materials, semiconductor packaging systems, insulating materials, fluoroplastic-related products, epoxy resin-related products, electroless plating
<p>Electronics Second Group</p>	Semiconductors, displays, communications, electronic devices	Display units, material for liquid crystal displays and organic light emitting diodes (LED), precision abrasive materials, wireless communication modules and systems, communications-related integrated circuit chips, optical communications components and materials, surface defect inspection system
<p><b>HEALTH CARE</b></p> <p>Health Care Group</p>	Medical institutions, pharmaceuticals, end consumers	Cosmetics, health foods, beauty foods, bacteria test devices, diagnostic systems, infectious disease control systems, x-ray-related equipment, automatic gene extraction devices, electronic medical chart systems, health care accident prevention support systems, home nursing care products, home therapy devices



## PROFILE

The Nagase Group provides its customers with trading, marketing, R&D, manufacturing and processing functions in four key business areas: Chemicals, Plastics, Electronics and Health Care.

Nagase & Co., Ltd., the nucleus of our group, was established as a dyestuffs wholesaler in Kyoto in 1832. In 1900, it started importing synthetic dyestuffs from Chemical Industry of Basel. In the ensuing years, it has accumulated considerable know-how in its role as "a technology and intelligence oriented trading company."

While developing new markets around the world together with its customers, Nagase has been carrying out research and development of new technologies and products, as well as acquiring the related manufacturing and processing capabilities.

At the Nagase R&D Center, we conduct research into basic technologies such as organic synthesis and biotechnology, while at the same time working on the development of pharmaceutical raw materials with fewer side effects and natural extracts that will enhance the bioactivity of the human body. Nagase Group manufacturing companies are involved in producing and processing pharmaceutical intermediates, functional polymers, raw materials for electronics application and plastic products.

Currently, the Nagase Group comprises 100 member companies at home and overseas. One of the Group's features is that it can call on these companies to combine their trading, marketing, R&D, manufacturing and processing functions as necessary to provide high levels of customer satisfaction.

Looking ahead, the Nagase Group will, along with its customers worldwide, continue to seize business opportunities and provide business solutions.



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### A Cautionary Note on Forward-looking Statements

This annual report contains statements regarding Nagase's corporate views of future developments that are forward-looking in nature and are not simply reiterations of historical facts.

These statements are presented to inform shareholders of the views of Nagase's management but should not be relied on solely in making investment and other decisions. You should be aware that a number of important risk factors could lead to outcomes that differ materially from those presented in such forward-looking statements.

These include, but are not limited to, (i) change in economic conditions that may lead to unforeseen developments in markets for products handled by Nagase, (ii) fluctuations in currency exchange rates that may cause unexpected deterioration in the value of transactions, (iii) adverse political developments that may create unavoidable delays or postponement of transactions and projects, (iv) changes in laws, regulations, or policies in any of the countries where Nagase conducts its operations that may affect Nagase's ability to fulfill its commitments, and (v) significant changes in the competitive environment.

In the course of its operations, Nagase adopts measures to control these and other types of risks, but this does not constitute a guarantee that such measures will be effective.

# FINANCIAL HIGHLIGHTS

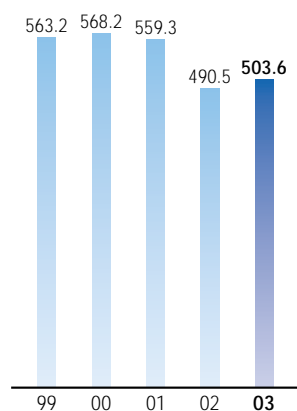
Nagase & Co., Ltd. and Consolidated Subsidiaries  
(Years ended March 31)

	Millions of Yen					Thousands of U.S. Dollars (Note)
	2003	2002	2001	2000	1999	2003
<b>For the Year:</b>						
Net Sales.....	<b>¥503,688</b>	¥490,583	¥559,373	¥568,294	¥563,222	<b>\$4,190,415</b>
Chemicals.....	<b>223,656</b>	218,524	237,872	249,977	244,068	<b>1,860,698</b>
Plastics.....	<b>165,810</b>	175,252	205,460	192,711	199,189	<b>1,379,450</b>
Electronics.....	<b>99,759</b>	83,660	103,383	109,770	104,455	<b>829,941</b>
Health Care.....	<b>14,461</b>	13,146	12,658	15,836	15,510	<b>120,307</b>
Operating Income.....	<b>8,433</b>	1,673	7,752	8,147	7,791	<b>70,158</b>
Net Income (Loss).....	<b>4,186</b>	(2,097)	4,946	6,371	3,561	<b>34,825</b>
<b>At the Year-End:</b>						
Total Assets.....	<b>¥284,800</b>	¥300,073	¥353,777	¥316,657	¥298,525	<b>\$2,369,384</b>
Shareholders' Equity.....	<b>140,944</b>	144,176	153,499	134,838	125,930	<b>1,172,579</b>

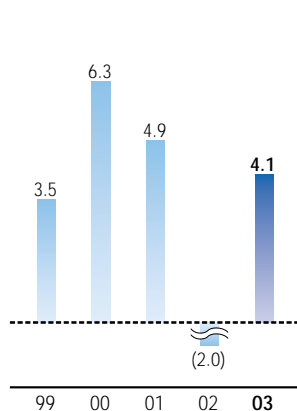
	Yen					U.S. Dollars
	2003	2002	2001	2000	1999	2003
<b>Per Share Data:</b>						
Net Income (Loss).....	<b>¥ 31.72</b>	¥ (15.39)	¥ 35.28	¥ 44.25	¥ 23.76	<b>\$ 0.26</b>
Shareholders' Equity.....	<b>1,107.54</b>	1,082.15	1,104.80	952.67	862.06	<b>9.21</b>
Cash Dividends.....	<b>8.00</b>	8.00	8.00	8.00	8.00	<b>0.06</b>

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥120.20=U.S.\$1, the approximate Tokyo exchange market rate as of March 31, 2003.

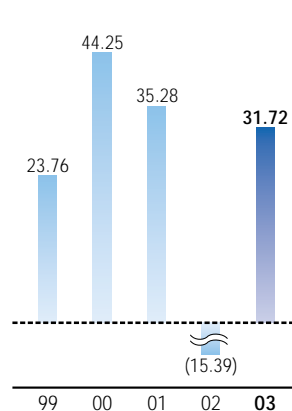
**Net Sales**  
(¥ Billion)



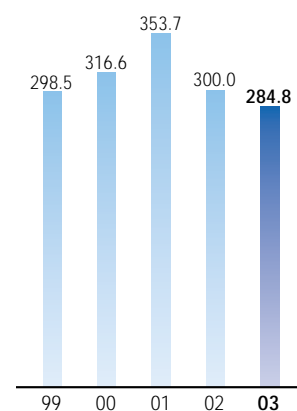
**Net Income (Loss)**  
(¥ Billion)



**Net Income (Loss) per Share**  
(¥)



**Total Assets**  
(¥ Billion)



# MESSAGE FROM THE MANAGEMENT

We at Nagase & Co., Ltd. rely on our technology, information and wisdom to develop businesses that meet customers' needs, and are dedicated to establishing market leadership for each of our products. With a broad portfolio of business activities consisting of R&D and manufacturing as well as our core trading operations, Nagase continues to grow and develop by providing optimal business solutions that help customers and business partners achieve their business goals.



Hideo Nagase  
CHAIRMAN

Hiroshi Nagase  
PRESIDENT

## RESULTS FOR THE FISCAL YEAR ENDED MARCH 31, 2003

During fiscal 2002, the challenging conditions in the operating environment continued from the previous year. Although there were some signs of improvement, such as increased exports, the Japanese economy remained sluggish due to deflation and uncertainty over the employment situation. However, the electronics industry appeared to be recovering from the effects of the slowdown in the IT sector, and demand began to pick up in Southeast Asia, Nagase's primary market.

As a result of concerted efforts to improve the Company's business performance, although domestic sales declined slightly, overseas sales increased 11.2 percent, causing consolidated net sales to increase 2.7 percent compared with the previous year to ¥503.68 billion. Operating income was ¥8.43 billion, more than five times higher than the previous year, resulting from the effect of ongoing cost-cutting measures that reduced selling, general and administrative (SG&A) expenses. After posting a valuation loss on securities due to the stock market slump, net income totaled ¥4.18 billion. Net income per share was ¥31.72.

Following our long-standing basic policy of maintaining stable dividends for our shareholders, Nagase paid a dividend of ¥8.00 per share of common stock, the same as the previous year.

## SUBSTANTIAL IMPROVEMENTS TO OUR CORPORATE STRUCTURE

During fiscal 2002, Nagase implemented various measures outlined in the final year of WIT2000, the three-year Medium-term Management Plan initiated in fiscal 2000.

WIT is an acronym for three important keywords we believe will help us achieve growth and profitability: Wisdom, Intelligence and Technology. WIT2000 contained numerical targets and also established the following five strategies:

- **Promote business investment and develop new businesses.**
- **Adopt a selective, focused approach to business.**
- **Reinforce manufacturing companies and boost marketing strength of sales subsidiaries.**
- **Train professionals.**
- **Increase marketing strength by extracting and developing new business models.**

During fiscal 2002, Nagase promoted selection and concentration in all operations while working to create highly specialized new businesses. We have completed the groundwork for these ambitious new projects, but it will take longer than just three years to get them on track. As a result, Nagase was unable to achieve the plan's target of 7 percent Nagase Return on Equity (N-ROE)\*, the Company's own indicator of profitability. However, many of these projects are shaping up to be extremely promising, and will undoubtedly prove successful.

Our substantive achievements among of the aims of WIT2000 were to make all employees aware of their role in business innovation, and to foster collaboration among divisions in order to develop new business models and create new markets. As a result, we have not only been able to increase the

competitiveness of existing businesses, but have also invested strategically in key areas under WIT2000 such as Electronics and Health Care, thus establishing a foundation to ensure the Nagase Group's future growth.

## DYNAMIC GROWTH THROUGH THE NEW MEDIUM-TERM MANAGEMENT PLAN

Nagase has formulated a new three-year Medium-term Management Plan entitled WIT21, which was launched in April 2003.

WIT21 adopts the basic approach of WIT2000, aiming to improve profitability and spur growth and development by encouraging the creativity of all employees.

WIT21 aims to make use of the Nagase Group's strengths: the know-how we have accumulated over many years in operation; our trusted relationships with more than 6,000 customers and business partners; our technology, intelligence and wisdom; and our system of collaboration among divisions in order to create new businesses, take

initiative in the market, and increase corporate value.

Specifically, the plan establishes four sectors as strategic business areas: electronics (including the electrical industry); life sciences (including the pharmaceuticals and health care industries); automotive-related businesses, and overseas operations. Management resources, including intensive investment, will be concentrated in these areas in order to increase revenues. In addition, we will work to improve medium-term earnings through human resources development, strengthening management education and expanding training programs in order to produce employees capable of building business globally.

WE ARE ESTABLISHING  
A FOUNDATION TO  
ENSURE THE NAGASE  
GROUP'S FUTURE  
GROWTH.

Notes:

\* N-ROE = Nagase Profit / Equity capital at the beginning of the term

Nagase Profit = Net profit after tax + (Depreciation ± Appraisal profit or loss) x (1 - Effective tax rate)

"Nagase Profit" refers to the profit generated through operating activities, and is also referred to as "operating cash flow."

WIT21 uses operating income as its primary management performance indicator instead of N-ROE. Utilizing ROE under WIT2000 had the effect of forcing internal divisions to fully account for capital costs in business development. However, ROE is only expressed in percentage form, and does not necessarily accurately reflect earnings performance. As a result, operating income was chosen in order to more explicitly represent accountability and results.

The details of WIT21 are outlined in the feature section of this annual report, and strategies for each business are explained in the overview of business operations. Please refer to these pages to learn more about Nagase's customer-oriented business development.

### OWNERSHIP, PARTNERSHIP, LEADERSHIP

In implementing WIT21, employees are encouraged to keep in mind three key concepts: ownership, partnership and leadership. "Ownership" means to have the businesses, equitable relationships, technologies and assets that are necessary for our products to succeed in their respective markets. "Partnership" stands for cooperation not only within the Nagase Group but also with customers and associated companies outside the Group. Instead of assigning one department or project team to handle each of our customers, we use an optimum combination of internal and external associated companies to help our customers grow their businesses. For example, in the health care business, a business alliance in the field of home medical care, Home Therapy Planet, was established through collaboration among four companies in different industries.

WIT21 Performance Targets (Fiscal 2003-Fiscal 2005)		
	Fiscal 2002	Fiscal 2005
Net Sales	¥503.6 Billion	¥550.0 Billion
Operating Income	¥8.4 Billion	¥11.0 Billion

Also, in the automotive-related business, Nagase is able to offer a total range of products and services, from raw materials to metal mold design and urethane molded products, through cooperation with affiliates.

Finally, "leadership" symbolizes Nagase's strong driving force in target markets. The Company not only develops businesses that support customers' activities indirectly, but also focuses on helping our customers and partner companies achieve their specific goals. For example, our customers in the coating business are working to expand into Southeast Asia, but many of these companies are often unable to fill large shipping containers entirely with their

own cargo. Therefore, Nagase offers a service to increase shipping efficiency by consolidating cargo into a single container.

### STRENGTHENING CORPORATE GOVERNANCE

At Nagase, we work to improve compliance and corporate governance in order to fulfill our long-standing

management policy, which is to ensure that our business activities are honest and fair. Our increasingly global focus has made us aware of the need to enhance corporate governance, and quick decision-making and action have become a priority in today's rapidly changing business world.

In June 2001, Nagase introduced a corporate executive officer system, and designated the Board of Directors as responsible for decisions concerning management policy and strategy and for supervising the performance of business operations. Separating management and operations has served to accelerate the decision-making process and



increase the efficiency of day-to-day business activities, and is starting to show results.

In June 2002, the term of office for directors was reduced from two years to one, and the term of office for executive officers was set at one year. In addition, the Company established an advisory board made up of outside experts who are able to offer opinions on Nagase's management practices from an objective point of view. An electronic system for circulating drafts for approval has been introduced in order to speed up discussions on management issues and facilitate the sharing of information while clarifying accountability of all directors and employees and promoting risk management.

Since the establishment of the Compliance Committee in 2001, Nagase has worked to ensure compliance with laws and regulations and to enhance corporate ethics. Furthermore, a basic policy on compliance was formulated in October 2002 that covers not only laws and regulations but also measures for improving employee conduct and strengthening the corporate structure.

### EXPANDING CORPORATE VALUE

In fiscal 2003, the first year of WIT21, both sales and earnings are projected to increase due to our program of investment and restructuring carried out over the past several years. We recognize that strengthening the corporate structure to improve earnings, offering stable dividends and maintaining or increasing share prices will be crucial in order to meet the expectations of our shareholders. In addition, we plan to take advantage of the treasury stock system in order

to improve shareholder value. In August 2002, rights to acquire new shares were issued as stock options to directors, company executives, and representative directors of consolidated subsidiaries. This initiative aims to increase the value of the Company by encouraging Group employees to improve their motivation for stronger performance and promoting common interests with shareholders.

As we launch WIT21, we are filled with hope and anticipation. We are confident that achieving these goals will lead to even greater improvements in corporate value. We hope for your continued support in our efforts.

July 2003

WE ARE CONFIDENT  
THAT ACHIEVING THESE  
GOALS WILL LEAD TO  
EVEN GREATER  
IMPROVEMENTS IN  
CORPORATE VALUE.



Hideo Nagase, Chairman



Hiroshi Nagase, President

# TAKING EARNINGS TO THE NEXT LEVEL

## NEW MEDIUM-TERM MANAGEMENT PLAN WIT21

The Nagase Group implemented the WIT2000 Medium-term Management Plan during the three-year period between April 2000 and March 2003. To continue with the basic policies of this plan, while taking into account changes in the business environment and how close we have come to achieving our goals, we have introduced a new three-year Medium-term Management Plan entitled WIT21 (W: Wisdom; I: Intelligence; T: Technology).

As mentioned in the "Message from the Management," we were unable to achieve our original target of Nagase Return On Equity (N-ROE) of 7 percent under WIT2000 because the business environment was significantly more challenging than we anticipated when formulating the plan. However, we did have substantial success in increasing the profitability of the entire Nagase Group and improving the soundness of our management.

Under WIT2000, Nagase Profit and N-ROE were used as management performance indicators. WIT21, which focuses on increasing the profitability of operations and improving the financial structure while working to achieve earnings in excess of capital costs over the long term, uses operating income as a performance indicator, aiming for consolidated net sales of ¥550 billion and consolidated operating income of ¥11 billion for fiscal 2005, which ends on March 31, 2006.

The long-term vision of the Nagase Group is to continue to meet global customer opportunities with high-value-added businesses that provide new functions and services based on chemicals and related business areas. Our long-term goals are to increase operating income by more than 10 percent each year starting in fiscal 2003, in order to achieve consolidated operating income of ¥20 billion and a gross profit margin of 15 percent in 10 years (fiscal 2012).

Our vision is based on our belief that all answers can be found in the market. With a thorough dedication to the customer, we use our technology and intelligence, along with our wisdom gained through experience, to go beyond the duties of a trading company and provide capabilities and services worldwide that generate business and continually increase earnings.

Based on this long-term vision, we are moving forward with WIT21.



# From WIT2000 to WIT21

## WIT2000 (Fiscal 2000-Fiscal 2002)

(¥ Billion)

	Fiscal 2002
Net Sales	503.6
Domestic	337.5
Overseas	166.1
Operating Income	8.4

### Basic Strategies

- ① Challenge Strategy:  
Promote business investment and develop new businesses.
- ② Dynamic Strategy:  
Adopt a selective, focused approach to business.
- ③ Group Strategy:  
Reinforce manufacturing companies and boost marketing strength of sales subsidiaries.
- ④ Human Resources Strategy:  
Train professionals.
- ⑤ Functional Development Strategy:  
Increase marketing strength by extracting and developing business models.

### Performance Target

N-ROE of 7%

### Strategic Areas

Electronics, health care

## WIT21 (Fiscal 2003-Fiscal 2005)

(¥ Billion)

	Fiscal 2005
Net Sales	550.0
Domestic	330.0
Overseas	220.0
Operating Income	11.0

### Basic Strategies

- ① Set ourselves apart from competitors by creating a wholly customer-oriented business.
- ② Nurture and strengthen market-leading businesses.
- ③ Make use of the Group's resources and distinctive identity to create new businesses.

### Performance Targets

- Consolidated operating income of ¥11 billion
- Focus on capital costs

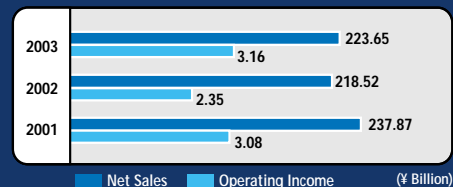
### Strategic Areas

Electronics, life sciences, automotive, overseas operations

## Strategic Areas of WIT21

<b>Electronics</b>	<ul style="list-style-type: none"> <li>● Expand sales of highly advanced chemical products to the electronics industry</li> <li>● Further develop our business targeting the flat panel display, semiconductor and telecommunications industries</li> <li>● Move forward with the global expansion of Group manufacturing companies such as Nagase ChemteX Corp., Nagase Finechem Singapore (Pte) Ltd. and Nagase ChemteX (Wuxi) Corp.</li> </ul>
<b>Life Sciences</b>	<ul style="list-style-type: none"> <li>● Expand our business offering customized synthesis of pharmaceutical intermediates and clinical reagents</li> <li>● Increase sales of cosmetics and health foods by strengthening door-to-door sales and sales at retail outlets</li> <li>● Enhance the medical care business, including medical information systems and diagnostic equipment</li> <li>● Improve the new drug synthesis process and pursue research applications for natural extracts at the Nagase R&amp;D Center</li> </ul>
<b>Automotive</b>	<ul style="list-style-type: none"> <li>● Expand operations by upgrading bases in Japan, North America, Europe, Thailand and China</li> <li>● Develop the mold software engineering business globally</li> <li>● Expand components and products businesses</li> </ul>
<b>Overseas Operations</b>	<ul style="list-style-type: none"> <li>● Strengthen Group manufacturing capabilities</li> <li>● Increase sales to local companies</li> <li>● Expand operations by establishing joint ventures and providing support for overseas expansion</li> </ul>

# CHEMICALS



*During fiscal 2002, overseas sales of raw materials for plastics increased over the previous year, although domestic sales of pharmaceutical and agricultural-related chemical products and specialty chemicals were weak. Raw materials for paints and inks and recording material-related products performed strongly in both domestic and overseas markets. As a result, net sales for the segment increased 2.3 percent compared with the previous year to ¥223.65 billion, and operating income rose 34.2 percent to ¥3.16 million. In addition, Nagase Pharmaceutical Co., Ltd. was made a consolidated subsidiary during fiscal 2002.*



**Yoshizo Shibata**  
DIRECTOR AND EXECUTIVE OFFICER

## PERFORMANCE CHEMICALS GROUP

*In accordance with the restructuring measures contained in the new WIT21 Medium-term Management Plan, the Specialty Chemicals Group was integrated into the Performance Chemicals Group as of April 1, 2003. With “pigments and films,” “organic synthesis” and “dispersing and mixing technologies” as core themes, the new Performance Chemicals Group supplies the resin, synthetic fiber, ink and paint, surfactant and other chemical intermediates industries with a wide range of products encompassing everything from petrochemical products to functional pigments. As our customers’ operations become more global in nature, we are shifting from a business model driven by domestic sales and imports to one that emphasizes overseas production and exports. We are also speeding up structural changes to the Group, including the roles of managers, our organization and business processes. All employees are being encouraged to make better use of company-wide resources and to bear in mind the objectives of their work while fostering relationships between divisions in order to develop new businesses.*

## STRATEGIES AND RESULTS

During fiscal 2002, domestic sales of raw materials for plastics and specialty chemical products remained steady year-on-year. Overseas sales were strong, particularly to China and the rest of Asia, and sales of pigments were high both in Japan and overseas.

