



Annual Report
2000
Year ended 2000

NAGASE & CO.,LTD.



Chemicals

Corporate Profile

Nagase & Co., Ltd. was established as a wholesaler of dyestuffs in Kyoto in 1832, when Japan was still under the control of the Shogunate. Since then, from the Meiji Restoration up to today, Nagase has contributed to the growth of the Japanese economy by providing chemical products for industries such as: textiles, housing, automotive, and electronics.

Throughout this period, in addition to handling the products of domestic makers as a trading company, Nagase has also served as an exclusive trading agent for leading overseas companies. It has continued to develop a business structure that offers customers not only the functions of a trading company but manufacturing, parts assembly, research and development functions as well.

At present, the company is researching organic synthetic technology, biotechnology, cosmetic science, polymer science and developing manufacturing methods to produce optically active compounds, cosmetics and functional coating materials at the Nagase Research and Development Center. Nagase group manufacturing companies produce and process goods such as: pharmaceutical intermediates, functional polymers, and raw materials for electronics applications. Nagase sells these products directly to its customers,

without the use of middlemen.

Building a system that integrates development, production, and sales efforts enables Nagase to respond at a high level to its customers' needs. Playing an active role in research and development activities as well as in production and processing allows the company to offer its customers technology and information and work together with them to develop their markets. Staying close to its customers and their markets also enables Nagase to expand its own knowledge and business opportunities.

In the March 2000 period, the company converted its ten business divisions into four business groups: Chemicals, Plastics, Electronics, and Health Care. Nagase launched a new management vision, changing its former slogan, "a technology oriented marketing company" to "the technology and intelligence oriented company that turns wisdom into business." In addition, the new Mid-term Management Program, "WIT 2000," was created during this period. Beginning with the next fiscal year, Nagase will also initiate this program, which focuses on expanding into new business areas.

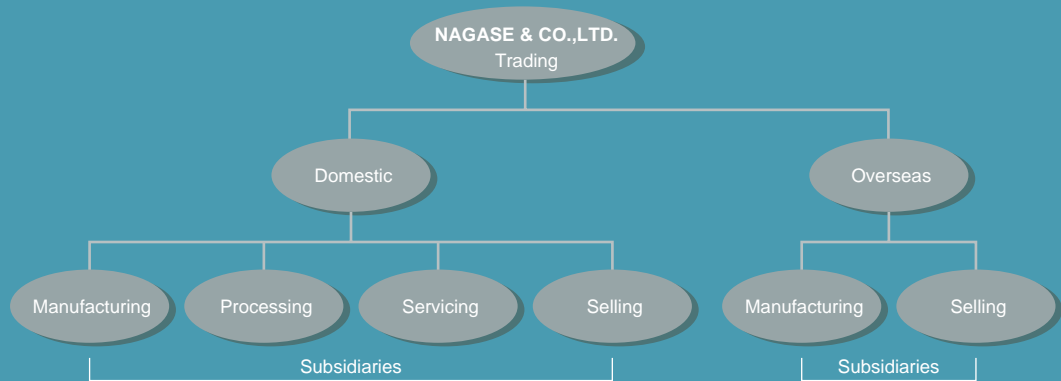
The Nagase group will continue to deliver high quality service to customers and will push beyond the framework of an ordinary "trading company."



Plastics



Electronics



Health Care

Contents

Financial Highlights	2
To Our Shareholders	3
Review of Operations	7
Chemicals Business Group	9
Plastics Business Group	11
Electronics Business Group	13
Health Care Business Group	15
Geographic Area Segment Information	17

Special Edition

I. Strengthening the group's research and development, production and processing functions	19
II. Strengthening of business expansion overseas	23
III. Strengthening IT	24
IV. Our approach to environmental protection	25
Contribution to Society	26
Financial Section	27
Board of Directors and Auditors	45
Investors Information	45

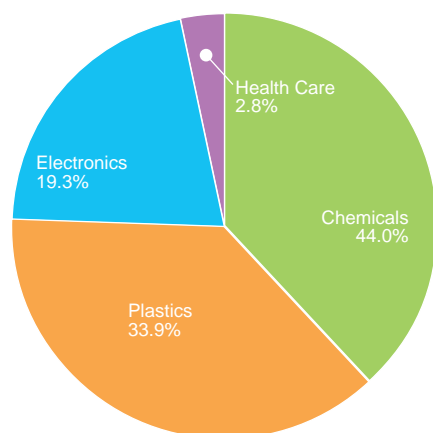
Consolidated Financial Highlights

Nagase & Co., Ltd. and Consolidated Subsidiaries
Years ended 31st March, 2000, 1999, 1998, 1997

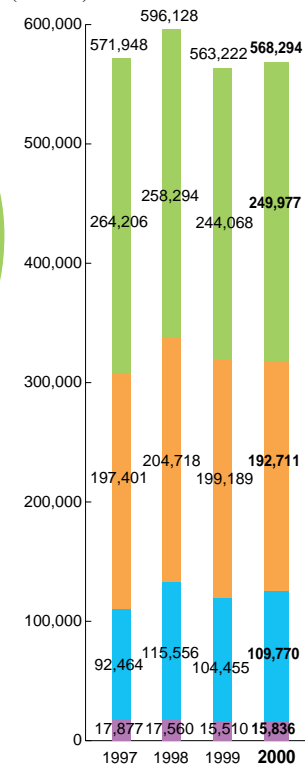
	Millions of Yen				Thousands of U.S. Dollars (Note 1)
	2000	1999	1998	1997	2000
For the year:					
Net Sales	¥568,294	¥563,222	¥596,128	¥571,948	\$5,353,686
Chemicals	¥249,977	¥244,068	258,294	¥264,206	\$2,354,942
Plastics	192,711	199,189	204,718	197,401	1,815,458
Electronics	109,770	104,455	115,556	92,464	1,034,106
Health Care	15,836	15,510	17,560	17,877	149,180
Net Income	6,371	3,561	4,905	5,689	60,021
For years ended:					
Total Assets	¥316,657	¥298,525	¥300,781	¥330,686	\$2,983,113
Shareholders' Equity	134,838	125,930	122,531	118,915	1,270,262
Long-Term Debt	2,500	2,252	2,601	1,782	23,555
Per Share Data:					
	Yen				U.S. Dollars
Earnings Per share	44.25	23.76	32.39	37.57	0.42
Cash Dividends	8.00	8.00	8.00	8.00	0.075
Book Value Per share	952.67	862.06	809.17	785.29	8.97

Note 1 : The conversion rate used was 106.15 yen to the dollar at 31st March, 2000.

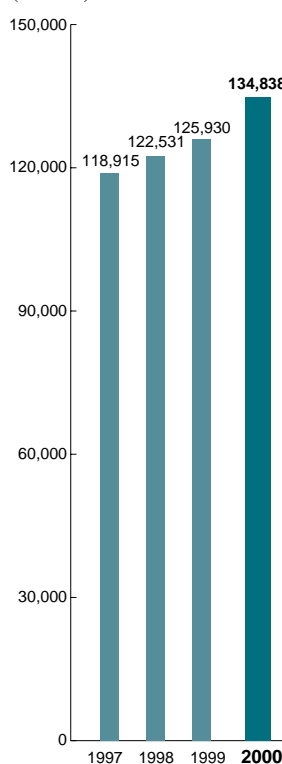
Composition of Net Sales (2000)



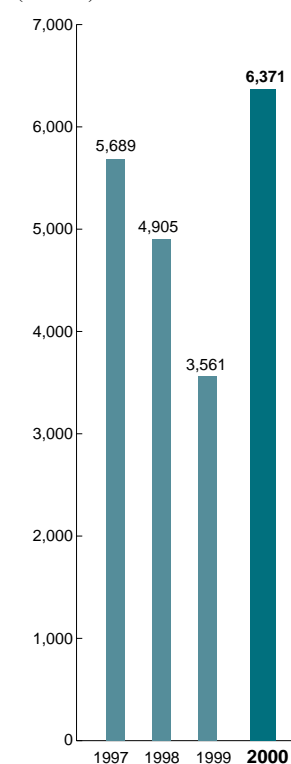
Net Sales
(¥million)



Shareholders' Equity
(¥million)



Net Income
(¥million)



To Our Shareholders



Hideo Nagase, Chairman

Hiroshi Nagase, President

The past fiscal year saw Japan's economy edge slightly forwards, motivated by stepped up public works spending and brisk capital investment in the IT sector. However, the employment picture remained bleak and there were no appreciable gains in personal income resulting in repressed consumer spending. As a result, the economy remained stagnant and few signs of a recovery could be seen.

Overseas, the U.S. economy continued its respectable performance and economic recovery accelerated in Europe and Asia. Although Nagase closed the fiscal year under review with growth in sales and profits, our business performance was colored by the domestic and overseas economic climate.

We would like to briefly review our business performance in the past fiscal year and discuss the outlook for the next fiscal year. We would also like to explain the objectives that we have set for ourselves in WIT 2000 that will see us through fiscal 2003.

The Year in Review

Consolidated sales increased 0.9%, or 5,072 million yen, from the previous year to 568,294 million yen, mainly due to an expanded scope of consolidation.^{*1}

Domestic sales declined 0.4%, or 1,423 million yen, to 404,156 million yen, but overseas sales were up 4.1%, or 6,495 million yen, to 164,138 million yen.

Weak domestic sales reflected the sluggish state of the Japanese economy. Gross profit on sales

increased 3.9% or 2,072 million yen, to 55,287 million yen.

Operating income, after allowing for selling, general and administrative expenses, rose 4.6%, or 356 million yen, to 8,147 million yen. Benefiting from the reduction in corporate tax rates in Japan, and due to increases in investment profits on equity method, net income increased 78.9%, or 2,810

million yen, to 6,371 million yen.

**1: Includes Teikoku Chemical Industries Co., Ltd., Nagase (Taiwan) Co., Ltd., Nagase (Europa) GmbH*

WIT 2000

We named our Mid-term Management Program "WIT 2000" in consideration of its focus on three elements: "Wisdom, Intelligence, Technology." As its name implies, the primary objective of the plan is to transform Nagase into "the technology and intelligence oriented company that turns wisdom into business." The three-year program will guide us through to the end of fiscal 2003 and defines strategic business areas and goals. We will augment the plan with the unique Nagase ROE model (NROE ^{*2}) we have developed. This model allocates capital to each business group, and is then used to measure business performance against standard financial indicators. We expect consolidated NROE to rise to 7% in fiscal 2003, the final year of the plan.

Creating New Businesses— Channeling Investment into Strategic Areas

Although we reported higher sales and profit for the term under review, our overall business performance has been less than stellar when examined over the medium term. The primary reason behind this lackluster performance is that the organization on the whole seems to have taken a defensive stance. Our Mid-term Management Program addresses this problem and is designed to cultivate a new attitude

favoring aggressive expansion. WIT 2000 will achieve this key goal by focusing on creating new business opportunities. We converted our ten business divisions into four independent business groups — a move that will support better allocation of our investment resources. The new plan also defines investment standards, limiting investments to projects that are not only expected to produce returns exceeding the cost of capital but that will also contribute to enhancing the functions of the Nagase Group as a whole. Finally, investment will be limited to operating cash flow. The two strategic areas that will receive priority in the allocation of investments are "electronics" and "health care." These will not be distinct segments. All business groups will invest in these areas. Finally we feel that it is important to form alliances, enter into capital partnerships and seek new opportunities through M&A, instead of relying solely on in-house resources.

**2 NROE: Nagase profit/equity capital at the beginning of the term*

*Nagase profit: Net profit after tax + (depreciation ± appraisal profit/loss) x (1 - effective tax rate)
"Nagase profit" refers to the profit generated through business operations, which is also referred to as "operating cash flow."*

Focusing on Consolidated Management — the integration of chemical production subsidiaries

Having product development and manufacturing capabilities within the Group is Nagase's core strength. Our chemical production subsidiaries in particular have unique technologies that are related to organic syntheses, biotechnology, and next-

generation semiconductors that will play an important role in increasing our group's developmental and manufacturing capabilities in the future. In order to meld these technologies to create the optimal strategic enterprise, we are concentrating our resources and personnel through the integration of our chemical subsidiaries (details on page 19).

We are establishing a committee to work on a plan to achieve this.

Outlook

To further strengthen our electronics business, we converted Nagase-CIBA Ltd., a joint venture with Ciba Specialty Chemicals (Switzerland) into a wholly-owned subsidiary *3 in June 2000. We will be increasing the production of liquid sealing materials for next generation semiconductor packages, and making investments in other next generation semiconductor-related products.

We are also taking a series of initiatives to consolidate our subsidiaries in order to reinforce our manufacturing and marketing networks. As the first step, we integrated two of our chemicals manufacturing subsidiaries, while increasing our production capacity for

fine chemicals, in April 2000. We also integrated four of our dye marketing subsidiaries. The resultant dyestuffs marketing company will make us cost competitive and strengthen our organization to ensure that we will emerge as a winner in the shrinking domestic market for dyestuffs.

Massive investments are required to launch new businesses. In order to support this, core businesses are equally important to maintain a solid business foundation. To assure this, all four business groups will focus on building closer relations with customers. This should in turn increase cash flow. We will also be focusing on improving financial indicators such as working capital, inventories and credit management. We will conduct a group-wide campaign to improve cash flow. Our management function must be strengthened if we are to strengthen core businesses and create new business lines. We are conducting a thorough review of our administrative divisions in order to eliminate redundancy and reinforce capabilities and will reorganize these divisions in the next period. Along with reorganization, we will move from a seniority-based wage structure to one based on merit



that rewards achievement.

As these initiatives begin to yield results, we expect net income in the next term to reach 6.5 billion yen ^{*4}, respectively, on sales of 580 billion yen. The management plans to propose an 8 yen dividend per common share.

We have completed the planning phase of WIT 2000 as well as the restructuring of our business groups. The primary objective in the next fiscal year will be to make sure that the goals of these changes are completely understood by all of our employees. To achieve this important objective, we will implement several initiatives to enhance in-house communication among employees. "Let Each of Us Create a Business" is the core program in this initiative. A stable balance sheet alone is not enough. We must also encourage our employees to channel our assets into promising areas.

^{*3}: Nagase-CIBA Ltd. renamed
Nagase ChemteX Co., Ltd. in June 2000

^{*4}: Unreserved liabilities (after revision of the accounting standards) of the employees' retirement benefit fund totaled 6.9 billion yen as of the end of March 2000. We will be charging appropriations to fund these liabilities as an extraordinary loss in the March 2001 term. Simultaneously, we will be reporting an equivalent amount of extraordinary profit on sales of assets and contributions to the retirement benefit trust. Thus, the extraordinary loss will not affect earnings in the next term.



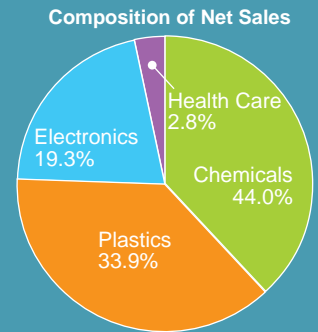
Chairman Hideo Nagase

President Hiroshi Nagase

(June 29, 2000)

Review of Operations

The Review of Operations has been edited into a Q&A style with respect to General Manager of each business group. (June 29, 2000)



Chemicals Business Group

9

This business group was established in April 1999 with the reorganization of our chemical sales divisions. We consolidated some of the functions within the chemical product business to eliminate redundancy and increase efficiency, while trying to seamlessly integrate both people and technology.

This business group is divided into two groups.

The core businesses of the Chemicals 1st Business Group are coating materials, color materials, monomers, urethane raw materials, resin additives, and dyestuffs.

The Chemicals 1st Business Group will also be focusing on the imaging and recording materials business.

The core businesses of Chemicals 2nd Business Group are organic fine chemicals, specialty chemicals, agricultural and ecological materials with chemicals for use in the electronics industry being brought in as a new business area.



Plastics Business Group

11

The Plastics Business Group is totally committed to meeting the demands of both domestic and overseas customers.

At present, the main business activities of the Plastics Business Group are the sales of engineering plastics, machinery, equipment and related materials to customers in the automotive, office automation equipment, home electronics, construction and packaging markets.

We are focusing on areas related to the environment (Pluswood, a building material we developed that is composed of wood powder and plastics resin), software development and automotive engineering (in all areas ranging from initial design to final product), and the assembly of electronic parts (supply of OEM and ODM parts).



Michiyuki Inukai
Executive Managing Director
General Manager
Chemicals 1st. Business Group



Takeshi Iwai
Managing Director
General Manager
Chemicals 2nd. Business Group



Shinichi Kokame
Vice President
General Manager
Plastics Business Group



Reiji Nagase
Managing Director
General Manager
Electronics Business Group



Kazunori Ando
Managing Director
General Manager
Health Care Business Group



Electronics Business Group 13

This group was previously called the Electronic Systems and Materials Division and was reorganized to the Electronics Business Group in September 1999. With "beyond trading" as its slogan, we are presently implementing a change in business values. This group will pursue to develop both a Coordination function to supply of materials, parts and systems, to support for customers seeking partners for collaboration and a Creation function to add, create, and offer valuable new services and goods throughout the group.

The business areas of this group are: semiconductor wafer processing, semiconductor assembly processing, display components, communications devices and other electronic devices. This group is also involved in developing high speed communication devices and high density storage devices, future generation micro-assembly techniques, test equipment for industrial use, LSI package design and CAD software.



Health Care Business Group 15

The Beauty Care Products Division, which sells cosmetics and health foods to individuals door to door and the Medical Care Products Division, which sells medical devices and medical information systems to medical institutions were integrated in April 1999. The Health Care Business Group primarily sells unique items as well as providing health care services and systems. This group's objective is to provide total healthcare systems.

Beauty Care Products Division : it has a sales force of 40,000 people and sells cosmetics and health foods to individuals.

Medical Care Products Division : it sells infectious disease related devices and medical information systems to medical institutions, such as hospitals and commercial laboratories. It also sells reagents for research to universities and laboratories, antigens for diagnostics reagents, antibodies, enzymes, etc. to diagnostic reagent manufacturers and various monitoring devices and systems to nuclear energy research institutions.

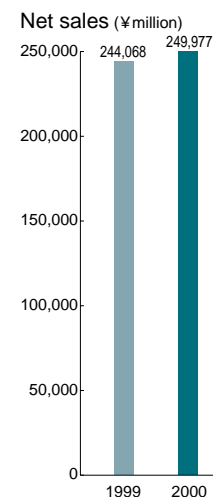


Chemicals Business Group

In the domestic market, sales of functional products for recording materials grew steadily, and sales for the product group that includes coating materials, plastic additives, and dyes and pigments kept pace with last year.

Overseas sales of chemicals for electronics applications were quite strong, particularly in Thailand, as were color formers and pharmaceutical raw materials and intermediates in the European and U.S. markets.

This resulted in a 5,909 million yen increase (2.4%) in sales which were at 249,977 million yen, as compared to last year. Operating profits were 4,137 million yen.



Michiyuki Inukai
Executive Managing Director
General Manager
Chemicals 1st. Business Group

Q. What was the reason for the good results achieved in fiscal 2000?

A. We were able to realize solid sales by focusing on our housing and environmental businesses in the domestic market, where sales had been sluggish. Overall sales for chemical products increased overseas, with the American market prospering and the Asian markets beginning to recover for products like plastic additives.



'Colorformers' are used as printing materials

Q. What were the trends in terms of business areas?

A. In dyes and pigments, sales decreased compared to last year due to the continued shrinking of domestic market. As the top dealer in the field, we plan to take a stance that will ensure large profits by streamlining logistics, strengthening our service system ^{*1} and increasing our position in the industry.

In the field of imaging and recording materials, we maintained the world's top share for our feature product, color formers, and recognizing the need to focus on the ever-expanding electronics market, we also entered the recording media material field. We have begun offering such products as IC cards and optical media, and plan on developing these into a business division.

In the coating materials field, we are utilizing our experience and technological strength to boost our share as a materials supplier in the coating materials and ink industries by working to further deepen our market presence.

In the performance chemicals field, we will expand sales of materials like monomers, plastic additives and urethane raw materials in Japan and Asia while working to increase our business with important trading partners.

In the field of organic fine chemicals, we put several new pharmaceutical intermediates on the market during this fiscal year, which contributed to increased sales. We have established a system within this division that allows us to offer a full range of pharmaceutical products — from raw materials, intermediates, bulk and pharmaceutical formulations — all the way up to the final products.

In the specialty chemicals field, with fermentation and biotech-related products, natural products, and surfactants as a base, we plan to pioneer the opening of a wide range of markets, beginning with foodstuffs and bio-related products. In the future, we should be able to cultivate new fields like oil additives, cosmetics, and chemicals for use in the

Review of Operations

electronics industry.

In the agricultural and ecological fields, we clarified functions through structural reorganization. Sales for all agricultural chemicals and ecological materials were placed under the control of Nagase Agritech K.K. in mid-March 2000. We will continue the sales of intermediate for agricultural chemicals and active ingredients. We also plan to transfer our farm equipment business to our affiliated sales companies as part of our streamlining operation for the entire group.

Q. What are the objectives of the planned Electronics Chemicals Division?

A. We integrated all of our businesses that have been separately focused on the electronics market with the establishment of a new division on April 1, 2000. This new division will allow us to stay close to the market and to gather, dispatch, and coordinate information about the latest trends in the industry. The main products include cleaning solvents for metal surface processing, polishing materials, photo-resist intermediates, and semiconductor chemicals. We will also develop an upstream strategy for raw materials aimed at the electronics market. We also plan to provide total customer support in cooperation with our Electronics Business Group and to approach the

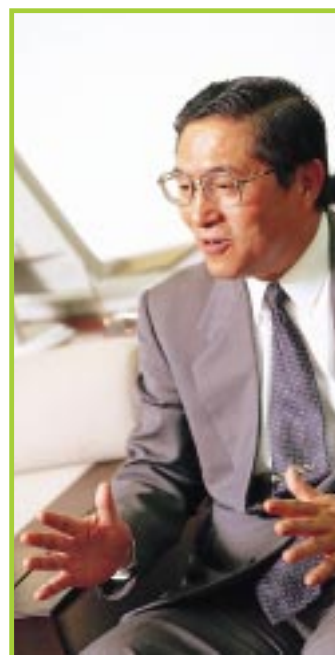
market from the standpoint of equipment and devices.

Q. What kind of prospects do you foresee for the fiscal period beginning in April 2000 and what kind of policies are you planning to implement?

A. Our sales goal is 253 billion yen (a 1.2% increase over last year). Price decreases in naphtha are expected from the middle of the next period as a result of increased oil production by OPEC. This will bring a halt to the rising prices of chemical products. In addition, it has been forecast that the market will call for a price reduction. We expect domestic sales to be even or slightly greater than last year, and overseas sales to remain solid.

In the next period, while pursuing results from organizational restructuring, we will make efforts to further strengthen our core businesses and take on new business challenges. We will also strengthen consolidated management and development of overseas business, and increase their portions of total sales. In keeping with our company's overall strategy, growth in the electronics and health care related fields is projected.

**1: As a concrete action, we integrated four affiliate dyestuff sales companies on April 1, 2000 and set up Nagase Colors & Chemicals Co., Ltd. In order to establish a firm, trusting relationship with our customers and suppliers, it is necessary that we take the lead in reforming the industry's structure so as to maintain the market's current scale.*



Takeshi Iwai
Managing Director
General Manager
Chemicals 2nd. Business Group

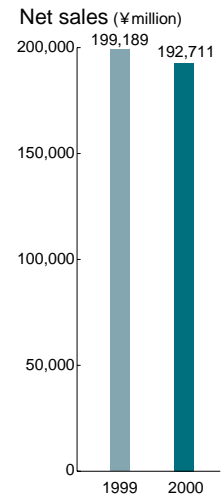


Plastics Business Group

Overseas sales of engineering plastics for office automation equipment and home electronics increased despite the strong yen thanks to the partial economic recovery in Asia and the shift of production from Japan to Asia. Sales of raw materials and molds for automobiles and electronics parts in Europe and the U.S. also increased and exceeded last year's levels.

Domestic sales were generally down as compared to last year due to a decrease in the number of automobiles produced, the accelerated shift in production to other Asian countries and a slump in the cable industry, although sales of PET resin and our subsidiaries' products (food containers, trays for electronics parts and conduits for optical cable installations) held firm.

Sales were 192,711 million yen, a decrease of 6,478 million yen, down 3.3% from last year. Operating profits were 1,800 million yen.



Q. What do you see for fiscal 2000?

A. Although sales failed to increase in the Japanese market, those of our overseas subsidiaries showed strong increases and contributed significantly to our results. In Asia, Taiwan was the biggest contributor, followed by the Southern China region and Singapore with favorable conditions predicted to continue in Taiwan and Singapore. Thailand is rapidly recovering from its economic slump. We expect to see more growth in the Southern China region and Thailand and plan to concentrate our resources in these areas.

We also have another subsidiary in Mexico that assembles electronics parts targeted at the North American market that had remarkable sales growth last year.

Q. Didn't Nagase's original "Pluswood" draw quite a bit of attention?

A. In the past we had focused on housing materials, however we switched our marketing efforts to "Pluswood," a new material we developed in-house. It has the potential for rapid sales growth because it does not contain vinyl chloride, and thus will not affect the environment. It is made from recycled materials. This product has been written about several times in newspapers and is attracting a lot of attention in the marketplace.

Q. What kind of development are you planning outside of Asia?

A. In North America and Europe, we are developing our business by primarily focusing on customers in the automotive market. In Canada, we have a subsidiary that manufactures molds for automotive components.



Products made from molds made at our company.

Canada Mold Technology Inc.

Location: Ontario, Canada

Capital: C\$ 5,000,000 (Nagase Group's ratio of shares: 53%)

Design and manufacture of molds for the automobile industry.

Review of Operations

Q. What is your strategy for maintaining top market position?

A. We believe the most important point is to meet the customer's diversified and complex requirements through total commitment to the customer. In order to better serve our customers, we have strengthened partnerships with leading manufacturers in the fields of home electronics, office automation equipment and automobiles that make up our primary client base. We also are working to strengthen and maintain our position through the use of our "fabless" (without fab) manufacturing worldwide and by using methods of production and supply that are tailored to our customers.

Our software and auto engineering businesses, which were established two-and-a-half years ago, have grown remarkably and we have high hopes for them as new business models. Our auto engineering business pays strict attention to the customer's requirements and offers everything from design and mold production to the supply of auto components. In the auto industry, we are able to offer designs to meet the exact requirements of each individual customer. Our subsidiary company in Canada provides molds that match special designs. In view of the advantages of shorter lead times, cost and quality, we are planning to use our overseas production network to search out an additional production site.



Shinichi Kokame
Vice President
General Manager
Plastics Business Group

Q. What is the outlook for fiscal 2001?

A. Our sales goal is 200 billion yen, (a 3.8% increase over last year). While we cannot expect a complete recovery for domestic sales, we plan to increase sales by concentrating on our program of "total commitment" to our priority customers. We also expect an increase in revenue with the start of sales of "Pluswood" which is a profit-generating product.

In addition to an increase in the volume of overseas sales we foresee a slight increase in returns due to the strengthening of the yen.

PLUSWOOD

Timber from trimming operations and mills ends is put to effective use by making it into a powder and mixing it with halogen-free resins to get plastic compounds. This has resulted in a new construction material that is environmentally friendly and that can be recycled so that formalins or dioxins are not emitted.

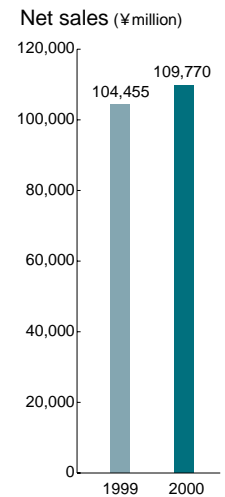




Electronics Business Group

Boosted by a worldwide recovery in the demand for personal computers and related products, sales of materials and devices related to LCDs increased by 53.9% over last year, as did sales of raw materials and products for semiconductors, which increased by 30.4%. Chemicals and equipment used in the production processes of semiconductors and LCDs also grew by 36.2% as compared to the prior year due to the expansion of production and investment in new equipment in Taiwan. Sales of recording media, especially aluminum substrate for hard disks, dropped off significantly due to a shift to high-density storage and a decline in market price.