The domestic chemical industry has been forced to restructure due to intensifying global competition, and the life cycle of our hard-won commercial rights is becoming shorter every year. To maintain strong relationships with our customers and continue to meet their needs, it will be necessary to develop and supply new functional products at a faster rate than we lose our existing commercial rights. The Performance Chemicals Group is getting ready to take advantage of Nagase’s broad network to procure such products from Europe and the U.S. as well as Asia, which has emerged as an important supply base for new chemical products.

As many of our customers are transferring their production bases from Japan and ASEAN countries to the growing Chinese market, we are focusing on developing businesses that offer more than just simple intermediary functions, such as the smooth procurement of raw materials and risk hedging on the collection of receivables. With more and more Japanese automobile manufacturers building factories in China, we established Guangzhou Kurabo Chemicals Co., Ltd, a joint venture with Kurabo Industries Ltd., which commenced operations in December 2002 in order to meet high local demand for molded urethane components for automobiles. In addition, we established a joint venture with Toyo Quality One Corp. in Shanghai that has achieved a high collection rate, contributing to improved profitability of our Chinese operations.

Furthermore, our color-related business experienced steady growth during fiscal 2002, including pigments for LCD panels, as well as Color Lab, a system launched in 2001 for creating original color formulas using functional colorants such as sparkling pigments.



## FUTURE DEVELOPMENTS

In order to achieve our target under WIT21, which is to double consolidated income from current levels in ten years, we will need to restructure our operations. In particular, in Japan, our mission is to create businesses as a traditional trading company. We are closely observing trends in the downstream market, such as electronics and household products, and working to develop new businesses that highlight our key themes of “pigments and films,” “organic synthesis” and “dispersing and mixing technologies.”

In China, we are building an international procurement office (IPO) to supply components to Japanese manufacturers that have relocated their production facilities to the region. Our risk hedging system for collecting receivables will also be crucial in making business proposals to customers. In this way, the Performance Chemicals Group is working to become a department of specialists capable of presenting new business ideas to customers and suppliers. We are focusing on training employees so that everyone will be an expert on technologies, products and industries in a specific field within three years.



## CUSTOMER FOCUS IN ACTION

One of our efforts to build a new business model is the start of a printing business for Nintendo Co., Ltd. Nintendo's Chinese operations are headquartered in Hong Kong, and it maintains production facilities in Guangzhou and other cities. Together with Watada Printing Co., Ltd., which supplies all the printed materials and packaging for Nintendo's game consoles, we started a business in April 2002 to outsource printing operations to a Chinese OEM company and deliver the finished product to Nintendo. This business alliance will be a groundbreaking opportunity that will reap a variety of benefits and open up new possibilities for the Performance Chemicals Group. It will allow us to understand how our functional pigments are used by end customers, as well as enabling us to do business with the entertainment industry, which symbolizes the new Japanese industrial structure, and to develop a new business in the Chinese market.

## COATING AND IMAGING MATERIALS GROUP

*The Coating and Imaging Materials Group is engaged in two business sectors. The first is coatings in the form of raw materials for inks and paints, and the second is imaging materials, which includes chemicals for pressure-sensitive and heat-sensitive paper as well as optical materials. We are making full use of our network of resources both inside and outside the Company as we work to build a new business model with heightened added value.*

### STRATEGIES AND RESULTS

During fiscal 2002, although domestic sales of imaging materials decreased compared with the previous year, sales in Europe and North America were strong. Sales of inkjet-related chemicals and our newly established display products business grew. Sales of coating materials rose compared with the previous year, as sales of paints to the automotive industry were brisk, and overseas sales increased substantially due to our strong distribution and sales support for customers expanding their operations into China.

The Coating and Imaging Materials Group is actively developing new businesses together with other members of the Nagase Group. In fiscal 2002, we launched a new business in cooperation with the Plastics Group for the export sale of specialized paints for office automation equipment. Furthermore, in the area of imaging materials, special dyes for plasma displays and new products used in the field of Computer to Plate (CTP) printing technology, which is the future of plate making, are rapidly penetrating European and U.S. markets.



Eiji Asami  
EXECUTIVE OFFICER

The “weekly full container service,” a new distribution business developed by forging strategic partnerships, helped to improve results during fiscal 2002. This service, which consolidates the cargo of multiple customers into a single shipping container in order to lower transportation costs and minimize resources required for export-related operations, has become popular among customers. In the future, Nagase plans to move beyond supporting distribution activities to create businesses centered around offering new product proposals and providing sales support. One example of these efforts is the development of our proprietary Nagase Supply Chain Management (N-SCM) system.

### FUTURE DEVELOPMENTS

The primary goals of WIT21 are to increase our share in all markets and grow the export business. By fully utilizing the Nagase Group’s infrastructure, consisting of our advantages in businesses, overseas network, logistics and technical information, we are working to achieve these goals by expanding our existing operations.

In the future, we will continue to improve customer satisfaction by offering more capabilities and services in each product market, while actively developing sales and marketing. We will constantly take on new challenges, seeking out new business opportunities by forming partnerships with other divisions in the residential construction and electronics-related markets.



### CUSTOMER FOCUS IN ACTION

As part of measures to improve customer satisfaction, the Coating Materials Division conducted a customer satisfaction survey during fiscal 2002. At the beginning of the fiscal year, everyone from general managers to sales representatives established a variety of targets for themselves, such as the number of visits to customers, and then evaluated their achievements. In the fall, the survey evaluated customer satisfaction. Analyzing customer satisfaction enabled staff to improve their attitudes and behavior. In addition, we made the survey results available to our customers with the aim of deepening communication with them. Through these measures, we have been able to achieve great successes by accurately determining customers’ expectations in order to develop effective sales activities tailored to specific customers and markets. In the future, we plan to implement this survey for the entire Coating and Imaging Materials Group.

## FINE CHEMICALS GROUP

*The Fine Chemicals Group provides products such as pharmaceuticals, biological products like food additives, supplements, enzymes, agricultural chemicals, and household products. Taking a global approach in offering highly functional products and services that are an integral part of people’s lives and lifestyles, we have established the field of life sciences as our primary business and are focusing on developing our operations.*

### STRATEGIES AND RESULTS

In the pharmaceutical industry, the number of manufacturers has decreased in recent years due to mergers and acquisitions by foreign corporations, while the number of new drugs developed has also declined, causing competition to intensify. In Japan, the effect of revisions to the National Health Insurance (NHI) drug pricing system has left the industry in a period of zero growth. As a result, manufac-

turers of synthetic chemicals have developed excess production capacity for pharmaceutical ingredients, resulting in even fiercer competition throughout the industry. In the area of food products, intense price wars caused a decline in unit prices, and sales were weak due to lingering psychological factors such as the effect of bovine spongiform encephalopathy (BSE). However, our sales of agricultural chemicals were strong, supported by our competitive chemical intermediates business in overseas markets.

The Fine Chemicals Group is working to provide a wide range of functional products and services in the field of life sciences. With revisions to the Pharmaceutical Affairs Law scheduled to take effect in 2005, pharmaceutical manufacturers are quickly moving to outsource manufacturing operations in order to concentrate on new drug research and marketing. As a result, we are focusing on providing support for new drug discovery and consignment production of intermediates and bulk formulations. The key to this business is the technological capability of the Nagase R&D Center and the manufacturing subsidiary Nagase ChemteX Corp. The Nagase R&D Center has won support for its rapid, high-level proposals that meet customers' needs, including new synthesis processes used in the mass production of drugs and the promotion of environmentally friendly "green chemistry." In addition, Nagase ChemteX is working to build the framework for an outsourcing business by expanding its manufacturing facilities. Moreover, our greatest strength is our sales staff, who have considerable expertise in the fields of synthetic organic chemistry, biochemistry and pharmacology, and are working to expand business through the collection of information on a global scale.



**Takeo Kaneko**  
EXECUTIVE OFFICER

## FUTURE DEVELOPMENTS

The three years of WIT21 will be a time for us to lay the groundwork for our future success. We are pursuing a strategy of aggressive investment, while broadening the scope of our activities beyond the framework of a conventional trading company in order to strengthen the appeal of the Nagase Group as a trusted pharmaceutical consignment manufacturing company that possesses both production and R&D capabilities.

We are focusing on creating new businesses in the field of life sciences to establish a mainstay business that will complement our pharmaceutical and agricultural chemicals business, putting special emphasis on new gene therapy-related products and technologies, food additives and raw materials for health foods. In the enzyme-related field, we are leveraging our organic synthesis technology and enzyme technology to develop a business that involves not only supplying enzymes but also consignment production of fermented products.



Manufacturing equipment for active pharmaceutical ingredients under clinical trials (class 100,000 clean room)

## CUSTOMER FOCUS IN ACTION

Pharmaceutical companies are expected to increase outsourcing of manufacturing following revisions to the Pharmaceutical Affairs Law scheduled to take effect in April 2005. The Nagase Group is continuing to invest in upgrading the production facilities of Nagase ChemteX Corp. to expand its consignment production that supports the development of manufacturing processes. The production facilities of Nagase ChemteX are being strengthened in accordance with international current Good Manufacturing Practice (c-GMP) standards for manufacturing control and quality management of pharmaceuticals. Construction began at the Fukuchiyama Factory in spring 2002, and the new small-scale facility went into operation in July 2003. As a result, the factory's production capacity now ranges from small-scale production of drugs under clinical trials to production of drugs on a commercial basis. In addition, there are plans to construct a mid-sized pharmaceutical production facility compliant with c-GMP at the factory during fiscal 2003.

## DYESTUFFS DIVISION

*The Dyestuffs Division sells dyestuffs and dyeing auxiliaries used in the dyeing process, as well as processing machinery and functional finishing agents used in textile finishing to give fabric various value-added properties. We also provide consultation on dyeing technology. With the growth of the textile industry in China and Southeast Asia, we are actively working to expand our business activities both in Japan and overseas.*

### STRATEGIES AND RESULTS

During fiscal 2002, overseas sales rose steadily as a result of business development activities aimed at Japanese-affiliated companies entering Asian markets. However, overall sales decreased compared with the previous year due to a slump in the domestic textile industry.

Though the Japanese dyestuffs market has contracted in recent years, markets in China and Southeast Asia are experiencing rapid growth. The Dyestuffs Division is working to develop operations tailored to these regions while expanding its range of technical services. Through these operations, which are based at NCC Shanghai Techno Center Co., Ltd., a new subsidiary established during this fiscal year, we are striving for further growth and development.

In addition, we have launched a project entitled Borderless Action in the Textile Field (BOAT21), which has made steady progress. The purpose of BOAT21 is to promote new textile-related business ideas that transcend industry affiliations or national borders. We are also working to extend our business activities, which previously focused only on the midstream segment of the textile industry, to encompass both upstream and downstream areas including the apparel industry and brand-name clothing companies. Based on the information gained from these activities, we plan to build a consumer relations management (CRM) system that will provide materials procurement services and technical support for all stages of the dyeing and finishing processes and offer additional new business ideas, in order to actively create proposal-driven businesses.

### FUTURE DEVELOPMENTS

To achieve the goals of WIT21, we plan to further develop BOAT21, focus on creating businesses closer to consumers, and work harder to satisfy customers' needs.

In our consulting activities, we are working to establish a business in which experts make visits to dyeing and processing factories to offer guidance on dye processing technology. Under this new business, the Company's technology and expertise, which was previously offered to customers at no cost, will now be repackaged as a product. In addition, we are developing dyestuffs for biodegradable synthetic fibers and researching environmentally friendly dyeing technologies such as dyestuffs that reduce the amount of water and thermal energy used in the dyeing process. Another example of our development is the metal-free wool dyestuff DENAWOOL created in response to the issues of workers' health considerations and wastewater contamination associated with the dyeing process. Our successful research is used not only in product development, but is also integrated into our consulting business.



**Yasuhiro Yamazaki**  
 MANAGER, DYESTUFFS DIVISION  
 PRESIDENT, NAGASE COLORS & CHEMICALS CO., LTD.



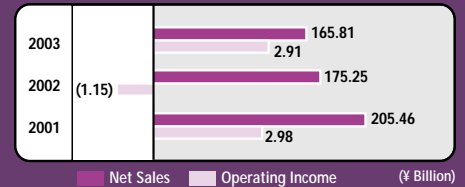
Exhibition space introducing the latest functional and specialty processes (NCC Shanghai Techno Center Co., Ltd.)

### CUSTOMER FOCUS IN ACTION

Subsidiary Nagase Colors & Chemicals Co., Ltd., which handles the sale of dyestuffs, established NCC Shanghai Techno Center Co., Ltd. in China in September 2002. In light of the growing dyestuffs market in China and Southeast Asia, we are working to develop new business activities through the Shanghai Techno Center in order to expand our sales and technical services for companies engaged in dye processing operations overseas. In cooperation with the Techno Center in Osaka, the Shanghai Techno Center carries out various tests and offers consulting services related to dyeing, primarily for Japanese-affiliated companies operating in the region. Specific services include analyzing a customer's dyeing result to determine whether it meets that customer's specifications, and offering technical assistance on the dyeing process. In addition, it also provides consulting services, such as evaluating technical capabilities and proposing solutions to problems, for local Chinese companies aiming to do business with Japanese companies. In this way, the Nagase Group is using its technology and know-how accumulated over many years of experience to develop its business activities overseas.



# PLASTICS



*We are working to develop new businesses and markets by using our global network, our advanced knowledge of various materials, and our original system of business units to gather information on markets and customers and to respond quickly to customers' needs.*

## STRATEGIES AND RESULTS

During fiscal 2002, sales of plastics and hardware to the automotive business and overseas manufacturers of electrical and IT equipment, which were the focus of enhanced strategic initiatives, were strong. Net sales for the Plastics Group decreased 5.4 percent compared with the previous year to ¥165.81 billion due to the transfer of domestic sales rights for the plastic products of General Electric Co. In spite of this drop, the Group posted operating income of ¥2.91 billion, compared with an operating loss of ¥1.15 billion in the previous fiscal year.

Under the WIT2000 medium-term management plan, the Plastics Group worked to restructure its operations and organization in accordance with "market-in" principles that strengthen our relationship with the market. Our original Strategic Business Unit (SBU) system, introduced in 2001, is designed to respond quickly to the needs of specific markets and customers, which has allowed us to steadily develop and expand our proposal-based business in line with our goals. At the time it was introduced, the system comprised only 13 SBUs, but this number has since doubled to 26 through organization to respond to the increasingly diverse, complex and sophisticated needs of customers. The smooth operation of the SBUs has contributed to increased sales for the Plastics Group by leading to the development of new business models and the creation of new markets, which has in turn compensated for the effect of a decline in existing businesses and markets and the aforementioned transfer of sales rights.

In the automotive field, overseas business with major customers increased, and sales of plastics and molds by Nagase Plastics America Corp. and Nagase (Thailand) Co., Ltd. rose steadily. New operating bases were established in Europe and the U.S. to strengthen our presence in this field. We have also won support for our electronic "kanban" system and just-in-time ordering, an e-business initiative that involves not only the purchase and sale of products but also supply chain management.

In the building materials field, we have proposed a recycling system for home interior products made of Pluswood, a new type of construction material developed by Nagase. The implementation of the Basic Law for Establishing a Recycling-Based Society has triggered a positive response in the market to Nagase's proposed recycling business.

In the field of electronic and IT equipment, sales to China, Hong Kong and Southeast Asia were strong as more and more companies are transferring their production facilities to the region. In addition, major subsidiaries showed improved performance due to such measures as streamlining operations. Totaku Industries, Inc., which manufactures plastic hoses, reported strong sales of original products and environmentally friendly products, and Setsunan Kasei Co., Ltd. saw growth in sales of plastic compounds.

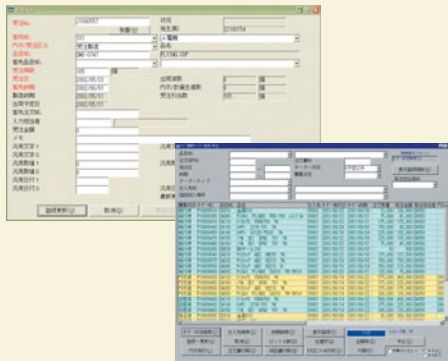
## FUTURE DEVELOPMENTS

Under the new WIT21 medium-term management plan, the Plastics Group has been divided into three business groups in order to speed up decision-making and enable a quick response to market needs. Under this new organizational structure, the SBUs of each group will have even more flexibility to pursue business development.

During fiscal 2003, the first year of WIT21, we aim to increase earnings while continuing to focus on our policy of selection and concentration. In particular, the automotive business has been established as a strategic priority. Globally, we plan to further develop our business activities, and in the domestic market, which has steadily contracted due to the erosion of the industrial base, our medium-term goals are to reevaluate existing businesses and investigate business models with growth potential.



**Kazuaki Kobayashi**  
DIRECTOR AND EXECUTIVE OFFICER



## CUSTOMER FOCUS IN ACTION

The Nagase Group draws on its experience and know-how and makes use of quality material to support product development and prototype design that satisfy customers' criteria. Our manufacturing expertise lets us accommodate the varying demands of our customers' work sites, and we have a long track record of successful accomplishments. One example is P-PRO, a production management system for molding plants. Capitalizing on our experience in the plastics business and our ability to generate innovative ideas, we provide customers with the production management they need, using this system designed for injection molding processes. Many customers introduced P-PRO immediately following our launch of the system. We plan to expand sales and assist customers' production management in Greater China (China, Taiwan and Hong Kong), which has come to be considered the "world's factory," as well as in Southeast Asia. By listening to the opinions of our customers, we will actively work to develop our proposal-based business.



Susumu Ozawa  
EXECUTIVE OFFICER

A handwritten signature in black ink, reading 'S. OZAWA'.

## PLASTICS FIRST GROUP

The Plastics First Group markets a broad range of products to various markets and industries in Japan and overseas, including plastics, auxiliaries, packaging materials, equipment, facilities and software.

First, we are responsible for developing the overseas operations of the Plastics Group, and play a major role not only in increasing exports from Japan but also in expanding our global business activities. Nagase is building on the strong relationships it has cultivated with many Japanese companies over the years by pursuing mergers with emerging non-Japanese companies in new markets in order to expand sales of total solutions that incorporate equipment and software as well as plastics products. During the first year of WIT21, we are focusing particularly on Greater China. A second key task is restructuring our core operations. Through tie-ups with Group manufacturing subsidiaries such as Setsunan Kasei Co., Ltd. and Kotobuki Kasei Corp. we are working to develop businesses that allow the Company greater independence. As many trading companies are pulling out of the plastics industry, now is the best possible time for us to seek out alliances with manufacturers while working to expand our business activities in Japan and overseas.

## PLASTICS SECOND GROUP

The Plastics Second Group deals primarily with automotive-related materials and products. Nagase's automotive business was originally established to market the engineering plastics materials of General Electric, at which time we had already been involved in the die-related business for more than a decade. Today, we offer a wider range of products, including cloth, seats, headliner products and manufactured products.

Recently, we have been focusing on doing business with the Japanese automotive industry, which has grown to a global scale. In particular, subsidiary Design & Die Co., Ltd. has steadily expanded its business activities in line with its mission of offering the world's best procurement services using a coalition of different industries, and is taking the next step towards globalizing its operations, including establishing sales offices in the U.S. Building on its die business, the company undertakes projects from the design of components to the development of prototypes and mass-production dies. Design & Die's success has provided the Nagase Group with many opportunities to do business with leading overseas manufacturers of automotive components.

As part of efforts to expand our business globally, we followed the establishment of a local subsidiary in Guangzhou, China with the opening of a representative office in Hungary in 2002.



Masao Hidaka  
GENERAL MANAGER



## PLASTICS THIRD GROUP

The Plastics Third Group handles domestic demand, while investigating business models that will enable future overseas expansion. We also sell building components, home interior products and household goods, focusing on products and services involving our proprietary building material Pluswood. In the future, we plan to develop new sales channels that are more accessible to consumers, such as mail-order and Internet-based sales.

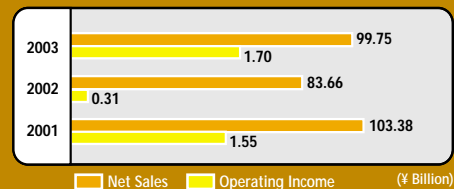
One example of a business model that will allow us to expand our business internationally is the issue of recycling plastic in the consumer electronics industry. In August 2005, stricter recycling regulations will go into effect in Europe. In other words, manufacturers will have to shift from closed recycling systems, in which parts and materials from post-use products are reused to make products of the same type, and explore possibilities for open recycling systems, in which parts from office automation equipment and consumer electronics products can be recycled for use in the civil engineering or construction fields. Nagase is providing new ideas based on Pluswood, which is made of a combination of plastic (recycled from office automation equipment) and wood (recycled from construction projects), and has become a promising new business.



Osamu Kitaguchi  
EXECUTIVE OFFICER



# ELECTRONICS



Kyoichi Zushi  
DIRECTOR AND EXECUTIVE OFFICER

*During fiscal 2002, there was solid growth in sales of parts and materials for LCDs, communications equipment and fine abrasives as well as other materials for electronic and electrical devices. We also posted higher sales year-on-year of IT equipment and DVD-related products, which have been areas of focus in recent years. As a result, net sales rose 19.2 percent compared with the previous year to ¥99.75 billion, and operating income increased by ¥1.39 billion to ¥1.70 billion.*

## ELECTRONICS FIRST GROUP

*The Electronics First Group sells materials and equipment used in manufacturing processes and provides systems solutions to the semiconductor, liquid crystal and electronic components industries. In recent years, we have actively focused on developing our business overseas, particularly in China.*

### STRATEGIES AND RESULTS

In fiscal 2002, the electronics market began to recover from the effects of the previous year's downturn in the IT industry. As a result, sales of our product lines, including display-related products, agents used in the production of liquid crystal and semiconductors, and functional materials, were generally favorable.

All of the markets in which we are active continued to grow. For example, the global semiconductor market is expanding at a rate of approximately 10 percent a year, and increased demand in the LCD industry is leading to construction of substantial mass-production facilities.

We are establishing production facilities in Asia in order to position ourselves as a "trading company with manufacturing capabilities" in fast-growing overseas markets. During fiscal 2002, the first phase of construction for a new facility at Nagase Finechem Singapore (Pte) Ltd. was completed, and production of chemicals used in the manufacture of semiconductors and LCD panels began in fall 2002. In addition, Nagase ChemteX (Wuxi) Corp. was established as a manufacturing subsidiary to supply adhesives for semiconductor production and electronics materials to the Chinese market, and is scheduled to begin production in fall 2003. The company is also expanding beyond China into ASEAN to establish itself as a production base in Asia.

In Japan, Nagase established OnFine Co., Ltd. as a joint venture with the Osaka Gas Group in December 2002. The new company's field of business is original denatured materials made from polysilane and fluorine derivatives, which enable the production of smaller electronics products and higher-definition LCDs. Osaka Gas Chemicals Co., Ltd. is responsible for materials production, Nagase ChemteX Corp. handles processing, and OnFine is in charge of marketing and sales. The joint venture began operations in April 2003, and has performed favorably, expecting to achieve net sales of ¥5.0 billion in fiscal 2005, the year ending March 31, 2006.

### FUTURE DEVELOPMENTS

We aim to provide optimum solutions to our customers through a combination of manufacturing and trading functions, while aggressively developing our business to build the company's status. By avoiding competition with major manufacturers, and focusing instead on developing niche markets offering high added value and requiring comparatively little investment, we are aiming to establish highly profitable businesses. We are also effectively pursuing joint product development and sales agreements through alliances with other companies. In fiscal 2003, with business expected to be strong both in Japan and abroad, we are focusing particularly on strategies to expand sales in overseas markets.





## CUSTOMER FOCUS IN ACTION

Nagase ChemteX (Wuxi) Corp., established in September 2002 for the production of electronics materials and adhesives made from epoxy resins, is currently proceeding with the construction of plants and production facilities. Completion of a 20,000m<sup>2</sup> facility with an annual production capacity of 2,500 tons is scheduled for fall 2003. Net sales of ¥4.0 billion are projected for 2006. Production technology and marketing for the new company are handled by Nagase ChemteX Corp. and Shanghai Nagase Trading Co., Ltd., respectively, and plans are underway to begin exports to ASEAN countries in addition to sales in China. Establishing production bases in China is strategically valuable because it not only enables Nagase to keep costs low and maintain a strong service network for Japanese companies expanding their operations overseas, but also allows us to use the achievements and experience gained through these operations in developing future business opportunities.

## ELECTRONICS SECOND GROUP

*The Electronics Second Group handles products associated with the downstream sector of the electronics market, such as displays, communications components, storage devices, and image processing equipment, as well as materials used in manufacturing and processing of these products.*

### STRATEGIES AND RESULTS

During fiscal 2002, sales of small and medium-sized display units for mobile telephones and other devices rose significantly compared with the previous fiscal year, when results were weak due to the downturn in the IT industry. In addition, sales of components for mobile telephone base stations were brisk due to increased demand for wireless telecommunications in China. Exports of hard disk substrates and sales of fine abrasives for semiconductors were also strong. Inquiries and orders for image processing equipment to check for surface defects in film were high due to increased demand for film inspection systems for flat panel displays.

Our favorable performance this fiscal year was partially a result of the recovery in the electronics market, but was also due to the fact that various measures the Company has instituted have begun to show results.

The vision of the Electronics Second Group is "creating original businesses that enable Nagase to exercise its leadership." As one of our efforts to fulfill this vision, we have been developing our processing business for key IT devices in China over the past several years. Due to our active pursuit of alliances with other Japanese and Taiwanese companies that have expanded into the region, our operations are currently generating revenue.

Sales of display units for mobile phones were strong not only in Japan but also in Taiwan and China, as the development of color displays and wider screens caused demand to increase. In particular, sales of optical films and the glass processing business rose dramatically, and this trend is expected to continue into fiscal 2003.

Furthermore, with components for mobile telephone base stations performing favorably in China, we are promoting the products of Gigatec Inc., which specializes in R&D and production for the Nagase Group.

### FUTURE DEVELOPMENTS

Our primary goal with regard to WIT21 is sustainable growth. Demand for displays, communications components and other device-related products tends to be unstable, and the performance of the Electronics Second Group is strongly affected by trends in this market. To maintain our current momentum, we must anticipate changes in the market, which will require a continued program of investment. In addition, the first year of WIT21 will be devoted to expanding our production business in China.



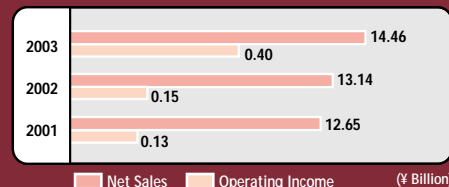
**Kazuo Nagashima**  
EXECUTIVE OFFICER



## CUSTOMER FOCUS IN ACTION

Gigatec Inc., in which Nagase has a 41 percent equity stake, is a specialized manufacturer that designs, develops and produces power amplifiers for mobile telephone and PHS base stations. The company has achieved rapid growth, with net sales rising from ¥0.4 billion in the fiscal year ended February 2001 to ¥5.6 billion in the fiscal year ended February 2003. New production facilities are currently being constructed, and their scheduled completion in the fall is expected to spur further growth. Demand for parts for wireless base stations in China is expected to remain strong in fiscal 2003, and Nagase will work to meet the needs of the market by mobilizing the forces of the entire Group, including Gigatec, which handles manufacturing, and Shanghai Nagase Trading Co., Ltd., which carries out marketing.

# HEALTH CARE



Makoto Ono  
EXECUTIVE OFFICER

*During fiscal 2002, door-to-door sales of cosmetics and health foods were down compared with the previous year, but sales of medical information equipment increased considerably due to efforts to expand sales of radiology equipment, reagents and testing systems. Sales of infectious disease control systems were also strong. As a result, net sales for the segment increased 10 percent to ¥14.46 billion. (The data used in the text and graphs in this section includes both the Health Care and Other segments.)*

## HEALTH CARE GROUP

*Helping to provide people with more comfortable and secure lifestyles, the Health Care Group offers products and services in beauty care and medical care. The beauty care business provides cosmetics and health food products, while the medical care business markets medical information systems and radiology equipment to hospitals and medical institutions.*

### STRATEGIES AND RESULTS

In the field of medical care, we are focusing on our existing businesses of nursing care products and home therapy devices, as well as medical information systems. During fiscal 2002, sales of reagents and other products were strong due to our efforts to expand sales of infectious disease control systems and radiology equipment.

For the past several years, the Health Care Group has sold infectious disease control systems to major hospitals. These systems utilize the hospital's intranet to quickly circulate infectious disease-related information such as the results of bacteriological examinations throughout the hospital. This results in earlier detection, preventing the disease from spreading within the hospital while also reducing medication costs. The system was developed in conjunction with the Saga Medical School Hospital, and has already been introduced at hospitals nationwide, receiving strong endorsements from major university hospitals and other medical institutions. As a result, sales are expected to continue to increase.

The recent increase in the number of medical-related accidents has become a serious social issue, and hospitals are working to establish information processing systems with the assistance of the Ministry of Health, Labour and Welfare and the Ministry of Education, Culture, Sports, Science and Technology. In response to these concerns, Nagase and Tohoku University have jointly developed a support system to help prevent medical-related accidents, which is being marketed throughout Japan. The system links a hospital's LAN with PDAs carried by hospital staff, making it possible to accurately identify patients, recognize their medical condition and determine what treatment is to be administered. During the development process, study groups were held with medical professionals in order to incorporate their opinions. As a result, the system has won strong support for its practicality and usefulness.

In December 2002, through an alliance with Iwatani International Corp., The Nichido Fire and Marine Insurance Co., Ltd. and Marubeni Corp., Nagase launched Home Therapy Planet, which provides support services for home therapy patients. As the first step in this initiative, we have started developing a home oxygen therapy (HOT) business utilizing an oxygen concentrator developed jointly with U.S.-based

Respironics, Inc. The business provides medical care services through an independent network linking doctors, home medical representatives (HMR), patients and support centers, and has proved valuable in the treatment of illnesses such as chronic respiratory failure. With the market for home therapy services, which totaled ¥250 billion in 2001, projected to expand by 40 percent to ¥350 billion in 2005, Nagase is focusing on business development in this area.

In the field of beauty care, we manufacture and sell products in the fast-growing market of health foods, as well as high-grade cosmetics to help prevent signs of aging. These businesses are conducted through door-to-door sales via a nationwide network of 40,000 salespeople.

In cooperation with external research institutions and the Nagase R&D Center, we are researching the efficacy of herbal and other natural extracts. We have made presentations at scientific conferences on the effects of rosemary extract, and are working to develop new products based on our findings. Many years of research led to the discovery of carnosic acid, a substance with whitening and moisturizing properties. Cella White Essence V, a whitening essence launched in April 2002 that incorporates this ingredient, is a popular product that contributed to sales.

These products are sold door-to-door, which gives us an opportunity for direct communication with our customers. In addition, we have opened beauty salons across the country that offer enhanced counseling services using a range of high-tech devices, to provide our customers with even greater peace of mind when using our products. Furthermore, new subsidiary Herbal Care Co., Ltd. began retail sales at four locations in the Tokyo metropolitan area in February 2002. While developing its own line of products, the company offers counseling, aromatherapy services and beauty treatments. An additional two locations were opened in March 2003.

## FUTURE DEVELOPMENTS

To achieve our goals under WIT21, we are strengthening our core businesses and developing new businesses in both of our main business areas. In the field of medical care, we will focus on increasing sales of our current lineup of systems, based on sales of medical devices to health care institutions. We are working to strengthen home therapy services in addition to creating a new framework for regional medical care.

In the beauty care field, we will maintain door-to-door sales as our core sales channel while working to strengthen retail sales. We will also reorganize our R&D network and sales structure. As part of these efforts, Nagase Beauty Care Co., Ltd. will be spun off as an independent sales company in order to create a marketing organization closely tailored to local needs and improve our selling power.



## CUSTOMER FOCUS IN ACTION

Herbal Care Co., Ltd., established in September 2000, opened four stores in the Tokyo metropolitan area named Pour Toi (French for "for you") in February 2002. The stores target women in their twenties and thirties who feel physical or emotional stress. Because the primary consumers of Nagase's beauty care products sold door-to-door have been women over the age of forty, the Nagase Group worked to develop and launch an original brand line of products for these stores. As a result, net sales in fiscal 2002 rose considerably, increasing 300 percent compared with the previous fiscal year. In March 2003, two more stores were opened in Shinjuku and Aoyama, bringing the total number of stores to six, and plans are underway to establish additional stores in the Tokyo metropolitan area during fiscal 2003 and beyond.

# NAGASE CHEMTEX



**Reiji Nagase**  
DIRECTOR AND MANAGING EXECUTIVE OFFICER  
PRESIDENT, NAGASE CHEMTEX CORP.

*Nagase ChemteX Corp. was established in April 2001 through the merger of four manufacturing subsidiaries of the Nagase Group. The company is targeting the promising fields of life sciences and electronics through its existing businesses that incorporate distinctive products and technologies, including formulated epoxy resins, epichlorohydrin derivatives, chemicals for photolithography, bulk pharmaceuticals and intermediates and enzymes.*

## STRATEGIES AND RESULTS

During fiscal 2002, sales of electronics-related materials such as liquid encapsulant for semiconductors and chemicals used in the manufacture of liquid crystal were strong. Sales increased in the epoxy resin business following the acquisition in July 2002 of Nihon Polymer Co., Ltd., a subsidiary of Asahi Kasei Corp. Growth in sales of original products such as Denacol also contributed to higher net sales. Concerted efforts to streamline operations and reduce costs have resulted in a substantial increase in profits. In addition, efforts to build an efficient corporate organization incorporating the operating and management systems of the four original subsidiaries are beginning to show results.

In the field of life sciences, the market for contract production of pharmaceuticals is expected to grow due to revisions to the Pharmaceutical Affairs Law scheduled to take effect in 2005. Nagase ChemteX, which supplies fine chemicals used in the production of pharmaceuticals, is responding to this opportunity for business growth by investing in contract production of pharmaceutical intermediates and development of related production processes. At the Fukuchiyama Factory, construction on a facility for the production of investigational drugs as well as small quantities of pharmaceuticals and intermediates began in summer 2002, and the facility began operation in summer 2003. In fiscal 2003, the Factory plans to build a full-fledged production facility for pharmaceuticals. Although the depreciation charge associated with this investment in plant and equipment will have a temporary negative effect on business results, this is a "healthy loss" caused by investment in the name of future business development.

In the electronics field, sales for fiscal 2002 were strong despite intense competition, due to the success of products tailored to the specific needs of customers, such as liquid encapsulant for semiconductors and adhesives for optical disks (DVDs). The defining characteristic of our electronics-related business is its emphasis not only on our organic synthesis technology and formulation technology but also on Nagase's application development capabilities and strong relationships with customers. A good example of this approach is the establishment of OnFine Co., Ltd. in December 2002, a new company created as a joint venture with the Osaka Gas Group for the development, production and sale of polysilane and fluorine, which are materials used in next-generation electronic devices. OnFine's business is expected to become highly profitable in the growth field of optoelectronics.

We are working steadily to establish a global production network. Nagase ChemteX currently has three plants in Japan, located in Fukuchiyama, Harima and Itami, as well as overseas production facilities in Singapore, China and Taiwan. At Nagase Finechem Singapore (Pte) Ltd., which handles manufacturing of chemicals used in the electronics field and recycling, the first phase of construction on a new facility was finished in fall 2002, and the second phase is scheduled to end in summer 2003. In China, we have established manufacturing subsidiary Nagase ChemteX (Wuxi) Corp. in a joint venture with Nagase & Co., Ltd. to produce formulated epoxy resins. Construction is currently underway, with operations scheduled to begin in fall 2003. At our production base in Taiwan, we have installed our equipment at a business partner's factory.



As Japan's largest manufacturer of formulated epoxy products, Nagase ChemteX is involved not only in the electronics field but also in the domestic civil engineering and construction industries. In July 2002, we acquired the sales rights for formulated epoxy resins from Nihon Polymer Co., Ltd. Making use of the strong brand value of Nihon Polymer's trademark product Epomar as well as the company's advanced technologies and sales network, we are working to develop this business nationwide. We plan to add Epomar to our existing product lineup and expand our lining materials business.

### FUTURE DEVELOPMENTS

Nagase ChemteX has established five-year targets aimed at maximizing the synergy from the merger of the four subsidiaries and achieving new growth. These targets involve establishing the fields of electronics and life sciences as our two core business areas, and aiming for net sales of ¥35 billion and ordinary income of ¥2.5 billion in fiscal 2007. In the field of electronics, we will continue working to ensure our existing operations meet the needs of specific markets, while accelerating the pace of global business development. In the field of life sciences, we are aiming to expand our business through increased investment, state-of-the-art production facilities, relationships of trust with pharmaceutical manufacturers who are our customers, and a quality control system that meets international c-GMP standards for manufacturing control and quality management of pharmaceuticals. In addition, we are dispatching employees to the Nagase R&D Center to conduct joint research with Nagase on pharmaceutical and biotechnology-related issues. Demonstrating our commitment to environmental protection, we expect to acquire ISO 14001 certification for the Harima Plant during fiscal 2003, and are steadily working to obtain certification for other production facilities.



### CUSTOMER FOCUS IN ACTION

The Nagase Group established OnFine Co., Ltd. in a joint venture with the Osaka Gas Group to sell formulated polysilane and fluorine materials, which are advanced materials used in IT devices. The company began operations in April 2003. Polysilane and fluorine derivatives offer the high clarity and heat resistance necessary for high-definition liquid crystal displays, the low permittivity required by increasingly faster and smaller computers and the high refraction index critical for optical devices. The combination of the Osaka Gas Group's materials development and mass production technologies and the Nagase Group's formulation technology and comprehensive domestic and international sales network has created synergies that enable the company to develop products that meet customers' needs. The company is striving to become the industry standard for these products.

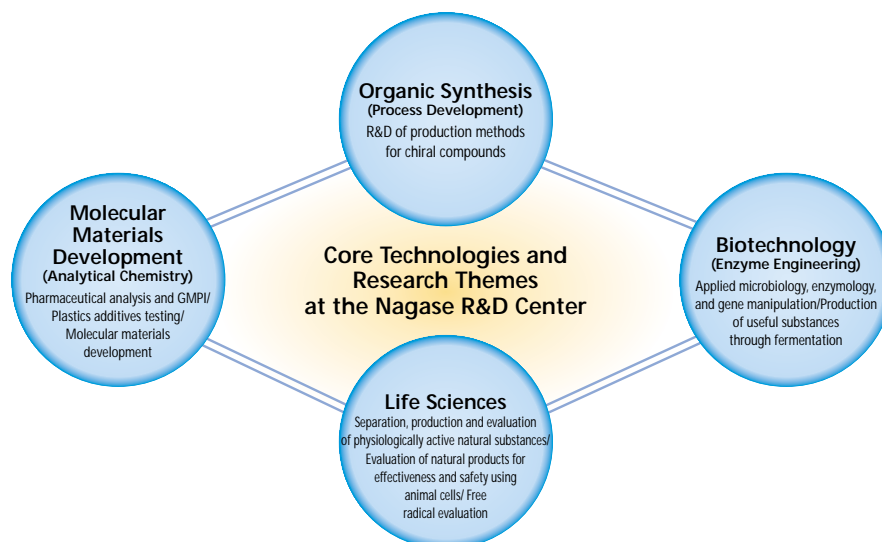
# NAGASE R&D CENTER

## The Nagase Group's Central R&D Organization

The Nagase R&D Center's policy is to serve as the driving force behind R&D in the Nagase Group in the twenty-first century. As such, it is responsible for providing original technical assessment and analysis capabilities and manufacturing processes, while also offering high-value-added products and businesses in a timely manner. In particular, the Nagase R&D Center focuses on developing technologies for converting existing commodities into high-value-added products, and through the Nagase Group's network, has successfully met the needs of various customers while acquiring many patents for key materials and processes

used in manufacturing fine chemicals.

The Nagase R&D Center also plays an important role in strengthening the organic synthesis technologies and biotechnologies (enzyme and fermentation products) of Nagase ChemteX Corp. It has also established an integrated system for the custom development and manufacturing of new products in the fields of electronics and life sciences, which the Nagase Group has established as strategic priorities. At the core of the Nagase R&D Center's activities lie chiral technologies, which are used for producing optically active substances.



## Establishing a Unique Position in Chiral Technologies



Chiral technologies are an integrated mix of organic synthesis and biotechnology. They are currently the focus of global attention as manufacturing technologies indispensable to the production of pharmaceutical intermediates. From the beginning, the Nagase R&D Center has been dedicated to exploring chiral technologies, and has a successful track record using all three basic techniques: the biocatalytic method, optical resolution, and asymmetric synthesis. In

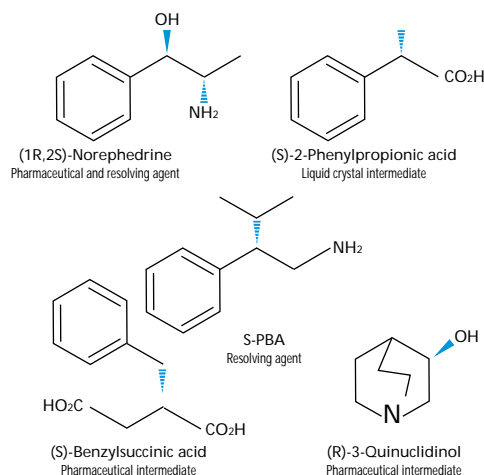
particular, the Nagase R&D Center has received acclaim for being at the forefront of development of the biocatalytic method, which has attracted interest as an effective means of addressing environmental issues. Using its wide array of enzymes and other microorganisms, it offers solutions that meet the demands of green chemistry. Furthermore, using optical resolution, (S) ibuprofen, an anti-inflammatory drug, is being produced in India and supplied to Europe and Asia. The Nagase R&D Center is also actively pursuing joint research on asymmetric synthesis with university research institutions.

The Nagase R&D Center's technology base is instrumental in the new small-scale c-GMP-compliant manufacturing facility at Nagase ChemteX Corp., which went into operation this year. This manufacturing facility has enabled Nagase to expand its pharmaceuticals business, allowing it to

perform everything from initial development to commercial production after the drug has been launched on the market.

In this way, the Nagase R&D Center enables Nagase to respond precisely to the diverse needs of customers, ranging from the procurement of raw materials and intermediates used in optically active substances to process development and manufacturing. It plays a central role in our efforts to become "a technology and intelligence oriented company that turns wisdom into business."