As a result, sales were 109,770 million yen, an increase of 5,315 million yen (5.1%) over last year. Operating profits were 1,783 million yen.



Q. What was the reason for the good results?

A. Of course, the worldwide increase in IT related industries with corresponding recovery in the demand for PCs and brisk increase in portable phones helped form the background for the favorable results this fiscal period. Although we reorganized from September of this fiscal year, we have a long history of participation in the electronics industry, and the strength of our position has begun to show.

Our group supplies materials, parts, partially finished goods, devices, and equipment to supply materials and provides maintenance and service as well. We believe we are in a superior position to assist customers in that we have the ability to understand the technical requirements of our customers due to our strong technological background. We also have a well-trained sales force with a wealth of experience that is capable of providing the optimal model, as well as experience with several investments related to production that have paid off.

Q. What are the geographical areas and fields in which you can expect large sales increases in the coming middle term?

A. As the shift in production of basic parts for large-sized LCDs from Japan and the U.S. to Asia continues due to a drop in the cost of PCs, growth in exports to Asia will also continue.

Among various electronics products, materials and devices related to LCDs, assembly processing materials for semiconductors, precision abrasives for electronics parts, etc. are areas in which growth is expected. Our company has a base for processing the materials and production of LCDs in Shenzhen China, and this field is one in which we will not only be handling exports, but plan on increasing both production and supply as well.

Q. What is the strategy of the business group?

A. In accordance with our theme "beyond trading," we will generate a profit by pursuing both coordination (supply of materials, parts and systems, support for customers seeking partners for collaboration) and creation (add, create, and offer valuable new services and goods throughout the group). The creation aspect will be enhanced through the use of our global business networks. In the electronics industry, because of the extremely broad range of product development and short life cycle of products, it is difficult to supply materials and parts within the group alone. Therefore, our group plans to aggressively promote outside tie-ups in order to provide enhanced services.

Q. In what areas do you plan to proceed with business tie-ups?

A. We have accumulated a fair amount of experience in the areas of sales and marketing and have a reasonable amount of knowledge in these areas so we will probably seek out resources in new technologies and production fields. We will have to aggressively approach companies that possess these resources, be they venture companies or giant corporations in Japan or abroad.

Examples:

- **Media Devices Design Center**
Business areas include design and sales support for CAD software used in U.S., and domestic and overseas design business networks (E-commerce).
- **Idea Systems Co., Ltd.**
Manufacturing of semiconductor packages and IC cards.
- **Gigatec, Inc.**
Manufacturing of high-frequency parts for wireless communications.
- **Bumping Technology Co., Ltd.**
Semiconductor wafer plating based on the introduction of technology from Germany.

Review of Operations

Q. Can you tell us about your plans to aggressively enter the environmental conservation field?

A. In manufacturing, the electronics industry is the most sensitive about this subject. We want to do more than just respond to demands for non-halogen and lead-free products, we want to turn these into businesses. We are currently looking for businesses in relation to securing ISO14001 certification and in the implementation of recycling laws. In conjunction with this, our company already has a unique Chemical Management System (patented), that has performed well.

This system serves to help protect the environment by reducing the amount of chemicals used in the production processes for LCDs and semiconductors. It keeps chemical concentrations and performance constant through the use of a variety of sensors, allowing chemicals to be added only in the amounts required, as opposed to the complete refilling which had been done in the past. These features make it the perfect system for maintaining the supply of chemicals during all production processes. As a result, the amount of chemicals used can be reduced dramatically. This system is being used by most TFT-LCD makers in Japan and Asia, and our group has maintenance systems for the equipment in Japan, Korea and Taiwan. We have great expectations for this product in the future. We are also aggressively working on the development of energy reduction and clean purification systems.

Q. What are some other business targets?

A. We are considering a variety of target areas in the electronics field, of which semiconductor assembly processing is just an example. Semiconductors have come to be used in a wide variety of applications besides PCs and their technology is being advanced at a fast pace to keep up with the diverse demands from customers. We plan to increase our shares in the supply of various materials, components, and devices aimed at the next generation of semiconductors.



DDS-32S



DDS-21S



Reiji Nagase
Managing Director
General Manager
Electronics Business Group

We are planning to expand in the area of production both within and outside our group, as well as in the supply of materials used in the production of LCDs. We are also looking at expanding in the telecommunications field. Expansion is also being planned to meet the rapid increase in portable phones that are coming out with higher transmission speeds, larger memories, etc.

Q. What is the policy for the March 2001 period?

A. The electronics industry is growing rapidly and we want to make sure we avail ourselves of all possible business opportunities.

Our sales goal is 113.5 billion yen (a 3.4% increase over last year). Strong activity has been predicted for the semiconductor and LCDs industries' markets. What with the increase in LCDs manufacturers, particularly in Asia, it is safe to say that there will be a correspondingly large increase in the chemicals and equipment used to manufacture and process their LCDs.

We plan to accurately grasp the requirements of the users and suppliers that make up the core of the electronics business market and to move quickly to fill them. Once we have done that, the focus will turn to how much we can expand on the possibilities of this business opportunity. With this in mind, we are directing our efforts into establishing solid human resources, streamlining our organization, and strengthening business alliances.

CMS (chemical management system for semiconductors and LCDs production)

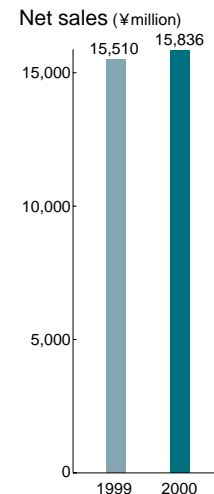
Large volumes of etching and remover liquids are necessary in the production processes of semiconductors and LCDs, however, through the use of the CMS system (device for recovering developer liquids) we developed, about 85% of the liquid reagents can be reused.



Health Care Business Group

Sales of the Medical Care Products Division increased by 12.3% over last year, thanks to the strong performance of instruments related to infectious diseases, reagents, and products related to radiation. In the Beauty Care Products Division, "Conditioning Lotion," a toiletry water for use in summer, and "Mifore," a new skin-care series, were put on the market, along with "Royal Jelly BM700" and "Bellmash 100," two new health drinks. However, sales ended up down 3.9% from the previous period due to a drop in personal consumption and a shift in consumer needs from premium to low-cost goods.

Total sales were 15,836 million yen, a 326 million yen increase (2.1%) over last year. Operating profits were 428 million yen.



Q. The Beauty Care Products Division had a slow year. What measures will you be implementing to rectify this?

A. The Health Care Business Group, which was established in April 1999, has just completed its first year. Due to the merging of two divisions with different markets and sales routes, the beneficial effects of integration have not yet surfaced.

In the Beauty Care Products Division, we have the power to develop preventive-medicine products for the health-food field. Our theme is to boost the power of our distribution channels. We plan on utilizing a multi-faceted approach, taking advantage of the power of our 40,000-person sales network as a base to develop business with salons. We especially believe that the health-food field will grow as a result of the aging of society and the increase of life-style related diseases.



Kazunori Ando
Managing Director
General Manager
Health Care Business Group

Q. Can you tell us about your measures in response to termination of the contract with Ortho Clinical Diagnostics K.K. for sales of automated biochemistry analyzers?

A. Trade rights from Ortho Clinical Diagnostics K.K. expired at the end of March. Though this will mean a decrease in sales of 2 billion yen from the 7 billion yen Medical Care Products Division, we are optimistic. We have been preparing for four years in anticipation of this development, and have a lot of business seeds planted in the medical field.

Q. What is the division doing to bring about beneficial effects from integration?

A. This fiscal year, we set up a Business Planning Office. Its purpose is to figure out how we should approach the health-care market. At the same time, it is undertaking projects centered around several specific themes, and is also enlisting participation from throughout the group to take on some new challenges. We are also planning a new Internet business. This is still in the test stage, but it will connect both product divisions as part of our approach to "preventive medicine."

Q. You have started selling over the Internet. How do you plan to proceed in this area?

A. This fiscal period was the trial stage. As soon as our "diet foods for those who enjoy alcohol" went on the market in January 2000 and were reported on in popular magazines, we received a rush of orders through our Web site. We consider advertising in other media as well as the Internet to be important.

In our Beauty Care Products Division, we originally sold health foods targeted at women. In the future, using the Internet and other sales routes, we also plan to sell health foods for men. In order to

Review of Operations

facilitate development of new products for multiple sales routes, we gathered a number of talented individuals and set up a Product Research Laboratory in our business group in April of this fiscal year.

Q. Do you have any concrete themes for research and development?

A. Our research theme is anti-aging for the body and skin. For instance, we are focusing on the plant essence of rosemary, an herb that plays a crucial role in removing active oxygen that occurs in the aging process. We have already verified that it has a positive effect on preventing the aging of the skin, and are working on turning it into a marketable product. With research like this, we will be able to achieve effects similar to those achieved in the medical field. For instance, we are researching materials that can partially control the progress of certain types of cancers, and have applied for patents for many of these.

Q. What is the outlook for the March 2001 period?

A. Our sales goal is 13.5 billion yen (a 14.7% decrease from last year). We are planning to increase sales



through the introduction of a new make-up series, "Orneige" from our Beauty Care Products Division and our "BM Royal" health food product, which has positive effects on the autonomic nervous and immune systems. We expect a sales decrease in the Medical Care Products Division, however, as a result of the transfer of trade rights of the biochemistry analyzers.



New products from the Medical Care Products Division will include our company's own patient reporting system; our infectious disease control system, designed to prevent the spread of infections in hospitals and suitable for use with antibiotics; an image entry system, developed jointly with Toyo Ink Mfg. Co., Ltd. which streamlines commercial laboratories' work; and the UV-C Monitor, an environmental product that uses UV diamond sensors. We will also continue to concentrate on test reagents for research and raw materials for diagnostic reagents and plan to release a reagent and system related to genes for the research market.



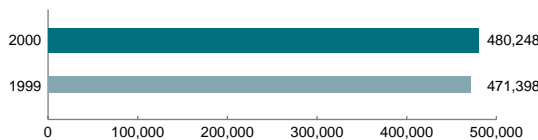
Geographic Area Segment Information

JAPAN

Japan's economy had yet to recover, however, the influence of the increase in the number of consolidated subsidiaries coupled with the growth of exports to Asian countries resulted in an increase in sales of 8,850 million yen (+1.9%) over the prior fiscal year with sales at 480,248 million yen.

The unification of accounting procedures between the parent and subsidiary companies and the changes in the listing of the reserve for employees' retirement for our domestic consolidated subsidiaries that were undertaken in order to strengthen the financial health of the company resulted in a decrease in income of 227 million yen (-4.2%) as compared to the prior fiscal year on operating income of 5,220 million yen.

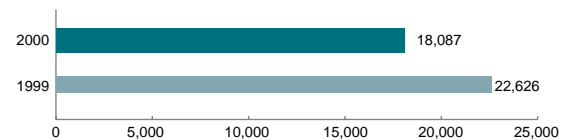
Sales to Customers (¥million)



NORTH AMERICA

Delays in the development of new businesses caused a 4,539 million yen reduction in sales (-20.1%) as compared to the prior consolidated fiscal accounting period on sales of 18,087 million yen and operating income was also down 220 million yen (-67.1%) as compared to the prior consolidated fiscal accounting period with operating income at 108 million yen.

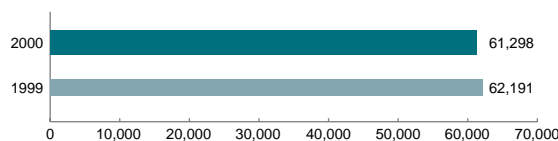
Sales to Customers (¥million)



ASIA

The Asian currency crises were resolved and recovery could be seen throughout the Asian countries with sales in each country's currency showing steady increases overall; however, the strong yen resulted in a reduction in sales of 893 million yen (-1.4%) as compared to the prior consolidated fiscal accounting period on sales of 61,298 million yen when the results were converted into yen. Operating income showed an 829 million yen (+45.2%) increase over the prior consolidated fiscal accounting period with the effects of reductions in sales and general administrative expenses resulting in operating income of 2,663 million yen.

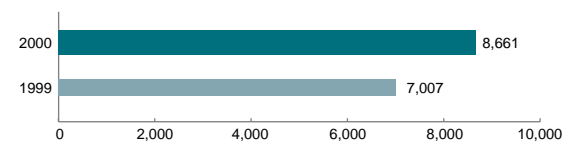
Sales to Customers (¥million)



OTHERS

Sales reached 8,661 million yen for a 1,654 million yen (23.6%) increase over the prior consolidated fiscal accounting period, and although operating income was 12 million yen in the red, the amount of red ink had been reduced by 184 million yen as compared to the prior consolidated fiscal accounting period.

Sales to Customers (¥million)



Consolidated Subsidiaries (Overseas)



[Performance of subsidiaries]

Hoei Sangyo Co., Ltd.

Location: Chuou-ku, Tokyo, Japan
Capital: ¥ 250,000,000
Business lines: Sale of various recording media for information and image, and device and system for recording, compression and processing of information & image

Totaku Industries., Inc.

Location: Takatsuki city, Osaka, Japan
Capital: ¥270,000,000
Business lines: Manufacturing and selling of plastic-based products

Setsunan Kasei Co., Ltd.

Location: Higashiosaka city, Osaka, Japan
Capital: ¥105,000,000
Business lines: Coloration and improvement of plastic

Nagase Plastics Co., Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 96,600,000
Business lines: Sales of plastic based products

Nagase Singapore (Pte) Ltd.

Location: Singapore
Capital: S\$ 2,700,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Nagase Tokai Co., Ltd.

Location: Hamamatsu city, Shizuoka, Japan
Capital: ¥ 30,000,000
Business lines: Sales of dyestuff and industrial chemicals

Nagase Elex Co., Ltd.

Location: Chuou-ku, Tokyo, Japan
Capital: ¥ 20,000,000
Business lines: Sales of plastic-based products and plastic raw material

Nagase Biochemicals Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 490,000,000
Business lines: Manufacturing of enzyme preparation, food additives and feed additives.

Nagase Chemicals Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 266,000,000
Business lines: Manufacturing of general industrial chemicals

Nagase Storage & Distribution Co., Ltd.

Location: Amagasaki city, Hyogo, Japan
Capital: ¥401,000,000
Business lines: Warehousing and distribution

Nagase America Corp.

Location: New York, U.S.A.
Capital: US\$ 1,000,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Nagase (Hong Kong) Ltd.

Location: Hong Kong, China.
Capital: HK\$ 3,120,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Nagase (Europe) Ltd.

Location: London, U.K.
Capital: £ 300,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Nagase (Malaysia) Sdn. Bhd.

Location: Kuala Lumpur, Malaysia
Capital: M\$ 1,500,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Nagase Biochemicals Sales Co., Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 30,000,000
Business lines: Sales of enzyme preparation

Nagase Machinery Sales Co., Ltd.

Location: Minami-ku, Kyoto city, Japan
Capital: ¥ 48,000,000
Business lines: Sales of devices and repair for dairy industrial machines

Nagase California Corp.

Location: California, U.S.A.
Capital: US\$ 300,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Canada Mold Technology Inc.

Location: Ontario, Canada
Capital: C\$ 5,000,000
Business lines: Design and manufacture of molds for the automobile industry

Nagase Wahlee Plastics Corp.

Location: Taipei, Taiwan
Capital: NT\$ 52,000,000
Business lines: Trading

Nagase (Thailand) Co., Ltd.

Location: Bangkok, Thailand
Capital: BAHT 12,000,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Kotobuki industries Co., Ltd.

Location: Kanuma city, Tochigi, Japan
Capital: ¥ 20,000,000
Business lines: Molding and Improvement of plastic-based products

Nagase Barrel Finishing Systems Co., Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 50,000,000
Business lines: Sales of abrasive and it's relating machines

Delta Fine Chemical Co., Ltd.

Location: Chiyoda-ku, Tokyo, Japan
Capital: ¥ 30,000,000
Business lines: Sales of coating material, dyestuff and chemicals

Nagase Electronic Equipment Service Co., Ltd.

Location: Chuou-ku, Tokyo, Japan
Capital: ¥ 45,000,000
Business lines: Sales and maintenance of machines for manufacturing semiconductor, etc

Shizuoka Nagase Co., Ltd.

Location: Fuji city, Shizuoka, Japan
Capital: ¥ 30,000,000
Business lines: Sales of dyestuff and industrial chemicals

Nagase (Europa) GmbH

Location: Düsseldorf, Germany
Capital: DM 1,200,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

Teikoku Chemical Industries Co., Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 200,000,000
Business lines: Manufacturing and selling of pharmaceuticals, cosmetics and industrial chemicals

Nagase (Taiwan) Co., Ltd.

Location: Taipei, Taiwan
Capital: NT\$ 31,000,000
Business lines: Import & export and intermediary trade and marketing development and data gathering

[Performance of affiliates]

Nagase-CIBA Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 730,000,000
Business lines: Sales and manufacturing of thermosetting or alteration resin and hardening agent

Kyoraku Co., Ltd.

Location: Chuou-ku, Osaka city, Japan
Capital: ¥ 200,000,000
Business lines: Sales and manufacturing of plastic-based products

Sofix Corp.

Location: Tennessee, U.S.A.
Capital: US\$ 20,000,000
Business lines: Manufacturing of pressure-sensitive and thermo-sensitive dyestuff

Honshu Rheem Co., Ltd.

Location: Chuou-ku, Tokyo, Japan
Capital: ¥ 100,000,000
Business lines: Sales and manufacturing of fiber drum

Nagase Landauer Ltd.

Location: Chuou-ku, Tokyo, Japan
Capital: ¥ 88,000,000
Business lines: Radiation measurement service

Nisshin Automobile Co., Ltd.

Location: Nishi-ku, Osaka city, Japan
Capital: ¥ 100,000,000
Business lines: Sales of devices for automobile, lease of fixed property

Nippon GATX Co., Ltd.

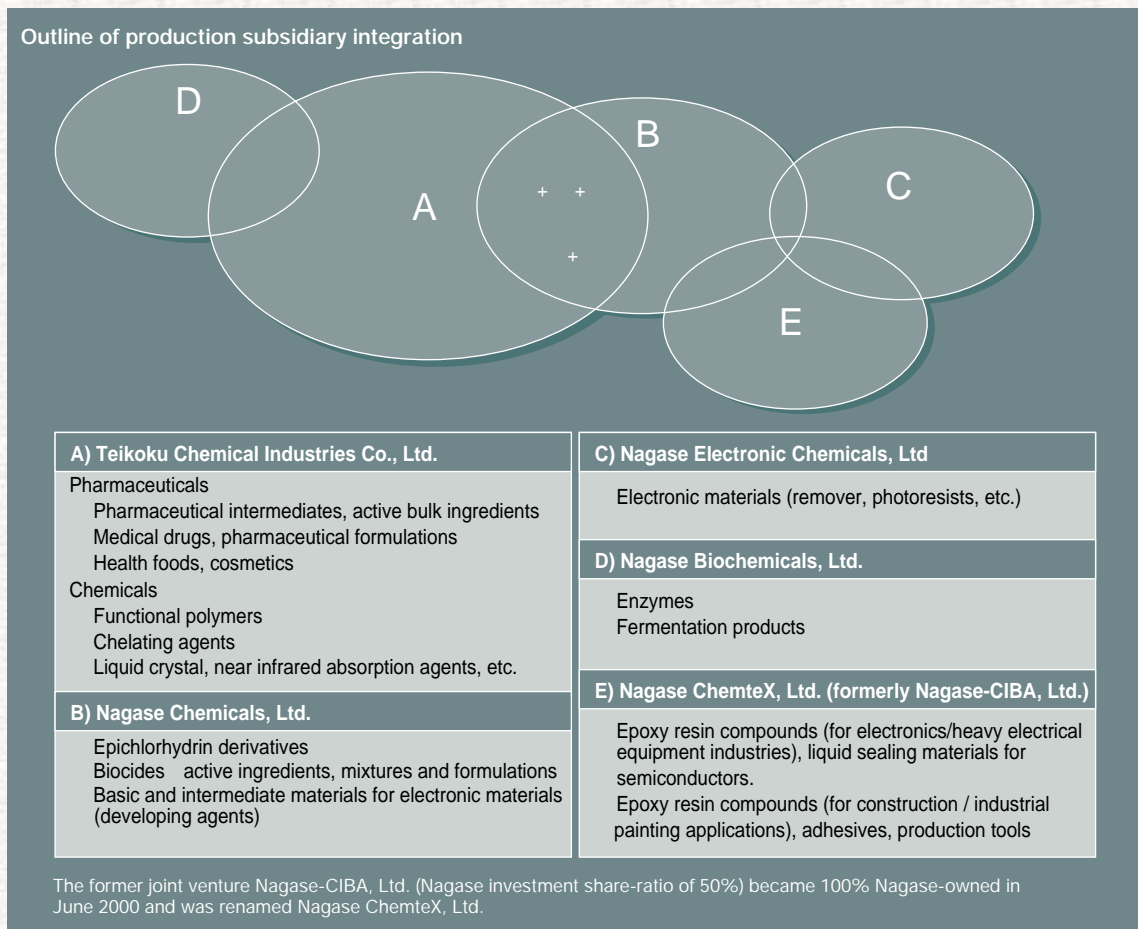
Location: Chiyoda-ku, Tokyo, Japan
Capital: ¥ 404,000,000
Business lines: Warehousing, cargo transportation

Thermo Co., Ltd.

Location: Ota-ku, Tokyo, Japan
Capital: ¥ 200,000,000
Business lines: Sales and manufacturing of plastic-based products

Special Edition: The Technology and Intelligence Oriented Company

I. Strengthening the group's research and development, production Integration of Our Chemical Manufacturing Subsidiaries



Aiming to achieve selection and concentration within the enterprise

The major chemical manufacturing subsidiaries in the Nagase Group as of March 2000 were: (A) Teikoku Chemical Industries Co., Ltd. (TKS); (B) Nagase Chemicals, Ltd. (NKK); (C) Nagase Electronic Chemicals, Ltd. (NDK); (D) Nagase Biochemicals, Ltd. (NBL); and (E) Nagase ChemteX, Ltd. (NCX).

Each of these companies has had a major role in the manufacturing functions of the Nagase Group and each has its own separate history and business field. Although each company's business activities are important, from the standpoint of the group as a whole, these activities are spread over too wide a range. Thus, in order to use our limited personnel and resources effectively, selection and concentration of our subsidiaries' activities must be implemented. This is because our company's policies are: to

concentrate resources in the most important strategic business activities to meet the production functions of the entire group; to avoid redundancy and streamline operations; to increase the power of the enterprise through integration; to aggressively promote investment in production facilities, research and development and technology in order to achieve production and sales of products that will allow us to compete in markets around the world as a manufacturer.

In order to achieve the above, NKK and NDK were merged on April 1, 2000, under the name of NKK. In addition, preparations to integrate TKS, NBL, NCX and the new NKK in fiscal 2002 are underway. In conjunction with the integration of these companies, cooperation with our company's R&D Center will be strengthened.

that Turns Wisdom into Business

and processing functions

Advantages of Integration

a. Strengthening of the health care and electronics areas

Integrating the manufacturing subsidiaries will allow the group's resources to be focused on the health care and electronics areas, which are considered to be the most important strategically.

In the health care area, a new enterprise will be developed through the merging of the enzyme production business (at present, a business activity of NBL) and organic synthesis (currently a business activity of TKS). The core of this business will be pharmaceutical intermediates production, which is indispensable in the launching and supply of new drugs. The technology that will make this business area come to life is chirotechnology, which the R&D Center has developed to selectively produce optical compounds. In addition, there are great expectations for this in the electronics field.

Following integration, it will be possible for a single company to offer all of the products used in production of semiconductors, from wafer processing to assembly processing. This change should allow for faster support in electronics industry where rapid change is the norm.

The integrated company will develop new technologies and supply products to the pharmaceuticals and electronics markets.

b. Increasing reinvestment in effective enterprises

Advantages from integration will arise with regard to investment for an effective enterprise. This is because the ordinary profits of the five companies listed in the table above amounted to several hundred million yen each, but the high cost required to put competitive chemicals on the market limited the amount of profit that could be reinvested. However, after integration, since operations will be combined resulting in greater profits, reinvestment capability will increase.



Fukuchiyama Factories(NBL,TKS)



Laboratory(NBL)



Harima Factories(NKK,TKS,NCX)



Clean Room (NKK)

Chirotechnology: the technology to produce optically active compounds

Serving customers in the electronics and pharmaceutical industries using technologies developed at the R&D Center



Nagase R&D Center

The place of the R&D Center in the group

Ten years have passed since the establishment of the R&D Center in 1990. During this period, the development of pharmaceutical intermediate processes using microorganisms and enzymes and the development of production processes for fine chemicals have taken place in keeping with Nagase's policy that states "the Center will become Nagase's weapon for the 21st century by providing the research and development needed by Nagase." In particular, the emphasis of R&D into "technologies that will transform existing materials into products with large amounts of added value" has gotten numerous patents in the field of various kinds of processes for fine chemicals through the trading company, Nagase, and has earned the esteem of customers for these products in various industries.

As mentioned earlier, the integration of production subsidiaries will strengthen our organic synthesis technology and biotechnology (enzymes), and with the cooperation of the R&D Center, production will be unified, not only in the development and evaluation of pharmaceutical intermediates and fine chemicals for electronics industries, but all the way to production, in keeping with customers requests. The chirotechnology developed at the R&D Center provides the essential technology needed to accomplish this.

The possibilities of "chirotechnology"

Chirotechnology is a technology to produce optically active compounds that overlaps the fields of both organic synthesis and biotechnology (see column for details). At present it is drawing attention around the world as being indispensable for the production of pharmaceutical intermediates and is being looked at as a technology with potential in the development of electronic materials. For example, products prepared from optically active compounds are beginning to appear as dopants for liquid crystals.

As a company that specializes in chemicals trading,

Nagase has a wealth of experience in the production of enzymes and their applications. This led to research in "chirotechnology" in the 1980s when the R&D Center was still in its planning stages and the pharmaceutical department had begun cooperative development regarding the pharmaceutical and pharmaceutical intermediates business with overseas venture companies. At the time, the technology related to the cooperative development still in its infancy; however, since then it has grown and the level of research is now quite advanced, having contributed to the creation of various products on the way.

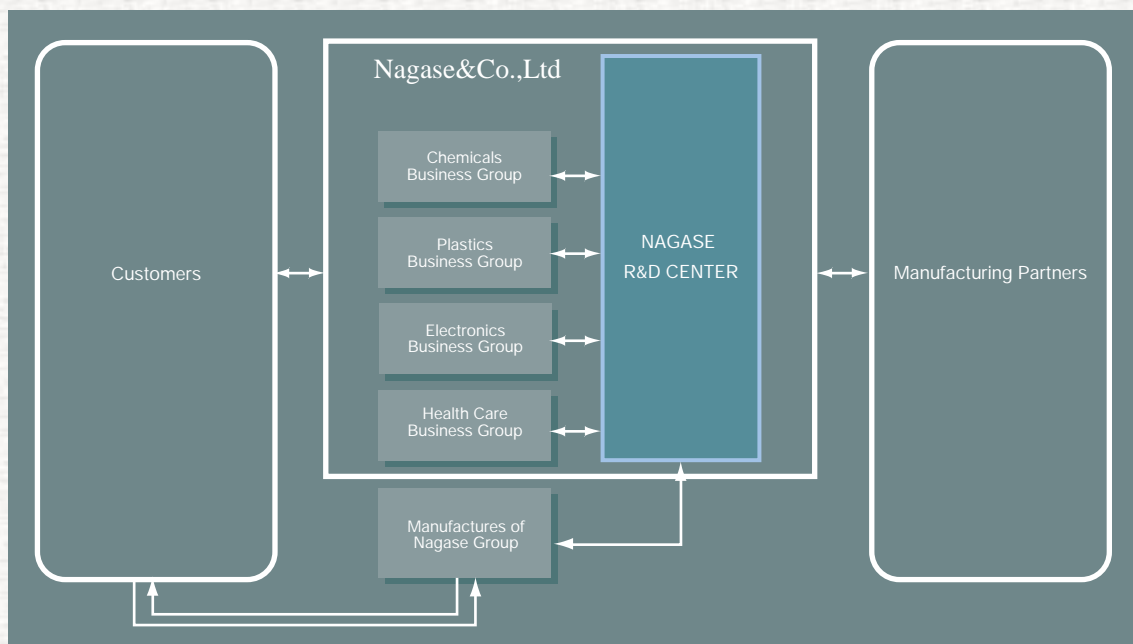
The R&D Center has been researching optically active compounds since its inception and has achievements in all three basic areas (optical resolution, asymmetric synthesis, and the chemoenzymatic method). Nagase is a trading company which has research and development capabilities that allow it to understand the customer's requirements in both the pharmaceutical and electronics industries, and which allow it to meet the production processing requirements using any one of the three methods mentioned earlier that best suits the situation. Environmental problems are an example of this in particular (even in the case of the three methods), and research in the area of the chemoenzymatic method, which has attracted a lot of attention and is expected to become the core method in the future, is one of the leading topics within the academic community. Hereafter, we will increase the use of our wealth of knowledge (which is our strength) regarding chemoenzymatic method to propose processes that will provide the greatest advantages to our customers. The applied usage field for our optically active compounds is attracting interest worldwide and is one of the major fields for the Nagase Group.