### Representative Products Developed at the Nagase R&D Center



# ENVIRONMENTAL ACTIVITIES AND SOCIAL CONTRIBUTION

## Tackling Environmental Issues

### Environment Policies

Based on our management philosophy, we have formulated policies for preserving the global environment and are working to put them into practice.

1. Comply with all environmental laws and regulations
2. Develop businesses that give full consideration to environmental issues
3. Fulfill our responsibilities as a good corporate citizen
4. Establish and continuously improve an environmental management system
5. Disclose and make all relevant parties fully aware of our Environmental Policy

### Acquiring ISO 14001 Certification

In May 1999, we established the Environment Protection Committee, formulating our environmental policies following an inaugural announcement from our President in July 1999. Since then, the entire company has been engaged in environmental preservation activities, including the creation of our own environmental management system.

On April 28, 2000, we received ISO 14001 certification, the international standard for environmental management, from Lloyd's Register Quality Assurance Limited. The certification applies to all the offices of our Tokyo and Osaka headquarters, the Nagoya branch, and the Nagase R&D Center. We are presently continuing to work to protect and improve the environment and contribute to society as a whole.

### Eco-business

Based on our corporate philosophy of adopting an "Environmentally Friendly Approach to Business," we aim to contribute to environmental

preservation through the expansion and creation of "eco-business." We make a particular effort to utilize our strengths as a technology and information company, actively offering information pertaining to the safety of chemical products (sales of environment-related applications, etc.), information for achieving zero emissions (chemical recovery and regeneration systems, waste solvent recovery systems, etc.), and eco-materials, equipment and systems that will reduce the burden on the environment.

### Key Projects

- Development of New Environmentally Friendly Wooden Materials
- Support for Plastic Recycling
- Proposals for Eco-materials
- Proposals for Alternatives to Toxic Substances
- Support for Zero Emissions
- Developing Business Models for Recycling Resources
- Providing Information on Chemical Safety
- Chemical Research Concerning Environmental Problems



Please visit our Web site for further information about our environmental preservation activities.

<http://www.nagase.co.jp/iso/index.html>

## Activities of Nagase Science and Technology Foundation

The Nagase Science and Technology Foundation was established in April 1989 to support scientific and technological development in fields such as biochemistry and organic chemistry. The mission of the foundation is to contribute to socio-economic development by providing grants and other support for research and development and international exchange

activities. To date it has provided approximately ¥640 million in aid in the form of 236 research grants and 178 international exchange projects. The foundation is a specific juridical corporation for the promotion of the public interest and its chartering agency is the Ministry of Education, Cultures, Sports, Science and Technology.

Name	Present Office/Position	Subject Matter
<b>Research Grants Provided in 2003</b>		
<b>&lt;Biochemistry&gt;</b>		
Takashi Ohshiro	Faculty of Engineering, Tottori University/Lecturer	Extension of substrate specificity of stable halogenating enzyme and its application
Shigeo Katoh	Graduate School of Science and Technology, Kobe University/Professor	Production and high sensitivity screening of antibodies recognizing many kinds of antigens
Hiroaki Kato	Graduate School of Pharmaceutical Sciences, Kyoto University/Professor	Molecular basis of C4 Photosynthesis - Reaction Mechanism of Pyruvate phosphate dikinase
Tanetoshi Koyama	Institute of Multidisciplinary Research for Advanced Materials, Tohoku University/Professor	Molecular Analysis of the Biomembrane Flip-Flop Transfer of Oligosaccharides
Makoto Shoda	Chemical Resources Laboratory, Tokyo Institute of Technology/Professor	Structure analysis of a new peroxidase and enhancement of its activity by genetic modification
Hideyuki Suzuki	Graduate School of Biostudies, Kyoto University/Associate Professor	Molecular mechanism of autocatalytic processing of $\gamma$ -glutamyltranspeptidase
Makoto Nishiyama	Biotechnology Research Center, The University of Tokyo/Professor (Associate professor at the time of receiving grant)	Studies on substrate recognition and evolutionary background of newly-found lysine biosynthetic enzymes in a thermophile and application for development of new lysine production process
Katsuhide Miyake	Research Center for Advanced Waste and Emission Management, Nagoya University/Associate Professor	Identification and isolation of novel bacterial glycosyltransferases by using bioinformatics
<b>&lt;Organic chemistry&gt;</b>		
Masamichi Ogasawara	Catalysis Research Center, Hokkaido University/Associate Professor	Preparation of Optically Active Polymers Containing Planar Chiral Metallocene Units Using Methods of Asymmetric Synthesis
Nobuhiro Kanomata	School of Science and Technology, Meiji University/Associate Professor	Studies on Planar-chiral Catalysts for Phase Transfer Reactions
Toshiki Tanaka	Graduate School of Engineering, Nagoya Institute of Technology/Professor	Peptide derivatives for promoting protein-protein interactions
Naoto Chatani	Graduate School of Engineering, Osaka University/Professor	Direct Functionalization of C-H Bonds: Development of Environmentally Benign Catalysis
Masahiro Terada	Tohoku University Graduate School of Science/Associate Professor	Supramolecular Approach to Designing for High Performance Brønsted Acid Catalysts
Tamaki Nakano	Graduate School of Materials Science, Nara Institute of Science and Technology/Associate Professor	Synthesis and Photoelectronic Function of $\pi$ -Stacked Polymer
Akikazu Matsumoto	Graduate School of Engineering, Osaka City University/Associate Professor	Synthesis and Functionalization of Green Sustainable and Degradable Hydrogel
<b>International Interchange Projects Supported in 2003</b>		
Tsunehiro Aki	Dept. of Molecular Biotechnology, Graduate School of Advanced Sciences of Matter, Hiroshima University/Associate Professor	The 94th American Oil Chemists' Society Annual Meeting & Expo (Kansas City, Missouri, U.S.A.)
Miho Suzuki	Faculty of Engineering, Saitama University/Assistant	The International Society for Optical Engineering SPIE's Biomedical Optics 2003 (San Jose, California, U.S.A.)
Sun-Wada, Ge-Hong	The Institute of Scientific and Industrial Research, Osaka University/Assistant	Experimental Biology 2003 Annual Meeting (San Diego, U.S.A.)
Takeshi Ikeda	Dept. of Microbiology and Research Institute of Advanced Oral Science, School of Dentistry, Aichi-Gakuin University/Lecturer	Mechanism for the drug resistance by multidrug efflux pumps in anaerobic bacteria (University of California at Berkeley, U.S.A.)
Yasuyuki Nomura	Graduate School of Pharmaceutical Sciences, Hokkaido University/Professor	Prof. John Edward Morley: The 2nd International Conference on Senescence: The SAM Model
Tamejiro Hiyama	Graduate School of Engineering, Kyoto University/Professor	Prof. Dr. Miguel Yus Astiz: The Ninth International Kyoto Conference on New Aspects of Organic Chemistry (IKCOC-9)
Tadashi Matsunaga	Faculty of Technology, Tokyo University of Agriculture and Technology/Professor	Prof. William H. Fenical: Marine Biotechnology Conference 2003

# MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

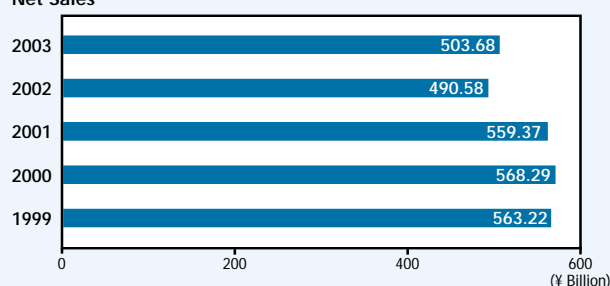
## OVERVIEW OF RESULTS

### Net Sales

During the fiscal year ended March 31, 2003, expanded exports were a positive factor supporting the domestic economy. Concerns about employment, the disposal of nonperforming loans, and depressed stock prices, however, led to continued recessionary conditions.

Nagase & Co., Ltd. and its consolidated Group companies (the Company) improved results in this environment. Consolidated net sales increased 2.7 percent year-on-year, or ¥13.10 billion, to ¥503.68 billion. Domestic sales decreased 1.0 percent year-on-year, or ¥3.57 billion, to ¥337.53 billion. Overseas sales increased 11.2 percent year-on-year, or ¥16.67 billion, to ¥166.15 billion.

### Net Sales



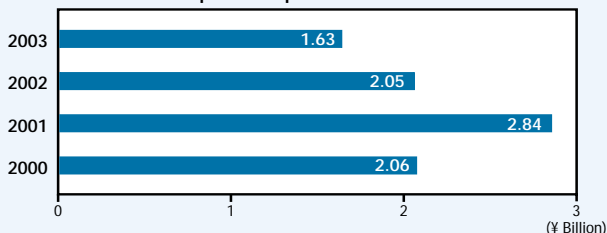
### Cost of Sales and Selling, General and Administrative Expenses

Cost of sales increased 1.8 percent, or ¥8.18 billion, to ¥451.78 billion, a rate of increase below that of net sales due in part to programs to raise productivity and an emphasis on producing and selling higher-added-value products. As a result, cost of sales represented 89.7 percent of net sales, compared to 90.4 percent for the previous fiscal year, and gross profit increased 10.5 percent, or ¥4.92 billion, to ¥51.89 billion. Selling, general and administrative expenses decreased 4.1 percent, or ¥1.83 billion, to ¥43.46 billion, reflecting the Company's efforts to reduce costs and raise efficiency.

### Research and Development Expenses

Nagase & Co., Ltd. and its Group companies engage in research and development with the objective of integrating the comprehensive strengths of the Group in developing new products and sharing technological information. The Nagase R&D Center develops products based on user needs and conduct applied research. Current research and development themes include research of fermentation technology using chiral synthesis technology and enzymes for application to pharmaceutical intermediates, and the use of natural ingredients in developing cosmetics and health foods. Customers hold the Company's technology development capabilities in high regard. In addition, the Company deploys a precise understanding of customer needs acquired from its marketing network and its extensive portfolio of organic synthesis and compounding technologies in developing and expanding sales of products such as plastics additives and coating materials. The Company uses the many patents it has obtained from its research and development activities to increase earnings. For the year ended March 31, 2003, research and development expenses totaled ¥1.63 billion, compared to ¥2.05 billion in the previous fiscal year.

### Research and Development Expenses



### Operating Income, Net Other Expenses and Net Income

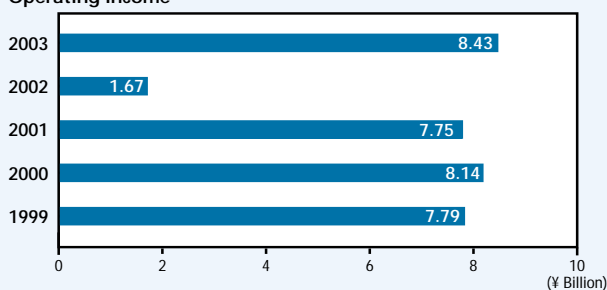
Higher gross profit and reduced SGA expenses supported an increase of 403.9 percent year-on-year, or ¥6.75 billion, in operating income to ¥8.43 billion.

Net other expenses totaled ¥0.90 billion, compared to net other expenses of ¥4.62 billion for the previous fiscal year. Interest and dividend income decreased ¥0.36 billion year-on-year to ¥1.58 billion. Interest expense decreased to ¥0.43 billion from ¥0.62 billion for the previous fiscal year. The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expense, was 22.9 times, compared to 5.8 times for the previous fiscal year.

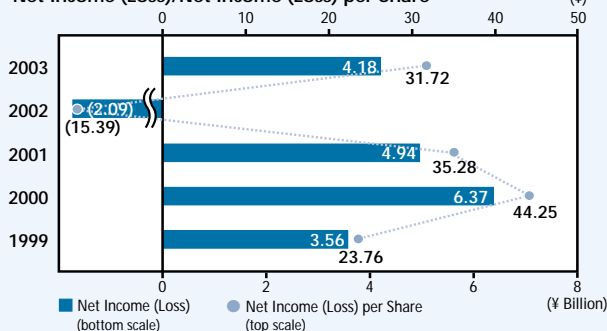
Gain on sales of investment securities decreased to ¥0.58 billion from ¥1.11 billion in the previous fiscal year. Gain on compensation for suspension of purchase transaction totaling ¥1.56 billion compensated for this decrease. Loss on devaluation of investments in securities resulting from the decline in stock prices during the fiscal year decreased to ¥3.92 billion from ¥6.72 billion for the previous fiscal year.

Because of the reduction in net other expenses and improved operating profitability, income before income taxes and minority interests totaled ¥7.52 billion, compared to a loss before income taxes and minority interests of ¥2.94 billion for the previous fiscal year. Net income totaled ¥4.18 billion, compared to a net loss of ¥2.09 billion for the previous fiscal year. Net income per share totaled ¥31.72, compared to net loss per share of ¥15.39 for the previous fiscal year.

### Operating Income



### Net Income (Loss)/Net Income (Loss) per Share

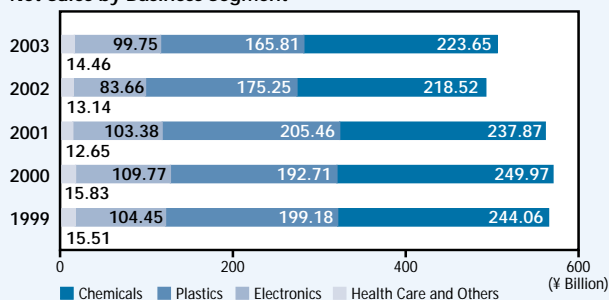


## Dividends

On the of the Company's fundamental policies is paying stable dividends to shareholders. During the past fiscal year, the Company moved to further strengthen its corporate structure and improve earnings capabilities. The Company paid cash dividends per share totaling ¥8.00, unchanged from the previous fiscal year.

## RESULTS BY BUSINESS SEGMENT (EXCLUDING INTERSEGMENT SALES)

Net Sales by Business Segment



## Chemicals

Domestic sales of pharmaceutical and agricultural-related chemicals, specialty chemicals and other products decreased. Overseas sales of plastics raw materials and other products increased. Sales of raw materials for paints and inks, and products and materials for imaging and recording, increased solidly both in Japan and overseas. As a result, sales in the Chemicals segment increased 2.3 percent year-on-year, or ¥5.13 billion, to ¥223.65 billion. Operating income increased 34.2 percent year-on-year, or ¥0.80 billion, to ¥3.16 billion.

Domestic sales of plastics raw materials were essentially unchanged year-on-year. Sales of plastics additives by Nagase (Thailand) Co., Ltd. and Nagase (Hong Kong) Ltd. and sales of urethane-related products were firm. Domestic pigment sales were solid, and the Company began building its presence in printing markets overseas.

Sales of products and materials for imaging and recording increased strongly year-on-year. While domestic sales of heat-sensitive and pressure-sensitive paper decreased year-on-year due to the effect of lower prices, sales of these products in North America and Europe increased. Sales of chemicals for inkjet printing increased, as did sales in the Company's new display-related business. Sales of paint-related products increased strongly year-on-year, due in part to the Company's efforts to strengthen customer support in China. Sales of pharmaceutical and agricultural-related chemicals decreased year-on-year. While sales of enzymes and pharmaceutical and agricultural-related chemical intermediates were solid in North America and Europe, domestic sales decreased.

Sales of specialty chemicals decreased year-on-year in a generally flat operating environment. Sales of Nagase ChemteX Corp.'s specialty epoxy compounds and other products were solid, but overseas sales of metal cleaning products decreased.

Sales of dyestuffs decreased year-on-year. Overseas sales increased as a result of the Company's emphasis on business outside Japan, but the slump in the domestic textile industry impacted results.

## Plastics

The Company made favorable progress in its strategic initiatives of strengthening its automotive-related business and increasing sales of plastics and machinery to overseas manufacturers of electronics and information equipment. Sales decreased year-on-year, however, in reflection of the transfer of domestic selling rights for General Electric Co. plastic products. As a result, sales in the Plastics segment decreased 5.4 percent, or ¥9.44 billion, to ¥165.81 billion. Operating income totaled ¥2.91 billion, compared to an operating loss of ¥1.15 billion for the previous fiscal year.

Sales of automotive plastics increased year-on-year. The Company generated global business growth through effective supply chain management, while Nagase Plastics America Corp. and Nagase (Thailand) Co., Ltd. increased sales of plastics. Sales also expanded in the die business. In addition, the Company opened a representative office in Hungary to strengthen its automotive business.

In the electrical machinery and information devices sector, domestic sales decreased year-on-year. Nagase (Hong Kong) Ltd., however, increased sales as a result of its ongoing shift of manufacturing facilities to China, and Nagase Singapore (Pte) Ltd. and other subsidiaries increased sales of plastics in Southeast Asia.

Sales of construction materials decreased year-on-year. The Company made progress in implementing a strategy of selection and concentration, but factors such as a decrease in domestic housing starts resulted in lower sales. Sales of packaging materials decreased year-on-year. While Kotobuki Kasei Corp. increased sales of packaging materials through means including expansion of production capacity for Hazard Analysis Critical Control Point (HACCP) products, sales of general-purpose plastic products decreased.

Despite restrained public-sector investment and the weak domestic economy, Totaku Industries, Inc. substantially improved results by streamlining management and increasing sales of its proprietary products and environmental protection products. Setsunan Kasei Co., Ltd. generated growth in sales of plastic compounds and moved to streamline management, with the result that performance improved substantially and earnings increased.

## Electronics

The Company achieved significant year-on-year improvement in performance in the electronics business. Sales of materials and components in markets including liquid crystal displays (LCD), communications and precision abrasives increased strongly, as did Nagase & Co., Ltd. sales of Group company products such as materials for electrical and electronic equipment. Consequently, sales in the Electronics segment increased 19.2 percent year-on-year, or ¥16.09 billion, to ¥99.75 billion. Operating income increased 444.1 percent, or ¥1.39 billion, to ¥1.70 billion.

Sales of display-related materials and components, optical films and other products for the LCD market increased year-on-year. Assembly and processing operations overseas also generated year-on-year growth.

While lower prices impacted sales of chemicals used in the manufacture of liquid crystal panels and semiconductors, increased demand resulted in higher sales volume. Nagase Finechem Singapore (Pte) Ltd. generated year-on-year sales growth due to factors including



the start of commercial operation of a new production facility.

Sales of communication components increased substantially. Expanding demand for wireless communications in China supported higher sales of Personal Handyphone System (PHS) base station components.

Sales of precision abrasive materials increased year-on-year. Expanded sales of crystal oscillators and materials for hard disk drives supported sales growth at Nagase Singapore (Pte) Ltd.

Overall sales of functional materials increased year-on-year. While domestic demand decreased, sales of epoxy resins to electrical equipment manufacturers in Korea and Taiwan were solid. In addition, Nagase ChemteX Corp. also increased sales of its highly functional products, including optical adhesives and semiconductor sealants.

Nagase & Co., Ltd. generated year-on-year growth in sales of information technology (IT) peripheral devices and DVD-related products, which have been areas of emphasis over the past several years.

## Health Care and Others

Sales in the Health Care and Others segment increased 10.0 percent year-on-year, or ¥1.31 billion, to ¥14.46 billion. Operating income increased 159.4 percent, or ¥0.25 billion, to ¥0.4 billion.

Sales in the Health Care segment decreased year-on-year. Door-to-door sales of cosmetics, health foods and new products such as Cella White Essence V increased year-on-year. The introduction of health food products that had been improved in the previous fiscal year, however, met with a tepid customer response. The number of in-store sales Pour Toi outlets in department stores increased to six, exemplifying the Company's focus on generating sales growth by developing new sales channels.

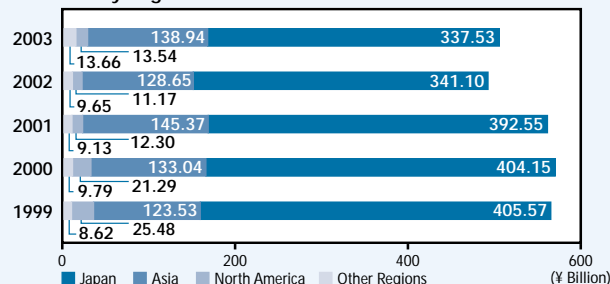
In the medical information and equipment business, an emphasis on X-ray-related equipment, reagents, diagnostic systems, and other products resulted in year-on-year sales growth. Infectious disease control systems also performed well.

The addition of Nagase General Service Co., Ltd. to the scope of consolidation also contributed to a substantial year-on-year increase in sales.

## RESULTS BY REGION

Intersegment segment sales are excluded. The calculation of results by region differs from the presentation of domestic and overseas sales above, primarily because sales in Japan as presented below include domestic sales of imports and exports and overseas sales attributable to entities domiciled in Japan, which are included in overseas sales as presented above.

Net Sales by Region



## Japan

Sales in Japan increased 0.8 percent year-on-year, or ¥3.04 billion, to ¥402.76 billion. While the transfer of domestic selling rights for General Electric products impacted the Plastics business, sales of materials for displays, raw materials for paints and inks, and communication components increased. Operating income totaled ¥5.51 billion, compared to an operating loss of ¥0.78 billion for the previous fiscal year.

## Asia

Sales in Asia increased 9.9 percent, or ¥7.22 billion, to ¥80.50 billion. Sales of plastics raw materials and additives increased year-on-year, as did sales of plastics for electrical machinery and information devices. In addition, liquid crystal materials and highly functional semiconductor materials performed well. Operating income increased 20.8 percent, or ¥0.43 billion, to ¥2.53 billion.

## North America

Sales in North America increased 9.0 percent, or ¥0.95 billion, to ¥11.62 billion. While the overall operating environment was challenging, sales of dies and equipment to the automobile industry increased, as did sales of materials for imaging and recording and pharmaceutical intermediates. Operating income increased 28.2 percent, or ¥0.03 billion, to ¥0.17 billion.

## Other Regions

Sales in Other Regions increased 27.3 percent, or ¥1.88 billion, to ¥8.78 billion. Sales in Europe of pharmaceutical-related products, display-related products and automotive products increased year-on-year. Operating income increased 184.8 percent, or ¥0.10 billion, to ¥0.16 billion.

## LIQUIDITY AND FINANCIAL POSITION

### Cash Flow Highlights

	¥ Billion		
	2003	2002	2001
Net Cash Provided by Operating Activities	4.39	12.35	8.16
Net Cash Provided by (Used in) Investing Activities	0.96	(1.30)	(4.16)
Net Cash Used in Financing Activities	(7.64)	(8.61)	(8.30)

### ● Net Cash Provided by Operating Activities

For the year ended March 31, 2003, net cash provided by operating activities decreased 64.4 percent year-on-year, or ¥7.95 billion, to ¥4.39 billion. Net income totaling ¥4.18 billion was the primary source of cash, and represented a net year-on-year increase of ¥6.28 billion because of the net loss for the previous fiscal year. Depreciation and amortization increased 8.0 percent, or ¥0.23 billion, to ¥3.11 billion. Inventories increased ¥2.28 billion, representing a net year-on-year reduction in net cash provided by operations of ¥8.25 billion because inventory reduction provided cash totaling ¥5.97 billion in the previous fiscal year. In addition, the decrease in notes and accounts receivable totaling ¥1.67 billion was substantially lower than in the previous fiscal year, which also had the year-on-year effect of reducing net cash provided by operations.

### ● Net Cash Provided by Investing Activities

Net cash provided by investing activities totaled ¥0.96 billion. In the previous fiscal year, investing activities used net cash of ¥1.30 billion. The Company reduced purchases of property plant and equipment by 21.5 percent year-on-year, or ¥0.85 billion, to ¥3.13 billion. In addition, the Company supplemented cash provided by operations by generating net proceeds from sales of investments in securities totaling ¥4.00 billion. In the previous fiscal year, net purchases of investments in securities totaled ¥0.05 billion.

### ● Net Cash Used in Financing Activities

Net cash used in financing activities totaled ¥7.64 billion, compared to ¥8.61 billion for the previous fiscal year. Net decrease in short-term loans totaled ¥3.20 billion, compared to ¥6.25 billion in the previous fiscal year, and principally reflected redemption of commercial paper totaling ¥3.00 billion. The Company also reduced proceeds from long-term debt to ¥0.11 billion from ¥3.05 billion in the previous fiscal year, and reduced repayments of long-term debt to ¥0.02 billion from ¥1.10 billion in the previous fiscal year. The Company repurchased treasury stock totaling ¥3.26 billion. Cash dividends totaled ¥1.26 billion.

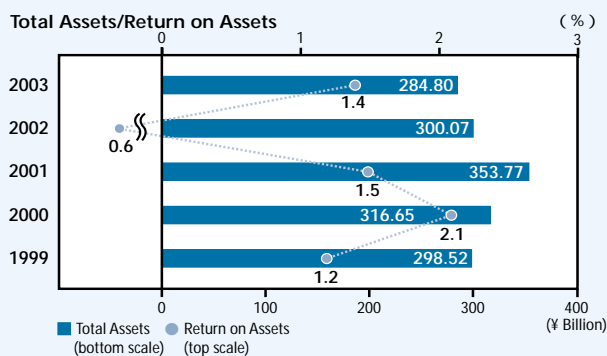
On a consolidated basis, cash and cash equivalents at the end of the year decreased 13.2 percent from a year earlier, or ¥2.91 billion, to ¥19.04 billion.

### Assets

As of March 31, 2003, total assets were ¥284.80 billion, a decrease of 5.1 percent, or ¥15.27 billion, from a year earlier. Current assets decreased 1.6 percent, or ¥3.29 billion, from a year earlier to ¥202.76 billion due to a decrease in suspense payments and other factors.

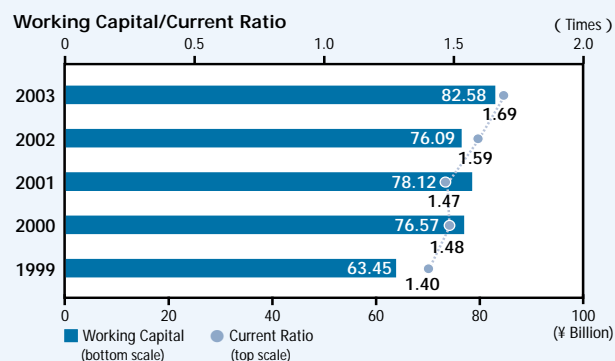
Property, plant and equipment net of accumulated depreciation increased 3.3 percent from a year earlier, or ¥0.84 billion, to ¥26.07 billion, reflecting the completion of capital projects during the fiscal year such as investments in production facilities for pharmaceutical chemicals, plastics and electronic components.

Investments and other assets decreased 19.2 percent from a year earlier, or ¥12.96 billion, to ¥55.96 billion. The primary factor in the year-on-year change was the decrease in investment securities due to factors including the reduction in carrying value of investment securities under fair value accounting standards.



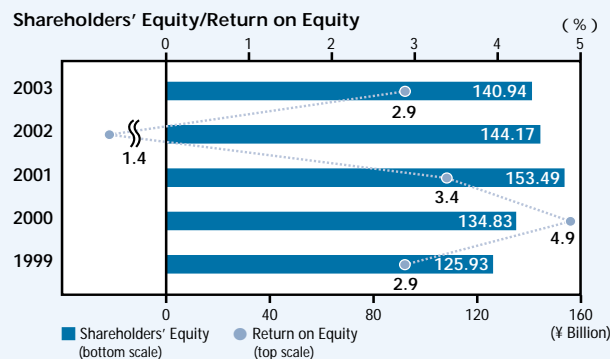
### Liabilities

Total liabilities, the sum of current liabilities and long-term liabilities, decreased 8.1 percent from a year earlier, or ¥12.37 billion, to ¥139.78 billion. Current liabilities decreased 7.5 percent from a year earlier, or ¥9.78 billion, to ¥120.17 billion, due primarily to a decrease in notes and accounts payable and redemption of commercial paper. Long-term liabilities decreased 11.6 percent from a year earlier, or ¥2.58 billion, to ¥19.60 billion. Primary factors included the year-on-year decrease in deferred income taxes and the shift of the current portion of long-term debt to current liabilities. Working capital increased to ¥82.58 billion from ¥76.09 billion a year earlier, and the current ratio improved to 1.69 times from 1.59 times a year earlier.



### Shareholders' Equity

Shareholders' equity decreased 2.2 percent, or ¥3.23 billion, to ¥140.94 billion. Retained earnings increased ¥4.27 billion to ¥119.14 billion. However, depressed stock prices in Japan contributed to a decrease of ¥3.23 billion in unrealized holding gain on securities to ¥8.45 billion. This amount represents the unrealized holding gain or loss, net of applicable income taxes, for marketable securities classified as "other securities" that are carried at fair value. The repurchase of common shares outstanding during the year increased treasury stock, which also reduced shareholders' equity year-on-year by ¥3.28 billion. The ratio of shareholders' equity to total assets increased to 49.5 percent from 48.0 percent for the previous fiscal year.



# CONSOLIDATED BALANCE SHEETS

Nagase & Co., Ltd. and Consolidated Subsidiaries  
As of March 31, 2003 and 2002

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Current assets:</b>			
Cash and cash equivalents .....	¥ 19,044	¥ 21,960	\$ 158,435
Short-term investments (Note 5) .....	616	1,336	5,124
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates .....	6,558	6,592	54,559
Trade .....	144,343	144,730	1,200,856
Other .....	629	988	5,232
Less allowance for doubtful receivables .....	(1,664)	(1,579)	(13,843)
	149,886	150,732	1,246,971
Inventories .....	28,183	25,545	234,467
Deferred income taxes (Note 8) .....	3,171	2,386	26,381
Other current assets .....	1,860	4,099	15,474
Total current assets .....	202,762	206,062	1,686,871
<b>Property, plant and equipment:</b>			
Land (Note 5) .....	9,432	9,545	78,469
Buildings and structures .....	25,234	25,705	209,933
Machinery and equipment .....	28,285	26,361	235,316
Construction in progress .....	1,096	5	9,118
	64,048	61,618	532,845
Less accumulated depreciation .....	(37,976)	(36,389)	(315,940)
Property, plant and equipment, net .....	26,072	25,228	216,905
<b>Investments and other assets:</b>			
Investments in securities (Notes 3 and 5):			
Unconsolidated subsidiaries and affiliates .....	11,776	12,159	97,970
Other .....	38,176	51,412	317,603
	49,952	63,572	415,574
Long-term loans receivable .....	374	424	3,111
Deferred income taxes (Note 8) .....	1,402	434	11,663
Other assets .....	4,506	4,478	37,487
Less allowance for doubtful accounts .....	(270)	(126)	(2,246)
Total investments and other assets .....	55,965	68,782	465,599
<b>Total assets</b> .....	<b>¥284,800</b>	<b>¥300,073</b>	<b>\$2,369,384</b>

See accompanying notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Current liabilities:</b>			
Short-term loans (Notes 4 and 5) .....	¥ 6,545	¥ 7,949	\$ 54,450
Current portion of long-term debt (Note 4).....	1,515	1,782	12,603
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates .....	3,418	3,554	28,435
Trade .....	92,551	102,045	769,975
	95,969	105,599	798,410
Accrued income taxes (Note 8) .....	2,507	563	20,856
Deferred income taxes (Note 8) .....	2	12	16
Accrued expenses .....	4,908	5,261	40,831
Other current liabilities.....	8,729	8,797	72,620
Total current liabilities .....	120,177	129,966	999,808
<b>Long-term liabilities:</b>			
Long-term debt (Note 4) .....	8,517	9,945	70,856
Deferred income taxes (Note 8) .....	8	2,014	66
Accrued retirement benefits for employees (Note 7).....	10,069	9,266	83,768
Accrued retirement benefits for officers .....	981	929	8,161
Other liabilities .....	28	32	232
Total long-term liabilities .....	19,605	22,188	163,103
<b>Minority interests</b> .....	4,072	3,741	33,876
<b>Contingent liabilities</b> (Note 11)			
<b>Shareholders' equity</b> (Note 6):			
Common stock:			
Authorized — 346,980,000 shares			
Issued — 138,408,285 shares .....	9,699	9,699	80,690
Capital surplus.....	9,634	9,634	80,149
Retained earnings.....	119,140	114,870	991,181
Net unrealized holding gain on securities.....	8,455	11,690	70,341
Translation adjustments .....	(22)	963	(183)
Less treasury stock, at cost .....	(5,963)	(2,682)	(49,608)
Total shareholders' equity .....	140,944	144,176	1,172,579
<b>Total liabilities and shareholders' equity</b> .....	¥284,800	¥300,073	\$2,369,384

See accompanying notes to consolidated financial statements.

# CONSOLIDATED STATEMENTS OF OPERATIONS

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
Net sales (Note 13).....	<b>¥503,688</b>	¥490,583	<b>\$4,190,415</b>
Cost of sales (Note 9).....	<b>451,789</b>	443,607	<b>3,758,643</b>
Gross profit .....	<b>51,899</b>	46,976	<b>431,772</b>
Selling, general and administrative expenses (Note 9) .....	<b>43,466</b>	45,302	<b>361,613</b>
Operating income (Note 13) .....	<b>8,433</b>	1,673	<b>70,158</b>
<b>Other income (expenses):</b>			
Interest and dividend income .....	<b>1,587</b>	1,948	<b>13,202</b>
Interest expense .....	<b>(438)</b>	(623)	<b>(3,643)</b>
Equity in earnings of affiliates.....	<b>485</b>	276	<b>4,034</b>
Gain on sales of investments in securities .....	<b>582</b>	1,112	<b>4,841</b>
Loss on devaluation of investments in securities.....	<b>(3,923)</b>	(6,720)	<b>(32,637)</b>
Loss on sales of property and equipment.....	<b>(255)</b>	(53)	<b>(2,121)</b>
Gain on compensation for suspension of purchase transaction.....	<b>1,560</b>	—	<b>12,978</b>
Other, net.....	<b>(502)</b>	(563)	<b>(4,176)</b>
Income (loss) before income taxes and minority interests .....	<b>7,528</b>	(2,949)	<b>62,628</b>
<b>Income taxes (Note 8):</b>			
Current.....	<b>3,700</b>	1,758	<b>30,782</b>
Deferred .....	<b>(989)</b>	(2,807)	<b>(8,227)</b>
Income (loss) before minority interests .....	<b>4,817</b>	(1,900)	<b>40,080</b>
Minority interests.....	<b>630</b>	197	<b>5,241</b>
Net income (loss).....	<b>¥ 4,186</b>	¥ (2,097)	<b>\$ 34,825</b>

See accompanying notes to consolidated financial statements.



# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock
<b>Balance at March 31, 2001</b> .....	138,937,285	¥9,700	¥9,635	¥118,337	¥16,211	¥ (383)	¥ (1)
Net loss for the year .....	—	—	—	(2,097)	—	—	—
Increase in retained earnings resulting from merger of unconsolidated subsidiaries .....	—	—	—	86	—	—	—
Decrease in retained earnings resulting from exclusion of consolidated subsidiaries .....	—	—	—	(23)	—	—	—
Cash dividends .....	—	—	—	(1,111)	—	—	—
Bonuses to officers .....	—	—	—	(54)	—	—	—
Net unrealized holding loss on securities.....	—	—	—	—	(4,519)	—	—
Translation adjustments.....	—	—	—	—	—	1,346	—
Increase in treasury stock .....	—	—	—	—	—	—	(2,681)
Retirement of treasury stock.....	(529,000)	—	—	(266)	—	—	—
<b>Balance at March 31, 2002</b> .....	138,408,285	¥9,699	¥9,634	¥114,870	¥11,690	¥ 963	¥(2,682)
Net income for the year .....	—	—	—	4,186	—	—	—
Increase in retained earnings resulting from inclusion of consolidated subsidiaries .....	—	—	—	670	—	—	—
Increase in affiliates accounted for by the equity method .	—	—	—	490	—	—	—
Cash dividends .....	—	—	—	(1,065)	—	—	—
Bonuses to officers .....	—	—	—	(12)	—	—	—
Net unrealized holding loss on securities...	—	—	—	—	(3,235)	—	—
Translation adjustments .....	—	—	—	—	—	(985)	—
Increase in treasury stock .....	—	—	—	—	—	—	(3,280)
<b>Balance at March 31, 2003</b> .....	138,408,285	¥9,699	¥9,634	¥119,140	¥ 8,455	¥ (22)	¥(5,963)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain (loss) on securities	Translation adjustments	Treasury stock	
<b>Balance at March 31, 2002</b> .....	\$80,690	\$80,149	\$955,657	\$ 97,254	\$ 8,011	\$(22,312)	
Net income for the year.....	—	—	34,825	—	—	—	
Increase in retained earnings resulting from inclusion of consolidated subsidiaries .....	—	—	5,574	—	—	—	
Increase in affiliates accounted for by the equity method .....	—	—	4,076	—	—	—	
Cash dividends .....	—	—	(8,860)	—	—	—	
Bonuses to officers .....	—	—	(99)	—	—	—	
Net unrealized holding loss on securities .....	—	—	—	(26,913)	—	—	
Translation adjustments.....	—	—	—	—	(8,194)	—	
Increase in treasury stock .....	—	—	—	—	—	(27,296)	
<b>Balance at March 31, 2003</b> .....	\$80,690	\$80,149	\$991,181	\$ 70,341	\$ (183)	\$(49,608)	

# CONSOLIDATED STATEMENT OF CASH FLOWS

Nagase & Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31, 2003 and 2002

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2003	2002	2003
<b>Operating activities:</b>			
Net income (loss).....	¥ 4,186	¥ (2,097)	\$ 34,825
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Depreciation and amortization .....	3,119	2,888	25,948
Provision for retirement benefits, net of payments .....	545	247	4,534
Loss on sales of property and equipment .....	226	15	1,880
Equity in earnings of affiliates .....	(485)	(276)	(4,034)
Gain on sales of investments in securities .....	(87)	(1,075)	(723)
Loss on devaluation of investments in securities .....	3,923	6,720	32,637
Other, net.....	681	(173)	5,665
Changes in operating assets and liabilities:			
Notes and accounts receivable .....	1,678	33,112	13,960
Inventories.....	(2,282)	5,974	(18,985)
Other current assets .....	2,947	1,248	24,517
Notes and accounts payable .....	(10,516)	(28,287)	(87,487)
Accrued income taxes .....	1,903	(5,174)	15,831
Accrued expenses .....	(353)	(800)	(2,936)
Other current liabilities .....	(1,121)	31	(9,326)
Net cash provided by operating activities .....	4,392	12,351	36,539
<b>Investing activities:</b>			
Purchases of property and equipment.....	(3,133)	(3,993)	(26,064)
Proceeds from sales of property and equipment .....	304	156	2,529
Purchases of investments in securities .....	(1,019)	(1,858)	(8,477)
Proceeds from sales of investments in securities .....	5,022	1,800	41,780
Decrease in short-term loans receivable, net .....	—	1,122	—
Other, net .....	(209)	1,471	(1,738)
Net cash provided by (used in) investing activities .....	963	(1,300)	8,011
<b>Financing activities:</b>			
Decrease in short-term loans, net.....	(3,200)	(6,255)	(26,622)
Proceeds from long-term debt.....	119	3,054	990
Repayment of long-term debt .....	(27)	(1,101)	(224)
Cash dividends paid.....	(1,263)	(1,370)	(10,507)
Purchases of treasury stock.....	(3,269)	(2,948)	(27,196)
Other, net .....	—	5	—
Net cash used in financing activities .....	(7,643)	(8,615)	(63,585)
Effect of exchange rate changes on cash and cash equivalents.....	(811)	1,318	(6,747)
Net (decrease) increase in cash and cash equivalents .....	(3,098)	3,753	(25,773)
Cash and cash equivalents at beginning of the year .....	21,960	18,465	182,695
Increase in cash and cash equivalents arising from inclusion of consolidated subsidiaries .....	181	—	1,505
Decrease in cash and cash equivalents arising from exclusion of consolidated subsidiaries .....	—	(368)	—
Increase in cash and cash equivalents arising from merger of consolidated subsidiaries .....	—	110	—
Cash and cash equivalents at end of the year .....	¥ 19,044	¥ 21,960	\$ 158,435
<b>Supplemental information on cash flows:</b>			
Cash paid during the year for:			
Interest.....	¥ 435	¥ 619	\$ 3,618
Income taxes .....	1,797	6,932	14,950

See notes to consolidated financial statements.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nagase & Co., Ltd. and Consolidated Subsidiaries  
March 31, 2003

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## 1. BASIS OF PREPARATION

Nagase & Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their books of account and their records in accordance with the provisions set forth in the Commercial Code of Japan and in conformity with accounting principles and practices generally accepted and applied in Japan. The overseas consolidated subsidiaries maintain their books of account in conformity with those of their countries of domicile.

The accompanying consolidated financial statements have been prepared for domestic reporting purposes and have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2002 to the 2003 presentation. Such reclassifications had no effect on consolidated net loss or shareholders' equity.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader and, as a matter of arithmetic computation only, at ¥120.20 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2003. This translation should not be construed as a representation that yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen for the years ended March 31, 2003 and 2002 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2003 and 2002 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and companies which it controls directly or indirectly. Companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The overseas consolidated subsidiaries have a December 31 year-end closing date and one domestic consolidated subsidiary's year end is at the end of February, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these subsidiaries and the year end of the Company.

Unrealized intercompany gains and losses among the Company and the consolidated subsidiaries have been entirely eliminated and the portion attributable to minority interests has been charged to minority interests.

The difference between the cost of an investment in a subsidiary and the amount of the underlying equity in its net assets is treated as an asset or a liability, as the case may be, and is amortized over a period of five years on a straight-line basis.

The difference between the cost of an investment in an affiliate and the amount of the Company's underlying equity in its net assets is amortized over a period of five years on a straight-line basis.

### (b) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain and loss is recognized for financial reporting purposes.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of shareholders' equity are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rate of exchange in effect during the year. Translation adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Translation adjustments" in a component of shareholders' equity and minority interests in the accompanying consolidated financial statements.

### (c) Inventories

Inventories are stated at the lower of cost or market, cost being determined by the weighted average method.

**(d) Investments in Securities**

In general, securities are classified into three categories: trading, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are stated at their amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of shareholders' equity. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

A loss on the impairment of deposits for golf club memberships is also required to be recognized.

Securities held by the Company and its subsidiaries are all classified as "other securities" and have been accounted for as outlined above.

**(e) Property, Plant and Equipment and Depreciation**

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is computed by the declining-balance method over the estimated useful lives of the respective assets as prescribed in the Corporation Tax Law, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired subsequent to April 1, 1998. Property, plant and equipment owned by certain consolidated subsidiaries is depreciated by the straight-line method.

**(f) Leases**

The Company and its consolidated subsidiaries lease certain equipment under noncancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the lessees are accounted for as operating leases.

**(g) Income Taxes**

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed for temporary differences between the financial reporting and the tax bases of the assets and liabilities which will result in taxable or deductible amounts in the future. Such deferred income tax asset and liability computations are based on the enacted tax laws.