Example) Chemoenzymatic production of optically active 3-quinuclidinol

Announced at the 3rd Japanese Symposium on the Chemistry of Biocatalysis in January 2000

(R)-3-Quinuclidinol is a versatile optically active compound that is being used as a pharmaceutical intermediate, for example, for a drug used for the treatment of urinary incontinence. At present, industrial production on a 100-kg scale is being carried out using the chemoenzymatic production method developed at Nagase's R&D Center and it is being supplied to a pharmaceutical company which is using it for clinical trials. When this new drug is marketed in the near future, production of (R)-3-Quinuclidinol in ton quantities is expected. The results of this research appeared as the top article in the 43rd issue of the "Enzyme Engineering News" published by the Japanese Society of Enzyme Engineering (one of the organizations that is promoting the development of Japan's bioindustries).

I. Strengthening the group's research and development, production and processing functions



R&D Center – Major Themes

Research Team	Main Technology	Theme Outline
1st Research Team	Organic synthesis	R&D directed towards the manufacturing of chiral compounds (optically active compounds) including API's, pharmaceutical intermediates, dopants for liquid crystals etc.
2nd Research Team	Biotechnology (microorganisms, enzymology)	
3rd Research Team	Cell Biology, Cosmetic Biology, Free Radical Biology	Development of active ingredients for health foods, functional foods cosmetics, etc.
4th Research Team	Instrumental analysis, Formulation Polymer science Analysis	Development of functional coating materials Development of plastics additives Analysis of imported API's in accordance with GMPI standards

Under a broad interpretation, optically active materials may be referred to as enantiomers or as chiral compounds.

When an organic molecule cannot be superimposed on its mirror image, it is said to be chiral and in this case, each molecule is called an enantiomer. Enantiomers have the capability to rotate the plane of polarized light. For this reason, such molecules are known as optically active compounds. A pair of enantiomers is called a racemate collectively.

Proteins, nucleic acids, and sugars, and other common biomacromolecules that make up life on earth, from viruses to human beings, are built from optically active components; l-amino acids for proteins, d-nucleotides for nucleic acids, and d-saccharide for sugars (l- and d- are prefixes to discriminate enantiomers).

With the exception of a few rare occurrences, the amino acids found in nature are all made up of l-forms, as are those in humans. The natural amino acids that make up proteins are all l-forms, which means that humans can discriminate one enantiomer (a real image) from another (a mirror image).

Prior to the 1970s when this information was not known, the tragic problem with the thalidomide sleeping pills occurred. At that time, thalidomide was prescribed as a racemate, a 1:1 mixture of l- and d- forms, and it is now believed that the strong teratogenic side effect is present in only in the l- form of thalidomide while the desired pharmacological activity is found in both the l- and d- forms. After this tragedy, detailed investigation into optical activity was promoted and the FDA charged the responsibility for evaluating the side effects and pharmacological activity of optical enantiomers and racemates. Recently, racemic drugs including anti-inflammatory and psychotropic drugs were resolved into their constituent enantiomers (optically active components), and the single enantiomers with improved pharmacological efficacy were submitted to the FDA as new drugs. 70 % of the drugs approved in the past ten years have been single enantiomers, or optically active pharmaceuticals.

II. Strengthening of business expansion overseas



Yoshizo Shibata
Director
Corporate Planning Office

Promoting the creation of new markets

As a longtime exclusive distributor for major overseas manufacturers, Nagase has a solid history of opening new markets.

Particularly in the field of chemicals, which make up the foundation of all industries, we have been quick to put staff members with technical expertise in the front lines of marketing to beat out other companies. We have also produced new applications in cooperation with manufacturers and customers. In this manner, we managed to build up a human network in customer research and development and on their production sites. This network goes beyond Japan. We had already established our own overseas network by the time other Japanese companies were starting overseas expansion activities. Although we have gradually been losing our edge in the handling of imports, we are not worried. Full utilization of our subsidiary manufacturing companies and the capabilities of our R&D Center, the formation of alliances with various other companies, and our continuing efforts to provide new products and services to meet the needs of our customers will ensure that we maintain our leading position.

Overseas expansion strategy

The Japanese home appliance, electronics and automotive industries have been active in establishing overseas production bases, and our company has contributed to these overseas facilities in the areas of processing and assembly. We have also established a supply-chain management system and increased the cost-effectiveness of distribution. Since most of these activities were carried out in

Asia, our company established a network of companies incorporated under the laws of each country in the region.

Until recently, there was a tendency for production to be undertaken in single regions (especially in Asia); however, the trend is presently moving toward bringing production closer to the location where the items will be used. In addition, there is a demand for the capability of providing only the required number of items, when and where they are needed.

For example, sales by Nagase Kisho Electronics Inc. *1, our joint-venture company in Mexico that produces parts for TVs and PC monitors, have grown considerably. This was due to the fact that Nagase Kisho was able to meet the demand for shorter delivery times brought on by the growth of E-commerce in the U.S. and the use of the "just-in-time" system.

Companies are moving toward the use of alliances to handle everything from the development of new products to their marketing, as opposed to doing everything in-house. As this trend continues to expand around the world, we have an advantageous position in that the global network we have built up over the years allows us to advise our customers on which corporate alliances would produce optimal results. As such, we plan to propose "production and supply solutions" that incorporate our company's manufacturing and processing capabilities.

*1: Nagase Kisho Electronics Inc. was a non-consolidated subsidiary in fiscal 2000.

III. Strengthening IT

The strengthening of IT is a must

At present, we are according IT and related expenditures 1.6 billion yen per year in investment and costs, an amount which is the equivalent of 0.3% of our sales; however, we will be increasing this in the future. In a trading company where people are assets, the productivity of each employee is vital. In order to get the greatest amount of work done in a limited time, and to be able to confer with others, as well as communicate throughout the various departments and with other companies, it is mandatory that we strengthen our IT. We must also surmount the many obstacles surrounding the various management topics regarding the use and strengthening of IT, and we have to increase our company's capabilities to expand to the point where it exceeds that of other companies. In particular, E-commerce will definitely have a great influence on our company in the future, and although we still do not have a clear idea of the concrete influence it will exert, we are in the process of linking our companies in order to obtain positive effects.

Present progress in E-Commerce

Last fall saw the beginning of internet sales of DVD decoding software. While this software has already been sold to more than 30,000 members, we would like to increase sales to 200,000 by the end of 2000.

We have also begun the trial marketing of nutritional supplements. We have managed to establish the minimum infrastructure needed to participate in E-Commerce as a result of these two trials. In the future, we will have to set up a payment collection system, and incorporate a reliable, low-cost distribution system in Japan using the Nagase Group's technology.

Other concrete themes that are now under consideration are:

1. a marketing system for home building supplies for building contractors
2. a health management system to prevent diseases related to lifestyles
3. marketing of plastics and chemicals in Southeast Asia
4. marketing of functional coloring materials in America
5. a supply-chain management system for dyes and pigments
6. design of molds for plastics, and the building of a production system for them

Reinforcing domestic and overseas distribution

We are aiming to increase our group's competitiveness by strengthening our distribution capabilities and emphasizing optimization of distribution throughout our group. As the first step, we are setting up our database for optimal inventory management so that it can be used within our group's production companies for supply-chain management (SCM). In addition, we are planning to



propose that our main overseas suppliers use SCM in every stage from production design to the marketing of imports. We are also building a common domestic distribution and area delivery system that can be used within our group. With regard to overseas distribution, we established a customer service organization in each of our subsidiaries in ASEAN countries while filling out our distribution capabilities and reducing costs.

Nagase Logistics Service Co., Ltd., which is being used by the entire group for outsourcing import and export operations, has a strong, new, client-server database system for import and export trade and has boosted productivity through the concentrated operation of this system. In other areas, the EDI extranet between overseas subsidiaries and the building of an ordering and order reception/shipping information system, together with the sharing of distribution information between Japan and overseas group companies through communications technology, has definitively increased operations efficiency.



<http://direct.nagase.co.jp/dvddirect/>



<http://direct.nagase.co.jp/>



<http://www.nutrimedics.com/>

IV. Our approach to environmental protection



Masahiro Murayama
Director and Chairman of
Nagase's Environmental Protection Committee

Policies on environmental protection

Nagase, "the technology and intelligence oriented company," turns wisdom into business while helping the environment. New products we develop are environmentally friendly and contribute to the conservation of the world's resources. Through creation and expansion of our "eco-business" activities, we are working to protect the environment.

At present, we are using our strength as a specialized chemicals trading company to provide information on the safety of chemicals-information that will help lead to the achievement of zero emissions. We also market eco-materials, equipment and systems that will reduce the burden on the environment, as well as provide us with approximately 30 billion yen in sales. Among our specific areas of involvement are: halogen-free resins, biodegradable plastics, fluoro-hydrocarbon alternatives, recycling of waste materials, heavy-metal-free materials, solvent collection, and energy-saving equipment, support for low resource-consumption equipment, development of new materials and technology to lessen the strain on the environment.

Acquisition of ISO14001 certification (Certificate No. 772685)

On April 28, 2000, we received ISO14001 certification from Lloyd's Register Quality Assurance Limited, which is authorized by the Japan Accreditation Board for Conformity Assessment (JAB) and the United Kingdom Accreditation Service (UKAS). The certification applies to our Tokyo and Osaka headquarters, Nagoya branch, R & D Center, and Sendai, Hiroshima, Takamatsu and Fukuoka offices.

In May 1999, our company established an Environmental Protection Committee, and after the "kick-off declaration" by our President in July, environmental policies were decided, an environmental management system configured and activities directed toward preserving the environment incorporated throughout our company.

Using ISO14001 as a springboard, we plan to increase our contribution to society through preservation and improvement of the environment.

Research and development regarding the environment

As a trading company we are unique in that we have an R&D Center that develops and evaluates new technologies and serves as the nexus for joint research and development in cooperation with universities.

Our cooperative research and development with regard to the environment includes an enzyme method that uses "intelligent" yeast to produce "biofuel" from waste cooking oil; a "solation and gelation" method, which is a new technology for coloring coatings that allows for the recycling of colored glass; and "bio-scouring" method using enzymes for a cotton scouring.

Our company is approaching environmental problems with new concepts in chemistry in ways such as these.



All employees have
this card written
environmental policy.

Contribution to Society

The activities of the Nagase Science and Technology Foundation

Nagase Science and Technology Foundation

The Nagase Science and Technology Foundation was established in April 1989 in order to promote the development of scientific technology in the fields of biochemistry and organic chemistry. It aims to contribute to development of the social economy through the support of international exchange and research and development. It has supported 191 research projects and 156 international exchange projects to date, providing funding for them in the amount of 520 million yen.

The Science and Technology Agency, which is the agency in charge, has recognized it as a special legal entity that promotes the public interest.



2000

The support of research and development

Name	Occupation	Theme
Biochemistry		
Makoto Ashiuchi	Associate Professor, Faculty of Agriculture, Kochi University	Construction of mass-production system of poly- γ -glutamate by using a novel bacterium isolated from SENGOKUSYO, a traditional Korean fermented soybean-paste similar to Japanese MISO
Kimiyasu Isobe	Associate professor, Faculty of Agriculture, Iwate University	Studies on extracellular enzymes produced by acid- and thermotolerant fungi
Michihiko Kobayashi	Professor, Institute of Applied Biochemistry, The University of Tsukuba	Analysis of nitrilase reaction mechanism
Masataka Tsuda	Professor, Institute of Genetic Ecology, Tohoku University	Mobility of microbial xenobiotic-degrading genes and its use for isolation and characterization of new xenobiotic-degrading genes
Hideyoshi Harashima	Professor, Department of Pharmaceuticals Graduate School, Hokkaido University	Molecular design of bifunctional molecules to control intracellular trafficking of genes for their optimum delivery system
Tadao Fukushima	Associate professor, Department of Dental Materials, Fukuoka Dental College	Antibacterial activity of DNA/n-alkyl-L-alanine complexes
Kousaku Murata	Professor, Research Institute for Food Science, Kyoto University	Three-dimensional structure of pit-dependent macromolecule transport system in bacteria
Masaaki Morikawa	Associate Professor, Graduate School of Engineering, Osaka University	A study on the adaptation mechanisms of extremophiles to high temperature, high pressure, and hydrophobic condition
Organic chemistry		
Nobuharu Iwasawa	Professor, Department of Chemistry, Tokyo Institute of Technology	Efficient Method for the Construction of Carbon Frameworks Utilizing the Change of Structure on Complex Formation
Bunsho Ohtani	Professor, Catalysis Research Center, Hokkaido University	Design of Two-dimensionally Chiral Surface and Application to Chiral Discrimination and Synthesis
Mitsuhiro Shionoya	Professor, Graduate School of Science The University of Tokyo	Synthesis of Metal-Assisted Artificial DNAs and Their Applications to Control of Metal Ion Arrangement
Toshikazu Takata	Professor, Department of Applied Chemistry, Graduate School of Engineering, Osaka Prefecture University	Studies on the Development of Novel Functionalized Materials Endowed with Helical Chiral Field
Takashi Hayashi	Associate Professor, Department of Chemistry and Biochemistry Graduate School of Engineering, Kyushu University	Functionalization of Myoglobin by Synthetic Chemical Process
Masahiko Hayashi	Associate Professor, Department of Chemistry, Faculty of Science, Yamaguchi University	Development of Stereoselective Synthesis of Carbohydrates Using Transition Metal Catalysts
Norihiro Yamada	Associate Professor, Faculty of Education, Chiba University	Research on Termination of β -Sheet Structure with a view to Developing Therapy for Alzheimer's Disease

2000

The support of international exchange and research and development

Name	Occupation	Theme
Bunji Uno	Associate Professor, Gifu Pharmaceutical University	The 197th Meeting of The Electrochemical Society (Toronto, Canada)
Tetsuo Otsubo	Professor, Faculty of Engineering, Hiroshima University	The 8th International Conference on the Chemistry of Selenium and Tellurium (San Paulo, Brazil)
Seiji Kurihara	Associate Professor, Faculty of Engineering, Kumamoto University	SPIE's 45th Annual Meeting (San Diego, USA)
Mitsuru Haruki	Assistant, Graduate School of Engineering, Osaka University	YEAR 2000 RNASE H MEETING (Seattle, USA)
Yoshihiro Matsumura	Professor, Department of Pharmaceutical Science, Nagasaki University	The 197th Meeting of The Electrochemical Society (Tronto, Canada)
Yoichi Sakakibara	Assistant, Faculty of Agriculture, Miyazaki University	*Molecular cloning and biochemical characterization of brain specific sulfotransferase (Tyler, Texas, USA)
Katsuhiko Kitamoto	Professor, Graduate School of Agricultural and Life Sciences, The University of Tokyo	International symposium Molecular biology of filamentous fungi, Aspergilli
Mitsuo Komatsu	Professor, Graduate School of Engineering, Osaka University	The 8th International Kyoto Conference on New Aspects of Organic Chemistry
Takayuki Shioiri	Professor, Faculty of Pharmaceutical Sciences Nagoya City University	The 8th Akabori Conference: Japanese German Symposium on Peptide Science (To support Prof. Horst Kunz)
Kazuhiko Takai	Professor, Faculty of Engineering, Okayama University	Okayama International Conference on Organic Synthesis (To support Prof. Craig J. Forsyth)
Shinji Murai	Professor, Graduate School of Engineering, Osaka University	400 Years Japan-Netherlands / Garatama Workshop (To support Prof. Gerard van Koten)

Financial Section



Akira Naito
 Managing Director
 Finance Dept.

Greetings from the Director of the Finance Department

This page and the pages following it are the report of the Financial Section. The contents contained herein follow the basic rules of Japanese accounting.

The contents of this report have been shortened for the sake of brevity and we ask for your kind understanding on this point.

This fiscal period marks the first time that Nagase & Co., Ltd. and its group companies have produced an annual report. Japanese accounting is in the midst of shifting towards consolidated accounting, and our company will strive to increase the level of disclosure offered by consolidated accounting.

In addition to the contents of this annual report, we plan to make corporate information available to the public as far as possible in real time via our website. [http:// www.nagase.co.jp/](http://www.nagase.co.jp/)

We hope that you will continue to honor our company and group with your kind support.

Financial Review	28
Consolidated Balance Sheets	29
Consolidated Statements of Income	31
Consolidated Statements of Shareholders' Equity	32
Consolidated Statements of Cash Flows	33
Notes to Consolidated Financial Statements	34
Independent Auditors' Report	44

Financial Review

Operating Results

Total sales for this fiscal period were 568,294 million yen - an increase of 0.9% over the prior year.

Domestic sales were 404,156 million yen, a reduction of 0.4% as compared to the prior year, and overseas sales were 164,138 million yen which represented 4.1% increase over the prior year.

Viewed by business areas, the chemicals business increased 2.4% with sales of 249,977 million yen while plastics business sales decreased 3.3% to 192,711 million yen. The electronics business increased 5.1% with sales of 109,770 million yen, and the health care & other business was up by 2.1% with sales of 15,836

million yen.

With regard to profits, gross profits increased 3.9% over the prior year to 55,287 million yen due to increases of our consolidated subsidiaries, with an increase of 4.6% over the prior year in operating income which was 8,147 million yen after the deduction of selling, general and administrative expenses. Net income increased 78.9% over the prior year to 6,371 million yen due to increases in investment profits on equity method, decrease in domestic income tax rates, etc.

Financial Position

Assets

Total assets at the end of the fiscal period had increased by 6.1% over the prior fiscal period and were at 316,657 million yen.

Current assets increased by 5.8% to 236,393 million yen, trade receivables increased to 6,685 million yen, inventories increased to 2,293 million yen, and deferred tax assets increased to 1,407 million yen with the introduction of tax-effect accounting.

Tangible fixed assets were up 13.9% at 22,110 million yen due to increases in our consolidated subsidiaries. Investments and advances increased by 4.4% to 57,997 million yen. The main reason for this was the increase in deferred tax assets to 2,890 million yen and the reduction of investments in securities to 877 million yen.

Liabilities

Total liabilities at the end of the fiscal period had increased by 4.6% as compared to the end of the prior fiscal period and were 175,425 million yen. With regard to current liabilities, a reduction of 3,225 million yen in accrued income taxes, reduction in short-term loans payable of 1,245 million yen, with the subtraction of an increase of 5,307 million yen in trade liabilities, etc. resulted in a 0.1% reduction of 159,816 million yen. Fixed liabilities increased 15,609 million yen, or 100.1%, due to the issuance of company bond amounting to 7,000 million yen, etc.

Shareholders' Equity

Shareholders' equity at the end of the fiscal period had increased by 7.1% as compared to the end of the prior fiscal period and was at 134,838 million yen. With the objective of returning profits to shareholders, the buying back and retirement of treasury stock was carried out, with 4,542,000 shares amounting to 2,118 million yen bought back.

Cash Flows

In our current consolidated fiscal year cash flows, we saw the contribution of increases in operating income from our consolidated subsidiaries, with capital from operating activities increasing to 3,613 million yen, however, due to an increase in investments in facilities there was a reduction in capital to 2,607 million yen in investing activities. With regard to financing activities, the Company increased capital by issuing bond and as a result of efforts in earnings gained by canceling common stock and the reduction of interest liabilities designed to strengthen subsidiary companies financial status, a reduction in capital of 28 million yen was achieved. The result of the above was 559 million yen increase in cash and cash equivalents as compared to the closing balance of the prior fiscal period to 21,016 million yen.

Research and Development Activities

Our group (our company and its consolidated subsidiaries) is engaged in research and development aimed at concentrating the group's total power and at creating new products and technologies. At present research activities are being carried out in research and development sections in our production companies as well as at our Research and Development Center in trading activities regarding chemical products, plastics, etc. and in the fields of organic

chemistry and biotechnology which are related to the future of our production companies, as well as in the creation of new products and technologies together with the evaluation of information concerning their technologies. Research and development expenses totaled 2,063 million yen in the current consolidated fiscal accounting period.

Consolidated Balance Sheets

Nagase & Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Current assets:			
Cash and time deposits (Note 13)	¥ 18,452	¥ 18,303	\$ 173,828
Short-term Investments (Note 3)	4,998	4,156	47,087
Trade receivables:			
Unconsolidated subsidiaries and affiliates	10,022	9,564	94,417
Others	169,154	162,927	1,593,534
Less allowance for doubtful accounts	(1,163)	(1,307)	(10,959)
Trade receivables - net	178,013	171,184	1,676,992
Inventories	27,824	25,531	262,123
Deferred tax assets (Note 10)	1,407	—	13,252
Other current assets	5,699	4,219	53,690
Total current assets	236,393	223,393	2,226,972
Property and equipment:			
Land	7,075	6,317	66,650
Buildings and structures	22,527	20,583	212,218
Machinery and equipment	15,442	10,033	145,478
Vehicles	402	7,475	3,786
Construction in progress	476	104	4,486
Other property	8,239	50	77,617
Total property	54,161	44,562	510,235
Less accumulated depreciation	(32,051)	(25,149)	(301,941)
Property and equipment - net	22,110	19,413	208,294
Investments and advances:			
Investments in securities: (Note 3)			
Unconsolidated subsidiaries and affiliates	10,434	10,951	98,292
Others	39,070	39,430	368,069
Total Investments in securities	49,504	50,381	466,361
Long-term loans	331	457	3,121
Other Investments	5,435	4,966	51,189
Deferred tax assets (Note 10)	2,890	—	27,227
Less allowance for doubtful accounts	(163)	(225)	(1,533)
Total investments and advances	57,997	55,579	546,365
Other assets	157	140	1,482
	¥ 316,657	¥ 298,525	\$ 2,983,113

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Current liabilities:			
Accounts payable:			
Unconsolidated subsidiaries and affiliates	¥ 2,834	¥ 3,730	\$ 26,694
Others	120,696	114,493	1,137,037
	<u>123,530</u>	<u>118,223</u>	<u>1,163,731</u>
Accrued income taxes (Note 10)	1,519	4,744	14,310
Accrued expenses	6,159	5,523	58,020
Other current liabilities	28,608	31,450	269,503
Total current liabilities	<u>159,816</u>	<u>159,940</u>	<u>1,505,564</u>
Long-term liabilities:			
Long-term debt (Note 4)	2,500	2,252	23,555
Bond (Note 4)	7,000	—	65,944
Accrued severance indemnities	5,590	5,525	52,664
Other long-term liabilities	519	25	4,885
Total long-term liabilities	<u>15,609</u>	<u>7,802</u>	<u>147,048</u>
Minority interests	<u>6,394</u>	<u>4,853</u>	<u>60,239</u>
Contingent liabilities (Note 5)			
Shareholders' equity: (Note 8)			
Common stock:			
Authorized - 350,109,000 shares			
Issued (¥50 par value):			
March 31, 2000 — 141,537,285 shares	9,700	—	91,377
March 31, 1999 — 146,079,285 shares	—	9,700	—
Additional paid-in capital	9,635	9,635	90,767
Consolidated surplus	115,503	106,595	1,088,121
Treasury common stock, at cost	(0)	(0)	(3)
Total shareholders' equity	<u>134,838</u>	<u>125,930</u>	<u>1,270,262</u>
	<u>¥ 316,657</u>	<u>¥ 298,525</u>	<u>\$ 2,983,113</u>

Consolidated Statements of Income

Nagase & Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Net sales (Note 12)	¥ 568,294	¥ 563,222	\$ 5,353,686
Cost of sales (Note 9, 12)	513,007	510,007	4,832,846
Gross profit	55,287	53,215	520,840
Selling, general and administrative expenses (Note 9)	47,140	45,424	444,086
Operating income	8,147	7,791	76,754
Other income (expenses):			
Interest and dividend income	2,091	1,947	19,695
Interest expenses	(758)	(1,093)	(7,142)
Gain on sales of investment securities	334	439	3,146
Others — net	524	(193)	4,936
Income before income taxes and minority interests	10,338	8,891	97,389
Income taxes: (Note 10)			
Current	3,486	5,197	32,842
Deferred	144	—	1,354
Income before minority interests	6,708	3,694	63,193
Minority interests	337	133	3,172
Net income	¥ 6,371	¥ 3 561	\$ 60,021
		Yen	U.S. Dollars (Note 1)
	2000	1999	2000
Amounts per share of common stock:			
Net income :			
Basic	¥ 44.25	¥ 23.76	\$ 0.42
Diluted	44.25	23.76	0.42
Cash dividends applicable to the period	8.00	8.00	0.08

The accompanying notes are an integral part of these statements.

Consolidated Statements of Shareholders' Equity

Nagase & Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of Yen					
	Shares of common stock	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated surplus
Balance at March 31, 1998	151,428,285	¥ 9,700	¥ 9,635	¥ 2,425	¥ 100,771	¥ —
Transfer according to revision of "Regulations Concerning the Terminology, Forms and Preparation Method of Consolidated Financial Statements" (Note 1)	—	—	—	(2,425)	(100,771)	103,196
Net income	—	—	—	—	—	3,561
Increase in retained earnings accompanying the increase in number of consolidated subsidiaries	—	—	—	—	—	1,141
Increase in retained earnings accompanying the increase in number of companies accounted for by the equity method	—	—	—	—	—	2,332
Cash dividends	—	—	—	—	—	(1,211)
Bonuses to directors	—	—	—	—	—	(68)
Retirement of common stock	(5,349,000)	—	—	—	—	(2,356)
Balance at March 31, 1999	146,079,285	¥ 9,700	¥ 9,635	¥ —	¥ —	¥ 106,595
Net income	—	—	—	—	—	6,371
Increase in retained earnings accompanying the increase in number of consolidated subsidiaries	—	—	—	—	—	260
Increase in retained earnings accompanying the increase in number of companies accounted for by the equity method	—	—	—	—	—	885
Cash dividends	—	—	—	—	—	(1,169)
Bonuses to directors	—	—	—	—	—	(60)
Retirement of common stock	(4,542,000)	—	—	—	—	(2,118)
Increase in unappropriated retained earnings by merger	—	—	—	—	—	272
Prior-year adjustment of deferred taxes	—	—	—	—	—	4,467
Balance at March 31, 2000	141,537,285	¥ 9,700	¥ 9,635	¥ —	¥ —	¥ 115,503

	Thousands of U.S. Dollars (Note 1)				
	Common stock	Additional paid-in capital	Legal reserve	Retained earnings	Consolidated surplus
Balance at March 31, 1999	\$ 91,377	\$ 90,767	\$ —	\$ —	\$ 1,004,190
Net income	—	—	—	—	60,021
Increase in retained earnings accompanying the increase in number of consolidated subsidiaries	—	—	—	—	2,454
Increase in retained earnings accompanying the increase in number of companies accounted for by the equity method	—	—	—	—	8,337
Cash dividends	—	—	—	—	(11,009)
Bonuses to directors	—	—	—	—	(564)
Retirement of common stock	—	—	—	—	(19,951)
Increase in unappropriated retained earnings by merger	—	—	—	—	2,565
Prior-year adjustment of deferred taxes	—	—	—	—	42,078
Balance at March 31, 2000	\$ 91,377	\$ 90,767	\$ —	\$ —	\$ 1,088,121

The accompanying notes are an integral part of these statements.