**(h) Retirement Benefits**

The Company and the domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. Certain overseas consolidated subsidiaries also have defined benefit plans.

The employees' retirement benefit plans provide for a lump-sum payment determined by reference to the current rate of pay, length of service and conditions under which the termination occurs.

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over ten years, which is within the estimated average remaining years of service of the eligible employees.

Prior service cost is being amortized by the straight-line method over three years, which is within the estimated average remaining years of service of the eligible employees. For the year ended March 31, 2002, prior service cost incurred since the Company's pension plan was amended in accordance with an amendment to the Employee's Pension Insurance Law.

On November 26, 2002, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plans ("WFPF") in accordance with the Defined Benefits Corporate Pension Plan Law. As a result, effective April 2003, the Company transferred certain lump-sum payments plan to a defined contribution plan after receiving an exemption from the substitutional portion of the WFPF. (Refer to Note 7.)

Directors and statutory auditors ("officers") of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under unfunded retirement benefit plans. Provision for retirement benefits for these officers has been made at estimated amounts based on the applicable internal rules.

**(i) Derivatives and Hedging Activities**

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment in accordance with the Company's rules for foreign exchange transactions. Under these rules, the Company conducts transactions within a certain range and places limits on the applicable assets and liabilities based on the actual demand. In addition, the Company also assesses the effectiveness of the hedging by verifying the approval, reporting and monitoring of all transactions involving derivatives. The Company and the consolidated subsidiaries do not hold or issue derivative financial instruments for speculative trading purposes.

The Company and its consolidated subsidiaries are exposed to certain market risks arising from their forward foreign exchange contracts. They are also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest-rate contracts; however, they do not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to operations, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as an asset or a liability.

**(j) Research and Development Costs**

Research and development costs are charged to income when incurred.

**(k) Appropriation of Retained Earnings**

Dividends and other appropriations of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which the appropriations are applicable. The accompanying consolidated financial statements do, however, reflect the applicable appropriations of retained earnings as approved by the shareholders subsequent to the fiscal year end.

**3. INVESTMENTS IN SECURITIES**

(a) Marketable securities classified as other securities at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen			
	2003			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value available:				
Stock .....	¥18,034	¥15,644	¥(1,315)	¥32,363
Government bonds.....	14	0	(0)	14
Total.....	¥18,049	¥15,645	¥(1,315)	¥32,378

	Millions of yen			
	2002			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value available:				
Stock .....	¥25,720	¥20,275	¥(146)	¥45,848

	Thousands of U.S. dollars			
	2003			
	Other securities			
	Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)
Market value available:				
Stock .....	\$150,033	\$130,149	\$(10,940)	\$269,242
Government bonds.....	108	0	(0)	116
Total.....	\$150,158	\$130,149	\$(10,940)	\$269,367

(b) Securities whose market value was not determinable were classified as other securities at March 31, 2003 and 2002 and are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
	Carrying value		Carrying value
Market value not determinable:			
Equity securities .....	¥3,760	¥3,526	\$31,281
Bonds and debentures.....	2,037	2,037	16,946
	¥5,797	¥5,563	\$48,227



(c) Sales of securities classified as other securities for the years ended March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Proceeds from sales .....	<b>¥4,778</b>	¥697	<b>\$39,750</b>
Gain from sales .....	<b>582</b>	188	<b>4,841</b>
Losses .....	<b>439</b>	32	<b>3,652</b>

#### 4. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at March 31, 2003 and 2002 principally represented notes, in the form of deeds, commercial paper and overdrafts due within one year, at average annual interest rates of 1.87% and 1.72% per annum, respectively.

Long-term debt at March 31, 2003 and 2002 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Secured loans from banks, payable in yen, due through 2004 at rates from 1.87% to 1.94%.....	<b>¥ 17</b>	¥ 210	<b>\$ 141</b>
Unsecured loans from banks and insurance companies, payable in yen, due through 2011 at rates from 0.62% to 2.54%.....	<b>3,015</b>	4,518	<b>25,083</b>
1.53% unsecured bonds payable in yen, due 2004 .....	<b>7,000</b>	7,000	<b>58,236</b>
	<b>10,032</b>	11,728	<b>83,460</b>
Less current portion .....	<b>(1,515)</b>	(1,782)	<b>(12,603)</b>
	<b>¥ 8,517</b>	¥ 9,945	<b>\$ 70,856</b>

The aggregate annual maturities of long-term debt subsequent to March 31, 2003 are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004.....	¥ 1,515	\$12,603
2005.....	8,152	67,820
2006.....	78	648
2007.....	62	515
2008.....	58	482
2009 and thereafter .....	165	1,389
	<b>¥10,032</b>	<b>\$83,460</b>

#### 5. PLEDGED ASSETS

At March 31, 2003, assets pledged as collateral for short-term loans were as follows:

	Millions of yen	Thousands of U.S. dollars
Land.....	¥ 7	\$ 58
Investments in securities .....	47	391
	<b>¥54</b>	<b>\$449</b>

At March 31, 2003, assets pledged as collateral to guarantee all transactions with certain customers were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term investments .....	¥ 600	\$ 4,991
Investments in securities .....	2,022	16,821
	<b>¥2,622</b>	<b>\$21,813</b>

## 6. SHAREHOLDERS' EQUITY

On October 1, 2001, an amendment (the "Amendment") to the Commercial Code of Japan (the "Code") went into effect. The Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares without par value. Prior to the date on which the Amendment became effective, the Company's shares had a par value of ¥50.

The Code provides that an amount equal to at least 10% of the amounts to be disbursed as distributions of earnings be appropriated to the legal reserve until the sum of the legal reserve and additional paid-in capital equals 25% of the common stock account. The Code also stipulates that, to the extent that the sum of the additional paid-in capital account and the legal reserve exceeds 25% of the common stock account, the amount of any such excess is available for appropriation by resolution of the shareholders.

Retained earnings include the legal reserve provided in accordance with the Commercial Code. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The legal reserve of the Company included in retained earnings at March 31, 2003 and 2002 amounted to ¥2,424 million (\$20,166 thousand).

Effective April 1, 2002, the Company and its consolidated subsidiaries adopted Financial Accounting Standard No. 1, "Accounting Standards for Treasury Stock and Reversal of Legal Reserves." The effect of the adoption of this standard on the consolidated statement of operations for the year ended March 31, 2003 was immaterial.

In accordance with a Cabinet Order entitled "Revision of a Portion of the Regulations Concerning the Terminology, Forms and Methods of Preparation of the Consolidated Financial Statements," additional paid-in capital reported in shareholders' equity at March 31, 2002 has been presented as capital surplus at March 31, 2003.

In accordance with the Commercial Code of Japan, a stock option plan for directors, certain key employees of the Company and directors of certain subsidiaries was approved at the annual general meeting of the shareholders held on March 27, 2002. Under the terms of this plan, 260,000 shares of common stock have been reserved for issuance at an exercise price of ¥565 per share. The eligible participants may exercise the options if the closing market price of the Company's shares on the Tokyo Stock Exchange as of the trading date preceding the date of the exercise of the options exceeds 1.2 times the exercise price. The options become exercisable on August 1, 2004 and are scheduled to expire on July 31, 2007.

## 7. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans ("WFPF"), tax-qualified pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs. Certain overseas consolidated subsidiaries have both defined benefit and defined contribution pension plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2003 and 2002 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Retirement benefit obligation .....	¥(32,097)	¥(33,256)	\$(267,029)
Plan assets at fair value .....	18,590	20,248	154,658
Unfunded retirement benefit obligation .....	(13,506)	(13,008)	(112,371)
Unrecognized prior service cost .....	(4,200)	(421)	(34,941)
Unrecognized actuarial loss .....	7,977	4,162	66,364
Accrued retirement benefits recognized in the consolidated balance sheets .....	¥(9,729)	¥(9,266)	\$(80,940)

The components of retirement benefit expenses of the Company and the consolidated subsidiaries for the years ended March 31, 2003 and 2002 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Service cost .....	¥1,351	¥1,532	\$11,239
Interest cost .....	917	852	7,628
Expected return on plan assets .....	(8)	—	(66)
Amortization of net retirement benefit obligation at transition .....	(310)	(233)	(2,579)
Amortization of prior service cost .....	447	311	3,718
Retirement benefit expenses .....	¥2,396	¥2,463	\$19,934

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2003 and 2002 were as follows:

	2003	2002
Discount rates.....	2.5%	3.0%
Expected rate of return on plan assets .....	0.0%	0.0%

As described in Note 2 (h), the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employees' services under the substitutional portion of the Welfare Pension Fund Plans ("WFPF"). However, the Company did not apply the transitional provision stipulated in "Practical Guidelines for Retirement Benefits." If the Company had applied the transitional provision stipulated in "Practical Guidelines for Accounting for Retirement Benefits" gain on the return of the substitutional portion of the WFPF would have been approximately ¥3,119 million (\$25,948 thousand).

As described in Note 2(h), effective April, 2003, the Company transferred a certain lump-sum payment plan to a defined contribution pension plan. At March 31, 2003, the Company recorded a provision for a loss of ¥340 million (\$2,828 thousand) resulting from this transition from the lump-sum payment plan to the defined contribution pension plan.

## 8. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprises taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 42.1% for the years ended March 31, 2003 and 2002.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2002 as a percentage of loss before income taxes and minority interests has been omitted since the Company recorded a loss before income taxes and minority interests.

The effective tax rate reflected in the consolidated statement of operations for the year ended March 31, 2003 differs from the statutory tax rate for the following reasons:

	2003
Statutory tax rate .....	42.1%
Effect of:	
Expenses not deductible for income tax purposes .....	4.6
Dividends and other income deductible for income tax purposes .....	(5.6)
Different tax rates applied to income of foreign subsidiaries .....	(6.9)
Adjustments in deferred tax assets due to change in tax rate .....	4.0
Other, net .....	(2.2)
Effective tax rate .....	36.0%

New legislation was enacted in March 2003 which will change the aggregate statutory tax rate from 42.1% to 40.5% effective fiscal years beginning after March 31, 2004. The effect of this change was to decrease deferred tax assets (net of deferred tax liabilities) by ¥74 million (\$615 thousand) at March 31, 2003 and to increase income taxes – deferred by ¥297 million (\$2,470 thousand) for the year ended March 31, 2003.

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2003 and 2002 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
<b>Deferred tax assets:</b>			
Unrealized gain on inventories.....	¥ 282	¥ 259	\$ 2,346
Investments in securities .....	429	3,561	3,569
Long-term prepaid expenses.....	4,024	293	33,477
Accrued bonuses .....	799	512	6,647
Retirement benefits for employees .....	3,924	3,381	32,645
Retirement benefits for officers.....	536	372	4,459
Other .....	2,924	1,822	24,326
Gross deferred tax assets .....	12,921	10,204	107,495
Valuation allowance .....	(1,013)	—	(8,427)
Total deferred tax assets.....	11,907	10,204	99,059
<b>Deferred tax liabilities:</b>			
Revaluation of land .....	(384)	(384)	(3,194)
Deferred capital gain on property .....	(504)	(517)	(4,193)
Special reserve for depreciation .....	(53)	(67)	(440)
Net unrealized holding gain on securities .....	(6,349)	(8,402)	(52,820)
Other .....	(53)	(37)	(440)
Total deferred tax liabilities .....	(7,345)	(9,410)	(61,106)
Net deferred tax assets .....	¥ 4,562	¥ 794	\$ 37,953

## 9. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2003 and 2002 totaled ¥1,635 million (\$13,602 thousand) and ¥2,051 million, respectively.

## 10. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2003 and 2002, which would have been reflected in the balance sheets if the finance leases other than those which transfer the ownership of the leased property of the Companies (which are currently accounted for as operating leases) were capitalized:

	Millions of yen					
	2003			2002		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures .....	¥ 53	¥ 10	¥ 42	¥ 53	¥ 7	¥ 45
Machinery and equipment ..	1,531	919	612	2,158	1,165	992
Furniture and fixtures .....	1,684	805	879	1,660	913	747
	<b>¥3,269</b>	<b>¥1,734</b>	<b>¥1,534</b>	<b>¥3,871</b>	<b>¥2,086</b>	<b>¥1,785</b>

	Thousands of U.S. dollars		
	2003		
	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures .....	\$ 440	\$ 83	\$ 349
Machinery and equipment ..	12,737	7,645	5,091
Furniture and fixtures .....	14,009	6,697	7,312
	<b>\$27,196</b>	<b>\$14,425</b>	<b>\$12,762</b>

The related lease payments and depreciation for the years ended March 31, 2003 and 2002 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2003	2002	2003
Lease payments .....	¥1,083	¥1,006	\$9,009
Depreciation expense .....	881	878	7,329
Interest expense .....	91	¥97	757

Depreciation is calculated by the straight-line method over the respective lease terms.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2003 under finance leases other than those which transfer the ownership of the leased property to the Companies are summarized as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2004 .....	¥ 623	\$ 5,183
2005 and thereafter .....	991	8,244
	<b>¥1,615</b>	<b>\$13,435</b>

## 11. CONTINGENT LIABILITIES

At March 31, 2003, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of unconsolidated subsidiaries and other in the aggregate amount of ¥3,921 million (\$32,620 thousand) and as guarantors of housing loans of employees in the aggregate amount of ¥264 million (\$2,196 thousand).

In addition, at March 31, 2003, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the total amount of ¥687 million (\$5,715 thousand).

## 12. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2003	2002	2003
Net income (loss):			
Basic .....	¥ 31.72	¥ (15.39)	\$0.263
Net assets .....	1,107.54	1,082.15	9.214
Cash dividends applicable to the year .....	8.00	8.00	0.066

Until the year ended March 31, 2002, basic net income (loss) per share were computed based on the net income (loss) reported in the consolidated statements of operations and the weighted average number of shares of common stock outstanding during each year, and the amount per share of net assets were computed based on the net assets reported in the consolidated balance sheets and the number of shares of common stock outstanding at each balance sheet date.

In accordance with a new accounting standard for earnings per share which became effective April 1, 2002, basic net income per share for the year ended March 31, 2003 has been computed based on the net income attributable to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year. The amount per share of net assets at March 31, 2003 has been computed based on the net assets available for distribution to the shareholders of common stock and the number of shares of common stock outstanding at the year end.

If the previous method of calculation had been followed for the year ended March 31, 2003, basic net income per share and the amount per share of net assets would have been ¥32.16 (\$0.267) and ¥1,107.64 (\$9.214), respectively.

Under the new accounting standard, diluted net income per share is computed based on the amount of net income available for distribution to the shareholders and the weighted average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock options. However, no diluted net income per share is presented for the years ended March 31, 2003 and 2002 as the effect of any exercise would have been antidilutive.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

### 13. SEGMENT INFORMATION

The Company and its consolidated subsidiaries are primarily engaged in the manufacture, purchase and sale of products in Japan and overseas in four major segments: chemicals which primarily include coating materials, coloring materials, monomers, urethane raw materials, resin additives, dyes, organic fine chemicals, specialty chemicals, and agricultural and ecological materials, plastics which include synthetic resin, synthetic rubber and building materials, shaped processed goods, electronics which include semiconductor water processing, semiconductor assembly processing, liquid crystal display components, communications devices and other electronic devices, and health care products which include medical devices, cosmetics and health food, as well as health care services.

The business and geographical segments of the Company and the consolidated subsidiaries for the years ended March 31, 2003 and 2002 are outlined as follows:

#### Business Segments

Year ended March 31, 2003	Millions of yen						Consolidated dated sales
	Chemicals	Plastics	Electronics	Health Care and other	Total	Eliminations or corporate	
Sales to customers.....	¥223,656	¥165,810	¥99,759	¥14,461	¥503,688	¥ —	¥503,688
Intersegment sales .....	29	107	28	3,931	4,097	(4,097)	—
Total sales.....	223,686	165,917	99,788	18,393	507,786	(4,097)	503,688
Operating expenses .....	220,520	162,998	98,080	17,984	499,584	(4,328)	495,255
Operating income .....	¥ 3,166	¥ 2,918	¥ 1,708	¥ 409	¥ 8,202	¥ 231	¥ 8,433
Assets.....	¥112,301	¥ 77,628	¥56,351	¥11,664	¥257,945	¥26,854	¥284,800
Depreciation and amortization .....	1,324	819	854	121	3,119	—	3,119
Capital expenditures .....	1,767	1,003	1,327	226	4,324	—	4,324

Year ended March 31, 2002	Millions of yen						Consolidated sales
	Chemicals	Plastics	Electronics	Health Care and other	Total	Eliminations or corporate	
Sales to customers.....	¥218,524	¥175,252	¥83,660	¥13,146	¥490,583	¥ —	¥490,583
Intersegment sales .....	12	15	3	1,663	1,695	(1,695)	—
Total sales.....	218,537	175,268	83,663	14,810	492,279	(1,695)	490,583
Operating expenses .....	216,178	176,425	83,349	14,652	490,606	(1,695)	488,910
Operating income .....	¥ 2,358	¥ (1,157)	¥ 313	¥ 157	¥ 1,673	¥ 0	¥ 1,673
Assets.....	¥117,716	¥ 83,622	¥46,442	¥11,041	¥258,822	¥41,250	¥300,073
Depreciation and amortization .....	1,067	810	826	183	2,888	—	2,888
Capital expenditures .....	1,453	1,515	1,251	332	4,553	—	4,553

Year ended March 31, 2003	Thousands of U.S. dollars						Consolidated dated sales
	Chemicals	Plastics	Electronics	Health Care and other	Total	Eliminations or corporate	
Sales to customers.....	\$1,860,698	\$1,379,450	\$829,941	\$120,307	\$4,190,415	\$ —	\$4,190,415
Intersegment sales .....	241	890	232	32,703	34,084	(34,084)	—
Total sales.....	1,860,948	1,380,341	830,183	153,019	4,224,509	(34,084)	4,190,415
Operating expenses .....	1,834,608	1,356,056	815,973	149,617	4,156,272	(36,006)	4,120,257
Operating income .....	\$ 26,339	\$ 24,276	\$ 14,209	\$ 3,402	\$ 68,236	\$ 1,921	\$ 70,158
Assets.....	\$ 934,284	\$ 645,823	\$468,816	\$ 97,038	\$2,145,965	\$223,410	\$2,369,384
Depreciation and amortization .....	11,014	6,813	7,104	1,006	25,948	—	25,948
Capital expenditures .....	14,700	8,344	11,039	1,880	35,973	—	35,973



## Geographical Segments

Year ended March 31, 2003	Millions of yen						Eliminations or corporate	Consolidated sales
	Japan	Asia	North America	Others	Total			
Sales to customers .....	¥402,766	¥80,503	¥11,629	¥8,788	¥503,688	¥ —	¥503,688	
Intersegment sales .....	59,849	4,362	2,339	1,165	67,717	(67,717)	—	
Total sales .....	462,616	84,866	13,969	9,953	571,406	(67,717)	503,688	
Operating expenses .....	457,105	82,329	13,794	9,786	563,015	(67,759)	495,255	
Operating income .....	¥ 5,511	¥ 2,537	¥ 174	¥ 167	¥ 8,390	¥ 42	¥ 8,433	
Assets .....	¥233,630	¥28,006	¥ 4,696	¥3,353	¥269,686	¥ 15,113	¥284,800	

Year ended March 31, 2002	Millions of yen						Eliminations or corporate	Consolidated sales
	Japan	Asia	North America	Others	Total			
Sales to customers .....	¥399,725	¥73,283	¥10,671	¥6,903	¥490,583	¥ —	¥490,583	
Intersegment sales .....	48,320	2,730	2,679	1,649	55,379	(55,379)	—	
Total sales .....	448,045	76,013	13,350	8,552	545,963	(55,379)	490,583	
Operating expenses .....	448,831	73,914	13,214	8,493	544,454	(55,543)	488,910	
Operating income .....	¥ (785)	¥ 2,099	¥ 136	¥ 58	¥ 1,509	¥ 164	¥ 1,673	
Assets .....	¥237,886	¥25,112	¥ 5,517	¥2,336	¥270,852	¥29,221	¥300,073	

Year ended March 31, 2003	Thousands of U.S. dollars						Eliminations or corporate	Consolidated sales
	Japan	Asia	North America	Others	Total			
Sales to customers .....	\$3,350,798	\$669,742	\$ 96,747	\$73,111	\$4,190,415	\$ —	\$4,190,415	
Intersegment sales .....	497,911	36,289	19,459	9,692	563,369	(563,369)	—	
Total sales .....	3,848,718	706,039	116,214	82,803	4,753,793	(563,369)	4,190,415	
Operating expenses .....	3,802,870	684,933	114,758	81,414	4,683,985	(563,718)	4,120,257	
Operating income .....	\$ 45,848	\$ 21,106	\$ 1,447	\$ 1,389	\$ 69,800	\$ 349	\$ 70,158	
Assets .....	\$1,943,677	\$232,995	\$ 39,068	\$27,895	\$2,243,643	\$125,732	\$2,369,384	

## Sales to Foreign Customers

Year ended March 31, 2003	Millions of yen			
	Asia	North America	Other	Total
Overseas sales .....	¥138,941	¥13,547	¥13,668	¥166,157
Consolidated net sales .....				¥503,688
Overseas sales as a percentage of consolidated net sales.....	27.6%	2.7%	2.7%	33.0%

Year ended March 31, 2002	Millions of yen			
	Asia	North America	Other	Total
Overseas sales .....	¥128,657	¥11,171	¥9,652	¥149,481
Consolidated net sales .....				¥490,583
Overseas sales as a percentage of consolidated net sales.....	26.2%	2.3%	2.0%	30.5%

Year ended March 31, 2003	Thousands of U.S. dollars			
	Asia	North America	Other	Total
Overseas sales .....	\$1,155,915	\$112,703	\$113,710	\$1,382,337
Consolidated net sales .....				\$4,190,415

## 14. SUBSEQUENT EVENTS

(a) In accordance with the Commercial Code of Japan, an additional stock option plan for directors, certain key employees of the Company and directors of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 27, 2003. Under the terms of this plan, 800,000 shares of common stock have been reserved for issuance at a certain exercise price per share. The stock option plan provides that the purchase price will be 1.05 times the average amount of the closing market price of the Company's shares on the Tokyo Stock Exchange for all trading days for the month immediately preceding the month of the date of issuance of the stock option. However, if the amount calculated by the above formula is less than the closing market price of the shares on the Tokyo Stock Exchange on the day on which the stock option is issued, the purchase price is to be the closing market price.

Eligible participants may exercise their stock options if the closing market price of the Company's shares on the Tokyo Stock Exchange as of the trading date preceding the date of the exercise of the options exceeds 1.2 times the purchase price.

The options become exercisable on August 1, 2005 and are scheduled to expire on July 31, 2008.

(b) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2003, were approved at a meeting of the shareholders held on June 27, 2003:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥8.00 = U.S. \$0.06 per share).....	¥1,017	\$8,460

# REPORT OF INDEPENDENT AUDITORS



The Board of Directors  
Nagase & Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nagase & Co., Ltd. and consolidated subsidiaries as of March 31, 2003 and 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion independently on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards, procedures and practices generally accepted and applied in Japan. Those standards, procedures and practices require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nagase Co., Ltd. and consolidated subsidiaries at March 31, 2003 and 2002, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles and practices generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2003 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Osaka, Japan  
June 27, 2003

*Shin Nihon & Co.*

See Note 1 which explains the basis of preparation of the consolidated financial statements of Nagase & Co., Ltd. under Japanese accounting principles and practices.

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# COMPANY INFORMATION

(As of March 31, 2003)

## ■ About Nagase & Co., Ltd.

**Company Name:** Nagase & Co., Ltd.

**Founded:** June 18, 1832

**Established:** December 9, 1917

**Paid-in Capital:** ¥9,699,714,135

**Number of Employees:** 812

**Main Business:** Import/export and domestic sales of dyestuffs, chemicals, plastics, machinery, electronics materials, cosmetics, health foods and medical equipment

## ■ History

- 1832 ● Nagase founded in Kyoto as a dyestuffs trading concern
  - Sales of dyestuffs, starches and funori seaweed
- 1893 ● Established Osaka branch office
- 1898 ● Head office switched to Osaka, branch office to Kyoto
- 1900 ● Established business ties with Basel Chemical Co., of Switzerland (now Ciba Specialty Chemicals Ltd.)
- 1911 ● Established Tokyo branch office
- 1917 ● Inaugurated as Nagase Shoten Company with capital of ¥3 million
- 1923 ● Established business ties with Eastman Kodak Co., of the United States
- 1930 ● Concluded exclusive distributorship agreements with Union Carbide and Carbon Corp., of the United States
- 1940 ● Established Nagoya branch office
- 1943 ● Company name changed to Nagase & Co., Ltd.
- 1964 ● Listed Company shares on the Osaka Securities Exchange
- 1968 ● Concluded an exclusive distributorship agreement with General Electric Co., of the United States
- 1970 ● Established Nagase-CIBA Ltd. (now Nagase ChemteX Corp.) jointly with Ciba-Geigy Ltd.
  - Listed Company shares on the Tokyo Stock Exchange
- 1971 ● Established Nagase (Hong Kong) Ltd. and Nagase America Corp. (now Nagase America Holdings Inc.)
  - Established Engineering Plastics, Ltd. (now GE Plastics Japan Ltd.), jointly with General Electric Co.
- 1974 ● Established Nagase Landauer Ltd. jointly with Technical Operations, Inc., of the United States
- 1975 ● Established Nagase Singapore (Pte) Ltd.
- 1980 ● Established Nagase (Europa) GmbH and Chang Fong Overseas Enterprises (Pte) Ltd.
- 1982 ● Established Nagase (Malaysia ) Sdn. Bhd.
- 1985 ● Established Nagase & Co., Ltd., Seoul branch office
- 1988 ● Established Nagase California Corp. and Nagase (Taiwan) Co., Ltd.
- 1989 ● Established Nagase Science and Technology Foundation
  - Established Canada Mold Technology Inc.
  - Established Nagase (Thailand) Co., Ltd.
  - Tokyo branch office became head office; adoption of Osaka/Tokyo two head office system
- 1990 ● Established Sofix Corp.
  - Set up the Nagase R&D Center in Kobe
  - Established joint venture Nagase Wahlee Plastics Corp. (Taiwan)
- 1997 ● Established Nagase Philippines Corp. and Shanghai Nagase Trading Co., Ltd.
- 1998 ● Established P.T. Nagase Impor-Ekspor Indonesia
- 2001 ● Closed the Seoul branch office, and established Nagase Korea Corp.
  - Merged four production companies, and established Nagase ChemteX Corp.
  - Established Nagase Finechem Singapore (Pte) Ltd.
- 2002 ● Established Nagase America Corp. and Nagase Plastics America Corp.
  - Established a representative office in Hungary

# BOARD OF DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

(As of June 27, 2003)



Standing, from left: Makoto Tsuruoka, Yoshizo Shibata, Reiji Nagase, Kazuaki Kobayashi, Kyoichi Zushi  
Seated, from left: Akira Naitoh, Hideo Nagase, Hiroshi Nagase

## BOARD OF DIRECTORS

Representative Director and Chairman	<b>Hideo Nagase</b>
Representative Director, President and CEO	<b>Hiroshi Nagase</b>
Representative Director and Senior Managing Executive Officer	<b>Akira Naitoh</b> (GM, Administrative Group; GM, IT Planning Div.)
Director and Managing Executive Officer	<b>Reiji Nagase</b> (President of Nagase ChemteX Corp.)
Director and Executive Officer	<b>Kazuaki Kobayashi</b> (GM, Plastics Business Group; GM, Business Planning Div.)
Director and Executive Officer	<b>Yoshizo Shibata</b> (GM, Chemicals Business Group; GM, Performance Chemicals Group; GM, Chemicals Planning Div.)
Director and Executive Officer	<b>Kyoichi Zushi</b> (GM, Electronics Business Group; GM, Electronics First Group; GM, Electronics Business Planning Office)
Director and Executive Officer	<b>Makoto Tsuruoka</b> (CFO & GM, General Affairs Div.)

## CORPORATE AUDITORS

Standing Corporate Auditors	<b>Yasuhiro Kashiwada</b> <b>Keisuke Iai</b> <b>Shunsuke Okabe</b>
Corporate Auditor	<b>Eisaku Kimura</b>

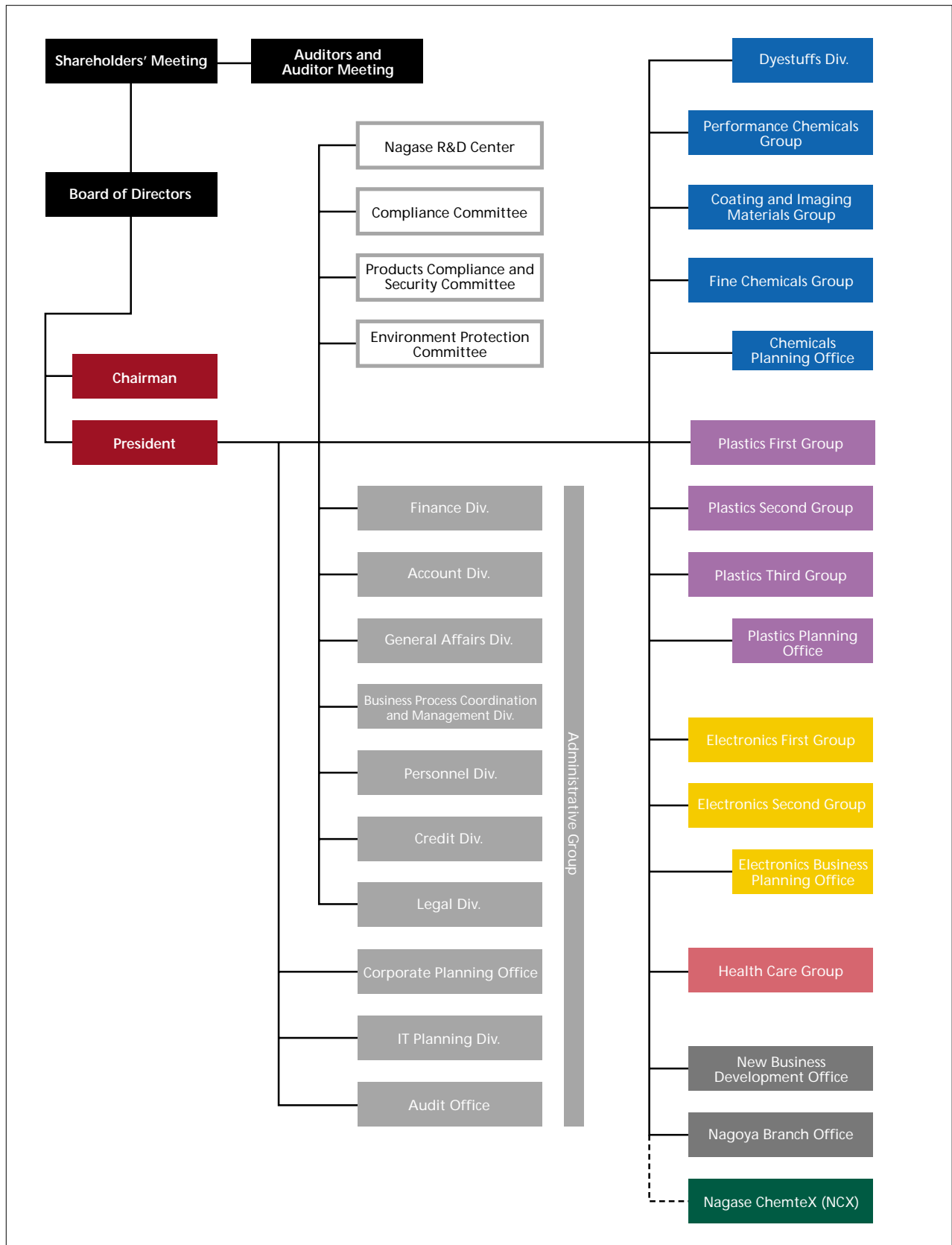
## EXECUTIVE OFFICERS

<b>Ryoichi Okuno</b> (GM, Osaka Area and Nagoya Area)
<b>Norio Kurakake</b> (GM, Personnel Div., Legal Div., Credit Div.)
<b>Takeo Kaneko</b> (GM, Fine Chemicals Group; GM, Nagase R&D Center)
<b>Makoto Ono</b> (GM, Health Care Group)
<b>Shingo Bamba</b> (COO, Nagoya Branch Office)
<b>Eiji Asami</b> (GM, Coating and Imaging Materials Group)
<b>Kazuo Nagashima</b> (GM, Electronics Second Group; Deputy General Manager, Health Care Group)
<b>Koji Kuramitsu</b> (GM, Business Process Coordinate & Management Div.)
<b>Takashi Okamoto</b> (GM, Corporate Planning Office; GM, New Business Development Office)
<b>Susumu Ozawa</b> (GM, Plastics First Group; GM, Greater China Business)
<b>Masamichi Kan</b> (GM, ASEAN Business)
<b>Osamu Kitaguchi</b> (GM, Plastics Third Group)

\*GM=General Manager

# ORGANIZATION

(As of April 1, 2003)





# MAJOR CONSOLIDATED SUBSIDIARIES, AFFILIATES AND OFFICES

(As of July 1, 2003)

## EUROPE

### **Nagase & Co., Ltd., London Branch**

4F Crown House, 143 Regent Street, London W1R 7LB, U.K.  
Tel: 44-(20)72873368 Fax: 44-(20)72873588

### **Nagase & Co., Ltd.,**

**Hungary Representative Office**  
MADACH TRADE CENTER BT, H-1075 Budapest,  
Madach I. ut 13-14. Hungary  
Tel: 36-(1)2681705 Fax: 36-(1)2681706

### **Nagase (Europa) GmbH**

① Import/export, trade agency, market development,  
information collection ② € 700 ③ 1980  
④ 100.0%  
Immermannstrasse 65c 40210 Dusseldorf, Germany  
Tel: 49-(211)866200 Fax: 49-(211)3237068

## ASIA

### **Nagase & Co., Ltd.,**

**Shanghai Representative Office**  
16F, HSBC Tower, No.101, Yincheng Dong Lu,  
Pudong New District, Shanghai, P.R. China  
Tel: 86-(21)68413535 Fax: 86-(21)68411826

### **Nagase ChemteX (Wuxi) Corp.**

① Manufacture and sale of high-tech chemical  
products for adhesives and electronics, technology  
service ② US\$3,500 ③ 2002 ④ 50.0%  
B-B, Machinery & Electronics Industry Park,  
Wuxi National Hi-tech Industrial Development  
Zone, Jiangsu Province, P.R. China 21400  
Tel: 86-(510)5200052 Fax: 86-(510)5200209

### **Nagase (Hong Kong) Ltd.**

① Import/export, trade agency, market development,  
information collection ② HK\$3,120 ③ 1971  
④ 100.0%  
Suite 2001-6, Tower 1, China Hong Kong City, 33 Canton  
Road, Tsim Sha Tsui, Kowloon, Hong Kong, S.A.R., P.R. China  
Tel: 852-23750000 Fax: 852-23772728

### **Nagase (Hong Kong) Ltd.,**

**Dalian Representative Office**  
21F, Senmao Bldg., No. 147 Zhongshan Road,  
Xigang District, Dalian, P.R. China 116011  
Tel: 86-(411)3704270 Fax: 86-(411)3704272

### **Nagase (Hong Kong) Ltd.,**

**Guangzhou Representative Office**  
Room 2317, CITIC Plaza Office Tower, 233 Tian  
He Bei Road, Guangzhou, P.R. China 510613  
Tel: 86-(20)38911101 Fax: 86-(20)38911103

### **Nagase (Hong Kong) Ltd.,**

**Shenzhen Representative Office**  
Suite 1811, Kerry Centre, Reminnan Road,  
Shenzhen, P.R. China 518001  
Tel: 86-(755)25180683 Fax: 86-(755)82317089

### **Nagase (Hong Kong) Ltd.,**

**Tianjin Representative Office**  
Room C02, 7F, Hechuan Bldg., Nanjing  
Road, Heping District, Tianjin, P.R. China  
Tel: 86-(22)27217002 Fax: 86-(22)27213335

### **Shanghai Nagase Trading Co., Ltd.**

① International trade and trade consulting  
② RMB1,656 ③ 1997 ④ 100.0%  
16F, HSBC Tower, No.101 Yincheng Dong Lu,  
Pudong new District, Shanghai, P.R. China  
Tel: 86-(21)68413535 Fax: 86-(21)68411826

### **Nagase Precision Plastics Shanghai Co., Ltd.**

① Plastic tray molding  
② RMB16,512 ③ 2001 ④ 94.0%  
B-Block, 1F, 173 Meisheng Road, Wai Gao Qiao  
Free Trade Zone, Pudong, Shanghai 200131, P.R. China  
Tel: 86-(21) 58681661 Fax: 86-(21) 58681667

### **Shanghai Hua Chang Trading Co., Ltd.**

① Sale of resins and related products  
② RMB4,966 ③ 1998 ④ 5.0%  
Room 605, Aviation Center, 1600 Nanjing Road  
West, Shanghai, P.R. China 200040  
Tel: 86-(21) 62481133 Fax: 86-(21) 62486533

### **Guangzhou Nagase Trading Ltd.**

① Import/export and marketing ② RMB1,655  
③ 2002 ④ 0.0%\*  
Room 2317, CITIC Plaza Office Tower, 233 Tian  
He Bei Road, Guangzhou, P.R. China 510613  
Tel: 86-(20)38911101 Fax: 86-(20)38911103

### **NCC Shanghai Techno Center Co., Ltd.**

① Experimental operations for paints and finishing  
processes ② RMB2,445 ③ 2002 ④ 0.0%\*  
6F, No.75 Bldg. No.1066 Qinzhou North Road Caohejing  
Hi-Tech Park, Shanghai, P.R. China 200233  
Tel: 86-(21)5426-1812 Fax: 86-(21)5426-1811

### **Nagase (Taiwan) Co., Ltd.**

① Import/export, trade agency, market development,  
information collection ② NT\$45,000 ③ 1988  
④ 100.0%  
4F-1, 248, Sec.3, Nanking E. Rd. Taipei, Taiwan, R.O.C.  
Tel: 886-(2)27733668 Fax: 886-(2)27737288

### **Nagase Wahlee Plastics Corp.**

① Trade ② NT\$52,000 ③ 1990 ④ 55.0%  
9F Chuan Ta Bldg., No. 37, Sec. 3, Min Chuan East  
Road, Taipei, Taiwan, R.O.C.  
Tel: 886-(2)5062400 Fax: 886-(2)5062401

### **Nagase Engineering Service Korea Co., Ltd.**

① Equipment maintenance service and engineering  
② WON150,000 ③ 1997 ④ 100.0%  
3F, Seowon Bldg., Togok-Dong 544-3, Kangnam-ku,  
Seoul, Korea  
Tel: 82-(2)5720881 Fax: 82-(2)5720884

### **Nagase Korea Corp.**

① Retail sales ② WON700,000 ③ 2001  
④ 100.0%  
The Daehan Maeil & Press Center Bldg. 10F 25,  
1-Ga, Taepyung-ro, Chung-ku, Seoul, Korea  
Tel: 82-(2)7348745 Fax: 82-(2)7348747

### **Nagase (Thailand) Co., Ltd.**

① Import/export, trade agency, market development,  
information collection ② BAHT87,000 ③ 1989  
④ 97.8%  
25F, Thaniya Plaza Bldg., 52 Silom Road,  
Bangkok 10500, Thailand  
Tel: 66-(2)2312221 Fax: 66-(2) 2312262

**Company name**

①Description of business ②Paid-in capital (thousands) ③Date of establishment ④Equity ownership (\*indicates indirect investment)

Address Tel/Fax

Consolidated subsidiary

Company accounted for under the equity method

Affiliate

Overseas office of Nagase Co., Ltd.