Consolidated Statements of Cash Flows

Nagase & Co., Ltd. and Consolidated Subsidiaries
For the years ended March 31, 2000 and 1999

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Operating activities:			
Net income	¥ 6,371	¥ 3,561	\$ 60,021
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,144	2,311	20,196
Provision for retirement benefits-net	(874)	(297)	(8,236)
Gain on disposal of property and equipment-net	(13)	(6)	(123)
Equity in earnings of unconsolidated subsidiaries and affiliates-net	(770)	(261)	(7,259)
Gain on sales of investment securities	(305)	(281)	(2,876)
Loss on devaluation of investment securities	1,449	1,806	13,649
Others — net	79	(307)	762
Decrease (increase) in operating assets:			
Trade receivables	(2,657)	15,926	(25,032)
Inventories	(635)	(1,298)	(5,978)
Other operating assets	(897)	(59)	(8,454)
Increase (decrease) in operating liabilities:			
Accounts payable	2,929	(12,296)	27,596
Accrued income taxes	(3,282)	2,361	(30,919)
Accrued expenses	636	658	5,991
Other operating liabilities	(562)	(41)	(5,298)
Net cash provided by operating activities	<u>3,613</u>	<u>11,777</u>	<u>34,040</u>
Investing activities:			
Increase in marketable securities-net	—	(2,949)	—
Purchases of property and equipment	(2,929)	(2,426)	(27,595)
Proceeds from sales of property and equipment	1,273	214	11,991
Purchases of investment securities	(3,168)	(4,353)	(29,849)
Proceeds from sales of investment securities	1,602	1,516	15,092
Additions of long-term loans	(212)	(338)	(1,996)
Collections of long-term loans	75	159	705
Others — net	752	210	7,088
Net cash used in investing activities	<u>(2,607)</u>	<u>(7,967)</u>	<u>(24,564)</u>
Financing activities:			
Decrease in short-term loans	(2,298)	(633)	(21,652)
Issuance of commercial paper	(1,000)	—	(9,421)
Proceeds from long-term debt	—	250	—
Repayment of long-term debt	(878)	(891)	(8,279)
Cash dividends and bonuses to directors	(1,229)	(1,280)	(11,574)
Proceeds from issuance of bond	7,000	—	65,944
Expenditures for treasury stock	(2,118)	(2,356)	(19,951)
Others — net	495	(3)	4,666
Net cash used in financing activities	<u>(28)</u>	<u>(4,913)</u>	<u>(267)</u>
Effect of exchange rate changes on cash and cash equivalents	(419)	—	(3,941)
Net increase (decrease) in cash and cash equivalents	559	(1,103)	5,268
Cash and cash equivalents at the beginning of the year	19,735	17,593	185,912
Increase in cash accompanying consolidation	722	1,813	6,803
Cash and cash equivalents at the end of the year (Note 13)	¥ 21,016	¥ 18,303	\$ 197,983

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements

Nagase & Co., Ltd. and Consolidated Subsidiaries

1. BASIS OF PREPARING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nagase & Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Commercial Code and in conformity with accounting principles and practices generally accepted in Japan, which may differ in some material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The "Legal reserve" and "Retained earnings" that appeared in the consolidated financial statements in the fiscal period prior to that preceding this one appear as "Consolidated surplus" due to a revision of the rules concerning the consolidated financial statement.

The U.S. dollar figures are presented merely for the sake of convenience and are simple conversions of yen to dollars. The conversion rate used was 106.15 yen to the dollar, which was the exchange rate current on March 31, 2000. This translation should not be construed as a representation that Japanese yen have been or could be converted into U.S. dollars at that rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(1) Principles of consolidation

The major Japanese subsidiaries and overseas subsidiaries over which the Company has management authority are included in this consolidated financial statement. With regard to investments in unconsolidated subsidiaries and affiliates (possession of 15-50% shares), the equity method has been applied for those which have an influence to the consolidated financial statements. All significant inter-company transactions and accounts are eliminated. Consolidated account adjustments are uniformly depreciated over a 5-year period.

(2) Foreign currency translation

With regard to short term foreign currency receivables and payables, the yen conversion rate at the time of the transaction or that of the currency market at the time had been employed in the past, however, from this consolidated fiscal year, the currency market rate at the time of balancing the accounts will be utilized. In conjunction with this change, an excess amounting to 15 million yen (\$144 thousand) in the income before income taxes and minority interests for the prior period and this period has been listed using a similar fiscal period in the prior consolidated accounting period as a comparison standard. With regard to overseas consolidated subsidiaries, the foreign exchange rate on the date of the balance sheet was used in all parts of the balance sheet except for the shareholders' equity section; and with regard to income and expenses, the currency market yen average for the year was used.

(3) Short-term investments and investments in securities

For securities for which a securities market exists, the lower of cost or market value method using the moving average method was used. For all other securities, the cost method using the moving average method was used.

(4) Inventories

The evaluation standard and method for inventories was the lower of cost or market value method using the weighted average method.

(5) Depreciation

With regard to tangible fixed assets, the declining-balance method specified under the Corporation Tax Law has been used. For five of the consolidated subsidiaries the straight-line method has been used. However, in accordance with the 1998 revision of the Tax Code, the life of buildings has been reduced and the straight-line method has been used on buildings acquired after April 1, 1998.

(6) Employee's retirement benefits plans

In the prior fiscal period, in order to meet employee's retirement payments - for those who retired at the request of the company, 100% for the Company; and for consolidated domestic subsidiaries' employees, those who voluntarily retired, 100% - were used as the basis for the reserve, and the qualified pension plan (used at the Company and at 8 subsidiaries) were deducted as the retirement fund balance and placed in the reserve for employees' retirement, however, in this fiscal period employees who retired at the request of the company in both the Company and the subsidiaries required payment reserves that were based on 100% and the qualified pension plan (used at the Company and 8 subsidiaries) with the amount deducted as the retirement asset balance and used as the amount for the reserve for employee's retirement. This change was enacted to unify the accounting processing standards used between the Company and subsidiaries and to better ensure the financial health of the company. In conjunction with this change, 364 million yen (\$3,431 thousand) less of operating income and income before income taxes and minority interests have been listed using a similar fiscal period in the prior consolidated accounting period as a comparison standard. With regard to the Company, an adjusted pension plan is also being used in addition to the qualified pension plan.

(7) Income taxes

Under the Japanese income tax system there are corporate taxes, enterprise taxes, and inhabitants' taxes. The amount that is paid for these taxes each year has been listed. In accordance with the revision of the rules for consolidated financial statements, tax-effect accounting has been implemented beginning with this current consolidated accounting financial period. In accordance with this change, deferred tax assets of 4,297 million yen (\$40,479 thousand) (1,407 million yen (\$13,252 thousand) in current assets and 2,890 million yen (\$27,227 thousand) in investments and advances) have been newly listed with net income listed at 144 million yen (\$1,354 thousand) less with the consolidated surplus at the end of the year being listed at 4,323 million yen (\$40,724 thousand) in excess.

(8) Research and development cost

Research and development costs are included in income and expenditures.

(9) Allowance for doubtful receivables

In order to prepare for losses from uncollectible accounts receivables, in addition to the limit specified under Corporation Tax Law, this has been listed after taking into consideration the collectibility of receivables.

Notes to Consolidated Financial Statements

(10)Accounting for lease transaction

Finance leases other than those where the rights of possession for the leased article are transferred to the lessee have been processed in accordance with the accounting procedures for normal rental transactions.

(11)Net income per share

Net income per share has been calculated based on the average of the number of stock issued for the period.

(12)Cash and cash equivalents

For purposes of the consolidated statement of cash flows cash and cash equivalents, consist of cash on hand, demand deposits and short-term investments, which are readily convertible to cash subject to an insignificant risk of changes in value and which were purchased with an original maturity of three months or less.

3.SHORT-TERM INVESTMENTS AND INVESTMENTS IN SECURITIES

SHORT-TERM INVESTMENTS

2000	Millions of Yen		
	Book value	Market value	Unrealized gain (loss)
Market value available			
Equities	¥ —	¥ —	¥ —
Bonds	—	—	—
Others	—	—	—
Sub-Total	—	¥ —	¥ —
Market value not available	4,998		
Total	¥ 4,998		

* These are shown for only the present consolidated fiscal period.

2000	Thousands of U.S. Dollars (Note 1)		
	Book value	Market value	Unrealized gain (loss)
Market value available			
Equities	\$ —	\$ —	\$ —
Bonds	—	—	—
Others	—	—	—
Sub-Total	—	\$ —	\$ —
Market value not available	47,087		
Total	\$ 47,087		

INVESTMENTS IN SECURITIES

2000	Millions of Yen		
	Book value	Market value	Unrealized gain (loss)
Market value available			
Equities	¥ 33,317	¥ 74,616	¥ 41,299
Bonds	18	127	109
Others	—	—	—
Sub-Total	33,335	¥ 74,743	¥ 41,408
Market value not available	16,169		
Total	¥ 49,504		

* These are shown for only the present consolidated fiscal period.

2000	Thousands of U.S. Dollars (Note 1)		
	Book value	Market value	Unrealized gain (loss)
Market value available			
Equities	\$ 313,869	\$ 702,933	\$ 389,064
Bonds	166	1,197	1,031
Others	—	—	—
Sub-Total	314,035	\$ 704,130	\$ 390,095
Market value not available	152,326		
Total	\$ 466,361		

4. LONG-TERM DEBT AND BOND

Long-term debt at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Loans from banks and insurance companies, maturing serially through 2007 1.7%-2.8%	¥ 2,500	¥ 2,252	\$ 23,555

The amount expected to be paid for long-term loans payable (loans with repayment schedules of less than a year are not included) with consolidated maturity dates of 5 years or less are as listed below.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000		
Over 1 year to 2 year	¥ 621		\$ 5,850
Over 2 year to 3 year	757		7,128
Over 3 year to 4 year	50		471
Over 4 year to 5 year	25		235

* These are shown for only the present consolidated fiscal period.

Bond at March 31, 2000 and 1999 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Unsecured corporate bond To be maturing on November 30, 2004 with a coupon rate of 1.53%	¥ 7,000	¥ —	\$ 65,944

5. CONTINGENT LIABILITIES

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Notes discounted or endorsed	¥ 1,118	¥ 1,084	\$ 10,533
Guarantees of bank loans:			
Unconsolidated subsidiaries and affiliates	1,225	1,003	11,536
Others	485	1,014	4,570

Notes to Consolidated Financial Statements

6. LEASES

Our group (the Company and its consolidated subsidiaries) leases certain buildings and structures, equipment and vehicles, furniture and fixtures. Total lease payments under these were ¥1,315 million (\$12,392 thousand) and ¥1,155 million for the

years ended March 31, 2000 and 1999, respectively.

Pro forma information on finance leases other than those where the rights of possession for the leased article are transferred to the lessee is as given below.

2000	Millions of Yen		
	Acquisition cost or its equivalent value	Accumulated depreciation or its equivalent value	Balance at year-end or its equivalent value
Buildings and structures	¥ —	¥ —	¥ —
Equipment and vehicles	3,167	1,292	1,875
Furniture and fixtures	1,924	937	987
Total	¥ 5,091	¥ 2,229	¥ 2,862

1999	Millions of Yen		
	Acquisition cost or its equivalent value	Accumulated depreciation or its equivalent value	Balance at year-end or its equivalent value
Buildings and structures	¥ 54	¥ 28	¥ 26
Equipment and vehicles	2,072	826	1,246
Furniture and fixtures	2,431	1,313	1,118
Total	¥ 4,557	¥ 2,167	¥ 2,390

2000	Thousands of U.S. Dollars (Note 1)		
	Acquisition cost or its equivalent value	Accumulated depreciation or its equivalent value	Balance at year-end or its equivalent value
Buildings and structures	\$ —	\$ —	\$ —
Equipment and vehicles	29,837	12,173	17,664
Furniture and fixtures	18,121	8,827	9,294
Total	\$ 47,958	\$ 21,000	\$ 26,958

Future minimum lease payments to be made under finance leases subsequent to March 31, 2000 and 1999 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Within 1 year	¥ 1,021	¥ 919	\$ 9,624
Over 1 year	2,107	1,686	19,848
Total	¥ 3,128	¥ 2,605	\$ 29,472

7.DERIVATIVES AND HEDGING ACTIVITIES

In order to prepare for risks associated with fluctuations in exchange rates incurred in import-export transactions, our corporate group utilizes exchange futures transactions mainly for our foreign currencies accounts payables and accounts receivables. In addition, interest options transactions are also utilized to prepare for risks associated with interest fluctuations. These transactions are conducted within the range of contracted amounts and applicable asset/liability constraints based on actual need.

With regard to this consolidated financial period, derivative transactions used to achieve these objectives that bear the risk of

market fluctuations are listed under “Items related to market price transactions.” The parties with whom derivative transactions are contracted are all reliable major financial institutions; and as none of the transactions are long-term, the risk of trustworthiness with regard to breach of contract has been judged to be slight.

In addition, we are carrying out risk management in accordance with our “Rules for in-company foreign exchange transactions” with regard to foreign exchange futures transactions in the Company and consolidated companies.

Items related to market price transactions

I. Exchange related

2000

Type of transaction	Millions of Yen			
	Contract value, etc.	Over 1year	Market Value	Unrealized gain (loss)
Forward exchange				
Contracts to sell				
US \$	¥ 5,414	¥ —	¥ 5,319	¥ 95
Others	69	—	66	3
Contracts to buy				
US \$	911	—	920	9
JP ¥	203	—	202	(1)
Others	127	—	128	1
Total	<u>¥ —</u>	<u>¥ —</u>	<u>¥ —</u>	<u>¥ 107</u>

* Assessment method for market value.

The foreign exchange futures market has been used.

* Futures exchange contracts have foreign currency receivables and payables, etc. and the established exchange values of foreign currency receivables and payables, etc. in yen value at the time of cashing listed on the consolidated balance sheets with their corresponding values are excluded from the table.

* These are shown for only the present consolidated fiscal period.

2000

Type of transaction	Thousands of U.S. Dollars(Note 1)			
	Contract value, etc.	Over 1year	Market Value	Unrealized gain (loss)
Forward exchange				
Contracts to sell				
US \$	\$ 51,005	\$ —	\$ 50,106	\$ 899
Others	650	—	622	28
Contracts to buy				
US \$	8,581	—	8,661	80
JP ¥	1,914	—	1,909	(5)
Others	1,199	—	1,205	6
Total	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,008</u>

Notes to Consolidated Financial Statements

II. Interest related

Type of transaction	Millions of Yen			
	Contract value, etc.	Over 1year	Market Value	Unrealized gain (loss)
Interest rate cap				
Contracts to buy	¥ 120	¥ —		
[Book value]	[2]	[—]	¥ 0	¥ (2)
Total	¥ —	¥ —	¥ —	¥ (2)

* Assessment method for market value.

Values are those that has been submitted by the corresponding financial institutions.

* These are shown for only the present consolidated fiscal period.

Type of transaction	Thousands of U.S. Dollars(Note 1)			
	Contract value, etc.	Over 1year	Market Value	Unrealized gain (loss)
Interest rate cap				
Contracts to buy	\$ 1,130	\$ —		
[Book value]	[18]	[—]	\$ 0	\$ (18)
Total	\$ —	\$ —	\$ —	\$ (18)

8.SHAREHOLDERS' EQUITY

Under the Japanese Commercial Code, in resolving profits at the end of each fiscal period 10% or more of the cash dividends and director's bonuses paid up to the amount of 25% of the company's capital must be saved as a "Legal Reserve." Amounts from this "Legal Reserve" cannot be given out as dividends, however, they

can be used to reduce losses in capital. They can also be moved back into capital. Amounts not exceeding 50% of the stock issued may not be put into capital. However, even in the case when it is acceptable for them not to be put into capital, this is limited to amounts that exceed the face value of face value shares.

9.RESEARCH AND DEVELOPMENT

Our research and development expenses for the year ended March 31, 2000 totaled ¥2,063 million (\$19,440 thousand) and are

included in cost of sales and selling, general and administrative expenses.

10.INCOME TAXES

The Company and its consolidated subsidiaries are subject to a number of taxes based on income. Total statutory tax rates were approximately 42% for the March 2000 period and 48% for the

March 1999 period. As the tax rates of consolidated financial statements have expenses that are not recognized as perpetual losses under the tax statutes, they differ from legal tax rates.

Reasons for the differences in terms of major items between the statutory tax rate and the effective tax rate.

Statutory tax rate	42.1 %
(Adjustment)	
Items which will not be absorbed into loss on a permanent basis	4.2
Items which will not be absorbed into profit on a permanent basis	(8.7)
Net adjustment from intercompany elimination of dividend revenue	1.8
Par capita portion of inhabitants' taxes and, etc.	0.3
Tax rate differentials with consolidated overseas subsidiaries	(5.4)
Others	0.8
Effective tax rate	35.1

Breakdown according to causes for deferred tax assets and deferred tax liabilities

2000	Millions of Yen	Thousands of U.S. Dollars (Note 1)
(Assets subject to deferred tax)		
Unrealized inventory profit	¥ 241	\$ 2,271
Investment securities	1,273	11,996
Long-term prepaid expenses	272	2,559
Unpaid corporate tax, etc.	136	1,285
Bonus reserves	386	3,634
Provision for retirement allowance	780	7,350
Allowance for directors' bonus at retirement	478	4,504
Others	801	7,543
Total of assets subject to deferred tax	4,367	41,142
(Liabilities subject to deferred tax)		
Reserve for compressed booking	(11)	(106)
Special reserve for depreciation	(51)	(480)
Others	(8)	(77)
Total of liabilities subject to deferred tax	(70)	(663)
Net assets subject to deferred tax	¥ 4,297	\$ 40,479

Notes to Consolidated Financial Statements

11.SEGMENT INFORMATION

Business information

2000	Millions of Yen						
	Chemicals	Plastics	Electronics	Health Care & Others	Total	Intercompany elimination	Consolidated Sales
Sales to customers	¥ 249,977	¥ 192,711	¥ 109,770	¥ 15,836	¥ 568,294	¥ —	¥ 568,294
Intersegment sales	10	43	3	1,693	1,749	(1,749)	—
Total sales	¥ 249,987	¥ 192,754	¥ 109,773	¥ 17,529	¥ 570,043	¥ (1,749)	¥ 568,294
Cost of sales and selling, general and administrative expenses	245,850	190,954	107,990	17,101	561,895	(1,748)	560,147
Operating income	¥ 4,137	¥ 1,800	¥ 1,783	¥ 428	¥ 8,148	¥ (1)	¥ 8,147
Total assets	¥ 130,186	¥ 97,272	¥ 47,352	¥ 11,662	¥ 286,472	¥ 30,185	¥ 316,657

* The business classifications used for in-house management have been used with regard to classifications of business categories.

1999	Millions of Yen				
	Chemicals	Plastics	Electronics	Health Care & Others	Total
Sales to customers	¥ 244,068	¥ 199,189	¥ 104,455	¥ 15,510	¥ 563,222

* With regard to the business classifications for the prior fiscal period, only sales for customers have been listed.

2000	Thousands of U.S. Dollars (Note 1)						
	Chemicals	Plastics	Electronics	Health Care & Others	Total	Intercompany elimination	Consolidated Sales
Sales to customers	\$ 2,354,942	\$ 1,815,458	\$ 1,034,106	\$ 149,180	\$ 5,353,686	\$ —	\$ 5,353,686
Intersegment sales	92	401	29	15,955	16,477	(16,477)	—
Total sales	\$ 2,355,034	\$ 1,815,859	\$ 1,034,135	\$ 165,135	\$ 5,370,163	\$ (16,477)	\$ 5,353,686
Cost of sales and selling, general and administrative expenses	2,316,057	1,798,904	1,017,341	161,102	5,293,404	(16,472)	5,276,932
Operating income	\$ 38,977	\$ 16,955	\$ 16,794	\$ 4,033	\$ 76,759	\$ (5)	\$ 76,754
Total assets	\$ 1,226,436	\$ 916,365	\$ 446,092	\$ 109,862	\$ 2,698,755	\$ 284,358	\$ 2,983,113

Geographic information

	Millions of Yen						Intercompany elimination	Consolidated Sales
	Japan	Asia	North America	Others	Total			
Sales to customers	¥ 480,248	¥ 61,298	¥ 18,087	¥ 8,661	¥ 568,294	¥ —	¥ 568,294	
Intersegment sales	53,340	3,858	4,370	3,297	64,865	(64,865)	—	
Total sales	¥ 533,588	¥ 65,156	¥ 22,457	¥ 11,958	¥ 633,159	¥ (64,865)	¥ 568,294	
Cost of sales and selling, general and administrative expenses	528,368	62,493	22,349	11,970	625,180	(65,033)	560,147	
Operating income (loss)	¥ 5,220	¥ 2,663	¥ 108	¥ (12)	¥ 7,979	¥ 168	¥ 8,147	
Total assets	¥ 295,661	¥ 23,896	¥ 5,810	¥ 2,483	¥ 327,850	¥ (11,193)	¥ 316,657	

* In conjunction with the change of Note 2(6), 364 million yen (\$3,431 thousand) less of operating income of Japan has been listed using a similar fiscal period in the prior consolidated accounting period as a comparison standard.

	Millions of Yen						Intercompany elimination	Consolidated Sales
	Japan	Asia	North America	Others	Total			
Sales to customers	¥ 471,398	¥ 62,191	¥ 22,626	¥ 7,007	¥ 563,222	¥ —	¥ 563,222	
Intersegment sales	60,481	3,336	5,259	3,051	72,127	(72,127)	—	
Total sales	¥ 531,879	¥ 65,527	¥ 27,885	¥ 10,058	¥ 635,349	¥ (72,127)	¥ 563,222	
Cost of sales and selling, general and administrative expenses	526,432	63,693	27,557	10,254	627,936	(72,505)	555,431	
Operating income (loss)	¥ 5,447	¥ 1,834	¥ 328	¥ (196)	¥ 7,413	¥ 378	¥ 7,791	
Total assets	¥ 279,705	¥ 20,456	¥ 4,729	¥ 3,344	¥ 308,234	¥ (9,709)	¥ 298,525	

	Thousands of U.S. Dollars (Note 1)						Intercompany elimination	Consolidated Sales
	Japan	Asia	North America	Others	Total			
Sales to customers	\$ 4,524,243	\$ 577,464	\$ 170,390	\$ 81,589	\$ 5,353,686	\$ —	\$ 5,353,686	
Intersegment sales	502,498	36,346	41,166	31,063	611,073	(611,073)	—	
Total sales	\$ 5,026,741	\$ 613,810	\$ 211,556	\$ 112,652	\$ 5,964,759	\$ (611,073)	\$ 5,353,686	
Cost of sales and selling, general and administrative expenses	4,977,569	588,723	210,529	112,767	5,889,588	(612,656)	5,276,932	
Operating income (loss)	\$ 49,172	\$ 25,087	\$ 1,027	\$ (115)	\$ 75,171	\$ 1,583	\$ 76,754	
Total assets	\$ 2,785,315	\$ 225,117	\$ 54,738	\$ 23,388	\$ 3,088,558	\$ (105,445)	\$ 2,983,113	

Overseas trading transactions

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
	Overseas trading transactions	¥ 164,138	¥ 157,643
Shares of consolidated net sales	28.9%	28.0%	28.9%

Notes to Consolidated Financial Statements

12.SALES TO AND PURCHASES FROM UNCONSOLIDATED SUBSIDIARIES AND AFFILIATES

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Sales	¥ 24,679	¥ 25,240	\$ 232,494
Purchases	11,935	17,391	112,433

13.SUPPLEMENTAL INFORMATION ON STATEMENTS OF CASH FLOWS

Adjustment between the balance of "Cash and time deposits" on the consolidated balance sheets and "Cash and cash equivalents at the end of the year" on the consolidated statements of cash flows are summarized as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2000	1999	2000
Cash and time deposits	¥ 18,452	¥ 18,303	\$ 173,828
Repo in securities	4,998	—	47,087
Time deposits (maturity date falls over 3 months)	(2,434)	—	(22,932)
Cash and cash equivalents	¥ 21,016	¥ 18,303	\$ 197,983

* "Cash and cash equivalents at the end of the year" shown on the consolidated statement of cash flows for the year ended March 31, 1999 did not include cash equivalents.

14.SUBSEQUENT EVENTS

On June 29, 2000, the shareholders of the Company approved the payment of a cash dividend of ¥8.00 (\$0.08) per share to shareholders of record at March 31, 2000 for a total of ¥1,132 million (\$10,667 thousand) and bonuses of ¥50 million (\$471 thousand) to directors.

Independent Auditors' Report

The Board of Directors and shareholders Nagase & Co., Ltd.

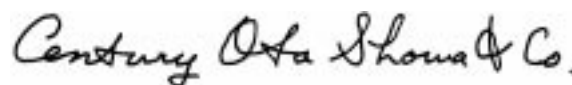
We have examined the consolidated balance sheets of Nagase & Co., Ltd. and its consolidated subsidiaries as of March 31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in yen. Our audits were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the consolidated financial position of Nagase & Co., Ltd. and consolidated subsidiaries at March 31, 2000 and 1999, 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 consistently applied during the period except for the changes, with which we concur, in the methods of accounting for foreign currency translation and employee's retirement benefits plans as described in Notes 2 (2) and 2 (6) to the consolidated financial statements.

As described in Note 2 (7) to the consolidated financial statements, Nagase & Co., Ltd. and consolidated domestic subsidiaries have adopted a new accounting standard for tax-effect accounting in the preparation of their consolidated financial statements for the year ended March 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2000 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 to the consolidated financial statements.

Osaka, Japan
June 29, 2000



Century Ota Showa & Co.

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

BOARD OF DIRECTORS AND AUDITORS

Representative Director and Chairman

Hideo Nagase

Representative Director and President

Hiroshi Nagase

Representative Director and Vice President

Shinichi Kokame

Representative Director

and Executive Managing Director

Michiyuki Inukai

Managing Directors

Kazunori Andoh

Takeshi Iwai

Akira Naitoh

Reiji Nagase

Directors

Yasuhiro Kashiwada

Masahiro Murayama

Hirozo Bessho

Akira Sakai

Kazuaki Kobayashi

Ryoichi Okuno

Kanji Takahashi

Masami Takatori

Norio Kurakake

Takeo Kaneko

Takashi Matsuyama

Yoshizo Shibata

Statutory Auditors

Koji Sawada

Keisuke Iai

Souji Okada

Eisaku Kimura

INVESTORS INFORMATION

(as of March 31, 2000)

HEAD OFFICE

1-17, Shinmachi 1-Chome Nishi-ku, Osaka

5-1, Kobunacho Nihonbashi Chuo-ku, Tokyo

FOUNDATION

December, 1917

CONTACT TO

General Affairs Department

Phone 81-3-3665-3028

Fax. 81-3-3665-3030

SHARE TRANSFER AGENT

Sumitomo Trust & Banking Co., Ltd.

5-33, Kitahama 4-Chome Chuo-ku, Osaka

STOCK LISTED

**Listed at the first section of Tokyo and
Osaka Stock Exchange (since August, 1970)**

STOCK STATUS

Number of shares to be issued by the company: 350,109,000

Number of issued shares: 141,537,285

NUMBER OF SAHREHOLDERS

10,742

STATUS OF PROPRIETARY STOCK DISTRIBUTION

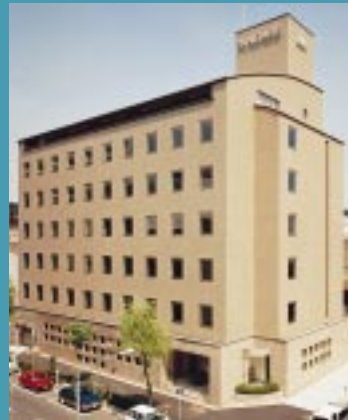
	Number	Number of shares hold	special rate
Securities Companies;	33	808 thousand stocks	(0.57%)
Foreign Corporation, etc.;	81	11,391 thousand stocks	(8.05%)
Other Corporation;	365	25,667 thousand stocks	(18.14%)
Private and Others;	10,178	44,986 thousand stocks	(31.78%)
Financial Institutions;	85	58,683 thousand stocks	(41.46%)



Osaka Head Office



Tokyo Head Office



Nagoya Branch Office

NAGASE & CO.,LTD.

Osaka Head Office

1-17, Shinmachi 1-Chome, Nishi-ku, Osaka
550-8668, Japan

Tokyo Head Office

5-1, Nihonbashi Kobunacho,
Chuo-ku, Tokyo 103-8355, Japan

<http://www.nagase.co.jp/>