Office of consolidated subsidiary

**Advanced Mold Technology Co., Ltd.**

①Data processing of metal mold design using CAD  
 ②BAHT15,000 ③1998 ④50.0%  
 22F, SSP Bldg., Tower 3, 88 Silom Rd., Suriyawongse,  
 Bangrak, Bangkok 10500, Thailand  
 Tel: 66-(2)6366401 Fax: 66-(2)6366402

**Sanko Gosei Technology (Thailand) Ltd.**

①Manufacture of automobile components  
 ②BAHT 200,000 ③1997 ④40.0%  
 376 Moo 4 Suksawat Rd. Soi 36, Bangpakok,  
 Rasburana, Bangkok 10140, Thailand  
 Tel: 66-(2) 4277008 Fax: 66-(2) 4274923

**Nagase (Malaysia) Sdn. Bhd.**

①Import/export, trade agency, market development,  
 information collection ②RM1,500 ③1981  
 ④51.0%  
 Suite 16.01, Level 16, Menara IGB Mid Valley City,  
 Lingkaran Syed Putra 59200 Kuala Lumpur, Malaysia  
 Tel: 60-(3)22832366 Fax: 60-(3)22822933

**Nagase (Malaysia) Sdn. Bhd., Penang Office**

1-5-14&15, 5F, Krystal Point Corporate Park, Jalan  
 Tun Dr. Awang, 11900 Sungai Nibong, Penang,  
 Malaysia  
 Tel: 60-(4)6430628 Fax: 60-(4)6432490

**Nagase (Malaysia) Sdn. Bhd., Johor Bahru Office**

Suite 6.5A Level 6, Menara Pelangi, Taman Pelangi,  
 Jalan Kuning, 80400, Johor Bahru, Malaysia  
 Tel: 60-(7)3336088 Fax: 60-(7)3339088

**Nagase Singapore (Pte) Ltd.**

①Import/export, trade agency, market development,  
 information collection ②S\$2,700 ③1975  
 ④100.0%  
 300 Beach Road, #39-00 The Concourse,  
 Singapore 199555  
 Tel: 65-63980088 Fax: 65-63980227

**Chang Fong Overseas Enterprises (Pte) Ltd.**

①Sale of chemical products ②S\$1,000  
 ③1980 ④85.0%  
 31 Gul Circle, Jurong Industrial Estate,  
 Singapore 629569  
 Tel: 65-68623801 Fax: 65-68622655

**Nagase Finechem Singapore (Pte) Ltd.**

①Manufacture and recycling of chemical agents for  
 liquid crystals ②S\$8,000 ③2001 ④60.0%  
 9 Tuas View Lane 637569, Singapore  
 Tel: 65-68989289 Fax: 65-68985313

**Nagase & Co., Ltd., Hanoi Representative Office**

Unit 807, Hanoi Tung Shing Square 2 Ngo Quyen  
 Hoan Kiem Dist., Hanoi, Vietnam  
 Tel: 84-(4)9350110 Fax: 84-(4)9350108

**Nagase Singapore (Pte) Ltd.,  
Vietnam Representative Office**

Room 1809, Sun Wah Tower, 115 Nguyen Hue  
 Boulevard, Dist. 1, HCMC, Vietnam  
 Tel: 84-(8)8219166 Fax: 84-(8)8219139

**P.T. Nagase Impor-Ekspor Indonesia**

①Import/export sales and import/export consulting  
 ②US\$500 ③1998 ④90.0%\*  
 14F, Lippo Plaza Jalan Jend. Sudirman Kav. 25,  
 Jakarta 12920, Indonesia  
 Tel: 62-(21) 5203506 Fax: 62-(21)5203505

**Nagase Philippines Corp.**

①Import/export and retail ②PHP45,839 ③1997  
 ④77.0%  
 18-B Trafalgar Plaza H.V. Dela Costa Street,  
 Salcedo Village, 1227 Makati City, Philippines  
 Tel: 63-(2)7502935 Fax: 63-(2)8118296

**Nagase & Co., Ltd., Bombay Liaison Office**

34, 3F, Maker Chamber III, Nariman Point,  
 Mumbai 400021, India  
 Tel:91-(22) 22844415 Fax: 91-(22) 22045419

**Nagase Singapore (Pte) Ltd., Dubai Office**

Lob#15-320, Jebel Ali Free Zone, P.O.Box 17865  
 Dubai-United Arab Emirates  
 Tel: 971-(4)8871366 Fax: 971-(4)8871377

**NORTH AMERICA****Nagase America Holdings Inc.**

①Holding company in the U.S.  
 ②US\$1,000 ③2002 ④100.0%  
 546 5th Avenue 16F, New York, NY 10036, U.S.A.  
 Tel: 1-(212)7031340 Fax: 1-(212)3980687

**Nagase California Corp.**

①Import/export, trade agency, market development,  
 information collection ②US\$2,200 ③1988  
 ④100.0%  
 710 Lakeway, Suite 135, Sunnyvale, CA 94085,  
 U.S.A.  
 Tel: 1-(408)3281520 Fax: 1-(408)7739567

**Nagase America Corp.**

①Import, export and sale of chemical products and  
 electronic materials ②US\$1,000 ③1971  
 ④0.0%\*  
 546 5th Avenue 16F, New York, NY 10036, U.S.A.  
 Tel: 1-(212)7031340 Fax: 1-(212)3980687

**Nagase Plastics America Corp.**

①Sales company focusing on plastics  
 ②US\$1,000 ③2002 ④0.0%\*  
 39555 Orchard Hill Place, Crystal Glen Office  
 Center Suite 356, Novi, MI 48375, U.S.A.  
 Tel: 1-(248)3740490 Fax: 1-(248)3740497

**Sofix Corp.**

①Manufacture and sale of color formers  
 ②US\$20,000 ③1990 49.0%  
 2800 Riverport Road, Chattanooga,  
 TN 37406-1721, U.S.A.  
 Tel: 1-(423)6243500 Fax: 1-(423)6243587

**Canada Mold Technology Inc.**

①Manufacture, sale and maintenance of metal molds  
 ②C\$5,000 ③1989 53.0%  
 1075 Ridgeway Road, Woodstock, Ontario,  
 Canada N4V 1E3  
 Tel: 1-(519)4210711 Fax: 1-(519)4210706

## JAPAN

### ■ MANUFACTURING

#### Nagase ChemteX Corp.

① Manufacture of epoxy resins, enzymes, industrial chemicals ② ¥2,420 million ③ 1970 ④ 100.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2582 Fax: (81) 6-6535-2174

#### Grelan Pharmaceutical Co., Ltd.

① Manufacture and sale of pharmaceuticals  
② ¥220 million ③ 1950 ④ 34.0%  
6F, Ogura Bldg., 6-6, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-5651-8050 Fax: (81) 3-5651-8059

#### Nagase Medicals Co., Ltd.

① Manufacture of pharmaceuticals ② ¥498 million  
③ 1972 ④ 4.8%  
5-41, Senzo, Itami-City, Hyogo  
Tel: (81) 72-778-7501 Fax: (81) 72-778-7506

#### Honshu Rheem Co., Ltd.

① Manufacture and sale of fiber drums, import and sale of food processing machines and materials  
② ¥100 million ③ 1968 ④ 40.0%  
8-11, Minami Hashimoto 4-chome, Sagami-hara-City, Kanagawa  
Tel: (81) 42-773-3111 Fax: (81) 42-774-4369

#### Totaku Industries, Inc.

① Manufacture and sale of plastic products  
② ¥270 million ③ 1952 ④ 76.2%  
1-33, Mitsuya Minami 1-chome, Yodogawa-ku, Osaka-City, Osaka  
Tel: (81) 6-6308-8300 Fax: (81) 6-6308-7020

#### Kyusyu Totaku Industries, Inc.

① Manufacture and sale of plastic products  
② ¥30 million ③ 1997 ④ 0.0%\*  
9857-11, Ooaza Kawafuru, Wakagicho, Takeo-City, Saga  
Tel: (81) 954-26-3637 Fax: (81) 954-20-5006

#### Thermo Co., Ltd.

① Manufacture and sale of plastic products  
② ¥200 million ③ 1956 ④ 40.2%  
15-15, Oomori Kita 5-chome, Oota-ku, Tokyo  
Tel: (81) 3-3762-4531 Fax: (81) 3-3762-4530

#### Gigatec Inc.

① Design, manufacture and sale of high-frequency power amplifiers ② ¥97 million ③ 1989 ④ 41.2%  
625, Shimo Ooshimacho, Takasaki-City, Gunma  
Tel: (81) 27-343-1590 Fax: (81) 27-343-3365

#### Idea System Co., Ltd.

① Design and manufacture of electronics and electronics components  
② ¥50 million ③ 1987 ④ 20.0%  
1-21, Shinmeicho 4-chome, Okaya-City, Nagano  
Tel: (81) 266-24-2744 Fax: (81) 266-24-2773

#### Nagase Alphametics Co., Ltd.

① Manufacture of cosmetics and medicated cosmetics ② ¥10 million ③ 1993 ④ 40.0%  
4-12, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3610 Fax: (81) 3-3665-3859

#### Nagase Cosmetics Co., Ltd.

① Manufacture of cosmetics and health foods  
② ¥30 million ③ 1983 ④ 50.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3610 Fax: (81) 3-3665-3859

### ■ PROCESSING

#### Kotobuki Kasei Corp.

① Molding, processing and sale of plastic products  
② ¥20 million ③ 1972 ④ 42.5%  
7-9, Satsukicho, Kanuma-City, Tochigi  
Tel: (81) 289-72-0112 Fax: (81) 289-72-0114

#### Setsunan Kasei Co., Ltd.

① Coloring and sale of plastics ② ¥105 million  
③ 1966 ④ 100.0%  
2-22, Takaida Nishi 5-chome, Higashi Osaka-City, Osaka  
Tel: (81) 6-6783-5231 Fax: (81) 6-6783-5228

#### Kyoraku Co., Ltd.

① Manufacture, processing and sale of plastic products ② ¥200 million ③ 1917 ④ 29.3%  
Kawaracho Chuo Bldg., 3-10, Kawaracho 2-chome, Chuo-ku, Osaka-City, Osaka  
Tel: (81) 6-6203-1301 Fax: (81) 6-6203-1309

#### Alpha Bumping Technology Co., Ltd.

① Contract processing for wafer bumping using Ni/Au electroless plating ② ¥300 million ③ 2000 ④ 75.5%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3880 Fax: (81) 3-3665-3950

### ■ SERVICING

#### Delta Twenty-One Corp.

① Marketing, planning and administration of plastics processing ② ¥50 million ③ 1994 ④ 100.0%  
5F, Libra Bldg., 3-2, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3700 Fax: (81) 3-3665-3714

### Company name

① Description of business ② Paid-in capital ③ Date of establishment ④ Equity ownership (\*indicates indirect investment)

Address Tel/Fax

Consolidated subsidiary

Company accounted for under the equity method

Affiliate

#### Design & Die Co., Ltd.

① Design, manufacture and sale of automotive components and plastic products ② ¥50 million  
③ 2002 ④ 51.0%  
c/o Tatematsu Mold Industry, 27, Okuda Oosawacho, Inazawa-City, Aichi  
Tel: (81) 587-32-6281 Fax: (81) 587-32-5392

#### Nagase Electronic Equipment Service Co., Ltd.

① Manufacture, sale and maintenance of low-temperature vacuum equipment  
② ¥45 million ③ 1989 ④ 100.0%  
5-10, Higashi Nakajima 3-chome, Yodogawa-ku, Osaka-City, Osaka  
Tel: (81) 6-6324-7626 Fax: (81) 6-6324-7680

#### Nagase CMS Technology Co., Ltd.

① Development, design, manufacture, sale and maintenance of CMS device  
② ¥150 million ③ 2001 ④ 65.0%  
1F, Sanhamada Bldg., 19-20, Shin Yokohama 1-chome, Yokohama-City, Kanagawa  
Tel: (81) 45-475-1072 Fax: (81) 45-475-2441

#### Nagase Landauer, Ltd.

① Radiation measuring services ② ¥88 million  
③ 1974 ④ 50.0%  
11-6, Nihonbashi-Hisamatsucho, Chuo-ku, Tokyo  
Tel: (81) 3-3666-4300 Fax: (81) 3-3662-9518

#### NCC Engineering Co., Ltd.

① Manufacture and maintenance of therapy devices  
② ¥20 million ③ 1981 ④ 61.0%  
3427-1, Nagatsutacho, Midori-ku, Yokohama-City, Kanagawa  
Tel: (81) 45-986-0781 Fax: (81) 45-986-0787

#### MEDICANET Co., Ltd.

① Clinical development support and services  
② ¥20 million ③ 2003 ④ 50.0%  
6-6, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-5651-8071 Fax: (81) 3-5651-8073

#### Nagase Logistics Co., Ltd.

① Warehousing and distribution ② ¥401 million  
③ 1982 ④ 100.0%  
4-45, Higashi Tsukaguchicho 2-chome, Amagasaki-City, Hyogo  
Tel: (81) 6-6427-8651 Fax: (81) 6-6427-8722

#### Nagase General Service Co., Ltd.

① Sale and lease of various goods, real estate administration ② ¥20 million ③ 1983 ④ 100.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2131 Fax: (81) 6-6535-2124

#### Nagase Information Development, Ltd.

① Software development and maintenance  
② ¥30 million ③ 1987 ④ 100.0%  
Nagase Sangyo Honcho Bldg., 2-8, Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo  
Tel: (81) 3-3231-3581 Fax: (81) 3-3231-3584

#### Nippon Vopac Co., Ltd.

① Warehousing, motor truck carrier business and freight transportation services ② ¥404 million  
③ 1966 ④ 19.9%  
5-7, Kajicho 1-chome, Chiyoda-ku, Tokyo  
Tel: (81) 3-3254-9571 Fax: (81) 3-3254-9566

#### Nagase Business Support Corp.

① Consulting ② ¥30 million ③ 2000 ④ 100.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2081 Fax: (81) 6-6535-2581

#### Nagase Trade Management Co., Ltd.

① Business agent for foreign trade documentation  
② ¥20 million ③ 1996 ④ 100.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3125 Fax: (81) 3-3665-3286

#### Choko Co., Ltd.

① Insurance agency ② ¥15 million ③ 1971  
④ 30.0%  
11F, Toho Bldg., 1-13, Nishi Shinsaibashi 1-chome, Chuo-ku, Osaka-City, Osaka  
Tel: (81) 6-6244-0125 Fax: (81) 6-6258-3385

### ■ SALES

#### Nagase Colors & Chemicals Co., Ltd.

① Purchasing and sale of dyestuffs, industrial chemicals, etc. and related information provision  
② ¥100 million ③ 1957 ④ 100.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2058 Fax: (81) 6-6535-2054

#### Nagase Chemical Co., Ltd.

① Sale of dyestuffs, industrial chemicals, plastics and machinery ② ¥30 million ③ 1995 ④ 100.0%  
4-10, Iwamotocho 2-chome, Chiyoda-ku, Tokyo  
Tel: (81) 3-3861-2511 Fax: (81) 3-3864-9663

#### Kyushu Nagase Co., Ltd.

① Sale of dyestuffs, auxiliaries, industrial chemicals and plastics ② ¥30 million ③ 1990 ④ 100.0%  
11-33, Higashiakawa-Shinmachi, Kurume-City, Fukuoka  
Tel: (81) 942-43-5530 Fax: (81) 942-43-3409

#### Nishinon Nagase Co., Ltd.

① Sale of dyestuffs, auxiliaries, industrial chemicals and plastics ② ¥30 million ③ 1969 ④ 100.0%  
5-3, Higashimachi 1-chome, Fukuyama-City, Hiroshima  
Tel: (81) 84-922-3419 Fax: (81) 84-931-3100

#### Shizuoka Nagase Co., Ltd.

① Sale of pigments and chemicals for paper manufacturing  
② ¥30 million ③ 1972 ④ 100.0%  
102-1, Urijimacho, Fuji-City, Shizuoka  
Tel: (81) 545-52-3924 Fax: (81) 545-53-0149

#### Nagase Bio-Chemical Sales Co., Ltd.

① Sale of enzymes and additives for food and feed  
② ¥30 million ③ 1987 ④ 87.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2318 Fax: (81) 6-6535-2531

#### Nagase Chemspec Co., Ltd.

① Sale and technological servicing of chemicals  
② ¥30 million ③ 1976 ④ 100.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3726 Fax: (81) 3-3665-3729

#### Nagase Agritech KK

① Sale of agricultural products including chemicals and materials ② ¥30 million ③ 2000 ④ 50.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3361 Fax: (81) 3-3665-3969

#### Griffin Nagase KK

① Sale of industrial and agricultural chemicals  
② ¥20 million ③ 1997 ④ 50.0%  
6F, Precrest Bldg., 1-3, Nihonbashi-Horidomecho 1-chome, Chuo-ku, Tokyo  
Tel: (81) 3-5643-2381 Fax: (81) 3-5643-2383

#### Nagase Plastics & Co., Ltd.

① Sale of raw materials for plastics and plastic products  
② ¥96 million ③ 1975 ④ 100.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6533-1181 Fax: (81) 6-6533-1189

#### Nagase Elex Co., Ltd.

① Sale of raw materials for plastics and plastic products  
② ¥20 million ③ 1979 ④ 100.0%  
4F, Seiko Bldg., 10-9, Nihonbashi-Horidomecho 2-chome, Chuo-ku, Tokyo  
Tel: (81) 3-3661-0821 Fax: (81) 3-3661-1560

#### Hoei Sangyo Co., Ltd.

① Sale of film materials, magnetic products, information imaging materials, etc. ② ¥250 million  
③ 1974 ④ 70.1%  
Nagase Sangyo Honcho Bldg., 2-8, Nihonbashi-Honcho 1-chome, Chuo-ku, Tokyo  
Tel: (81) 3-3274-7880 Fax: (81) 3-3274-7882

#### Nagase Barrel Finishing Systems Co., Ltd.

① Sale of abrasives and grinding materials  
② ¥50 million ③ 1955 ④ 100.0%  
3F, Osaka Anniks Bldg., 14-20, Itachibori 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6543-7721 Fax: (81) 6-6543-7710

#### Shinshu Nagase Denzai Co., Ltd.

① Sale of electronics components, raw materials for plastics and plastic products ② ¥10 million  
③ 1984 ④ 70.0%  
1-21, Shinmeicho 4-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 266-24-2772 Fax: (81) 266-24-3311

#### OnFine Co., Ltd.

① Manufacture and sale of electronics and fluorine and polysilane variants for use in materials  
② ¥10 million ③ 2002 ④ 25.0%  
1-17, Shinmachi 1-chome, Nishi-ku, Osaka-City, Osaka  
Tel: (81) 6-6535-2585 Fax: (81) 6-6585-2174

#### Nagase Beauty Care Co., Ltd.

① Sale of cosmetics and health foods  
② ¥100 million ③ 1991 ④ 100.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3617 Fax: (81) 3-3665-3724

#### Herbal Care Co., Ltd.

① Internet, mail-order and store sale of cosmetics and health foods ② ¥70 million ③ 2000 ④ 100.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3314 Fax: (81) 3-3665-3629

#### Nagase Medix Co., Ltd.

① Manufacture and sale of pharmaceuticals and veterinary drugs, and development of medical software  
② ¥50 million ③ 1998 ④ 100.0%  
5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo  
Tel: (81) 3-3665-3285 Fax: (81) 3-3665-3723

# INVESTOR INFORMATION

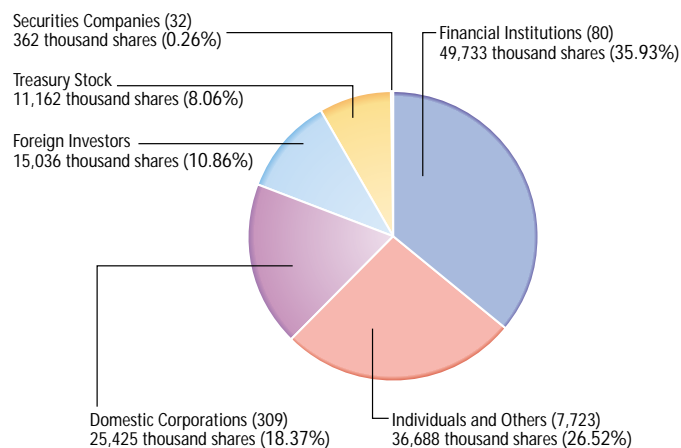
(As of March 31, 2003)

- Stock Listings: First Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange (since August 1970)
- Ticker Code: 8012
- Authorized Number of Shares: 346,980,000  
Issued Number of Shares: 138,408,285
- Number of Shareholders: 8,205
- Principal Shareholders

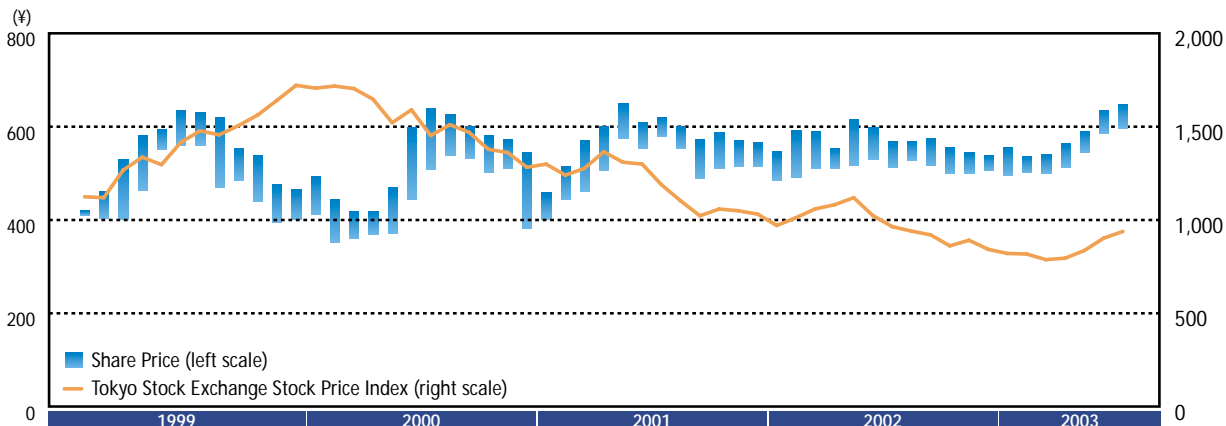
Name	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
The Master Trust Bank of Japan, Ltd.	6,361	4.60
The Sumitomo Trust & Banking Co., Ltd.	6,095	4.40
Sumitomo Mitsui Banking Corporation	5,816	4.20
SNFE MAC Japan Active Shareholder Fund, L.P.	4,566	3.30
Hiroshi Nagase	4,137	2.99
Nippon Life Insurance Company	4,068	2.94
Reiko Nagase	3,522	2.54
Mitsui Sumitomo Insurance Co., Ltd.	3,186	2.30
Mizuho Corporate Bank, Ltd.	2,862	2.07
The Bank of Tokyo-Mitsubishi, Ltd.	2,825	2.04

Note: In addition to the above, the Company holds 11,162 thousand shares (8.06%) of treasury stock.

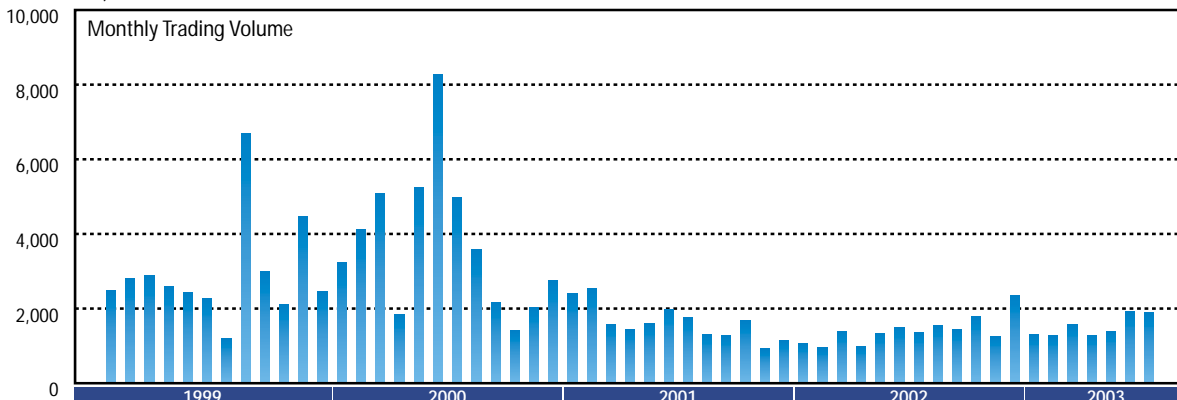
## ● Composition of Shareholders



## ● Monthly Share Price Range



(Thousands of Shares)



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