

# Consolidated Financial Statements for the Fiscal Year Ended March 31, 2008

April 30, 2008

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

## Nagase & Co., Ltd.

Code number: 8012

Representative: Hiroshi Nagase, Representative Director and President

Contact: Masanori Furukawa, Manager, Corporate Accounting Division

Annual General Meeting of Stockholders (scheduled): June 26, 2008

Start of distribution of dividends (scheduled): June 27, 2008

Filing of Securities Report (*Yuka Shoken Hokokusho*) (scheduled): June 27, 2008

Stock exchange listing: Tokyo, Osaka (First Section)

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

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

## 1. Consolidated Results for the Fiscal Year Ended March 31, 2008 (April 1, 2007 – March 31, 2008)

(1) Net Sales and Income (Percentages represent change compared with the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2008	764,755	9.0	23,063	6.4	24,823	6.9
Fiscal 2007	701,321	8.2	21,669	23.1	23,231	23.6

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)	Return on equity (%)	Ordinary income/total assets (%)	Operating income/net sales (%)
Fiscal 2008	10,005	(26.3)	77.86	77.79	4.9	5.9	3.0
Fiscal 2007	13,567	5.2	105.85	105.51	6.8	5.7	3.1

(Reference) Equity in earnings of affiliates: Fiscal 2008: ¥437 million (Fiscal 2007: ¥519 million)

## (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Fiscal 2008	419,869	208,377	47.8	1,559.97
Fiscal 2007	422,859	211,672	48.5	1,597.27

(Reference) Equity capital: Fiscal 2008: ¥200,554 million (Fiscal 2007: ¥ 205,083 million)

## (3) Cash Flows

	Cash flows from operating activities (¥ million)	Cash flows from investing activities (¥ million)	Cash flows from financing activities (¥ million)	Cash and cash equivalents at end of period (¥ million)
Fiscal 2008	(2,586)	(7,009)	10,738	23,486
Fiscal 2007	10,855	(5,203)	(8,420)	21,919

## 2. Dividends

	Dividends per share (¥)			Total dividends paid (full year)	Payout ratio	Dividends/net assets
	Interim	Year-end	Full year			
Fiscal 2007	7.50	10.50	18.00	2,310	17.0	1.1
Fiscal 2008	—	17.00	17.00	2,186	21.8	1.1
Fiscal 2009 (est.)	10.00	10.00	20.00	—	19.8	—

Note: Dividends for the year ended March 2007 include a commemorative dividend of ¥2.00 per share.

## 3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2009

(April 1, 2008 – March 31, 2009)

(Percentages represent change compared to the previous fiscal year or cumulative consolidated second quarter, as applicable)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Cumulative consolidated second quarter	385,000	4.3	10,600	(0.3)	11,100	(4.8)	6,500	—	50.56
Fiscal 2009 (Full year)	770,000	0.7	21,000	(8.9)	22,000	(11.4)	13,000	29.9	101.12

#### 4. Other

- (1) Changes in major subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): No
- (2) Changes in accounting rules, procedures, presentation method, etc. for the Consolidated Financial Statements  
 (a) Changes in consolidated accounting methods: Yes  
 (b) Changes other than (a) above: No
- (3) Number of shares issued and outstanding (common stock)  
 (a) Number of shares at end of period (including treasury stock): Fiscal 2008: 138,408,285 shares,  
 Fiscal 2007: 138,408,285 shares  
 (b) Treasury stock at end of period: Fiscal 2008: 9,844,934 shares, Fiscal 2007: 10,012,431 shares

(Reference) Summary of Nonconsolidated Results

#### 1. Nonconsolidated Results for the Fiscal Year Ended March 31, 2008 (April 1, 2007 – March 31, 2008)

(1) Net Sales and Income (Percentages represent change compared with the previous fiscal year.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Fiscal 2008	522,260	5.1	7,292	(11.6)	12,294	(4.5)
Fiscal 2007	497,116	5.0	8,246	20.9	12,872	24.6

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Fiscal 2008	2,728	(64.9)	21.22	21.20
Fiscal 2007	7,770	0.3	60.61	60.42

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Fiscal 2008	301,354	138,149	45.8	1,072.82
Fiscal 2007	321,537	150,142	46.7	1,168.07

(Reference) Equity capital: Fiscal 2008: ¥137,966 million (Fiscal 2007: ¥150,019 million)

#### 2. Projected Nonconsolidated Results for the Fiscal Year Ending March 31, 2009 (April 1, 2008 – March 31, 2009)

(Percentages represent change compared to the previous fiscal year or cumulative second quarter, as applicable)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Cumulative second quarter	262,000	3.0	2,600	(26.6)	6,400	(15.6)	4,300	—	33.44
Fiscal 2009 (Full year)	524,000	0.3	5,000	(31.4)	10,000	(18.7)	6,500	138.3	50.54

#### Note: Cautionary Remark Regarding Forward-Looking Statements

Statements made in this document with respect to Nagase's plans, strategies, beliefs and other statements that are not historical facts are forward-looking statements based on the assumptions and beliefs of the Company's management in light of the information currently available to it and involve risks and uncertainties which may affect the Company's future performance. Please see page 5 of the attached materials regarding assumptions of the results projected above and cautionary statements concerning the use of these projections.

## 1. Business Performance

### (1) Analysis of Business Performance

#### Performance for the Fiscal Year Ended March 31, 2008

##### a. General Summary of Results

The Japanese economy continued to expand gradually in the year ended March 31, 2008 (fiscal 2008), supported by increased exports, but is slowing as a result of factors including weakness in capital investment and consumer spending. In the global economy, the effects of the subprime mortgage crisis in the United States and high crude oil prices are causing growing concern about an economic slowdown.

As a result of Nagase's efforts to maximize its business performance under such conditions, domestic sales increased 5.4 percent compared with the previous fiscal year to ¥432.81 billion, and overseas sales increased 14.3 percent to ¥331.94 billion, for total net sales of ¥764.75 billion, an increase of 9.0 percent.

Gross profit increased 9.3 percent to ¥80.50 billion due to the increase in net sales, but selling, general and administrative expenses increased due to factors including amortization of actuarial gain in retirement benefit accounting. Consequently, operating income increased 6.4 percent to ¥23.06 billion and ordinary income increased 6.9 percent to ¥24.82 billion. However, Nagase decided to voluntarily recall portable DVD players and other products sold by the Company. This recall resulted in an extraordinary loss of ¥6.480 billion, causing net income to decrease 26.3 percent to ¥10.0 billion.

##### b. Summaries by Business Segment

###### **[Chemicals] Sales: ¥267.83 billion, 8.4 percent increase year-on-year**

Overall sales were solid in the Chemicals segment. Domestic sales of Nagase Group products increased, and overseas sales also expanded, particularly in China and the South China region.

- In the performance chemicals business, which covers relatively upstream areas, overall sales increased as a result of strong sales of plastic raw materials and additives. Sales of urethane and coating materials mainly to the automotive industry, on which this business is focusing, also increased.
- In the colors and imaging business, which handles pigments, dyestuffs and other products related to color, sales of ink and toner materials for printers, copiers and other office equipment increased slightly, but sales of products such as functional color pigments for plasma displays and other applications decreased slightly. Sales of dyestuffs were flat, including overseas sales. As a result, overall sales of the colors and imaging business overall were also flat.
- In the speciality chemicals business, which handles a wide range of surfactants and oil solutions used as raw materials for detergents, cosmetics and other household toiletries, as well as materials for organic synthesis such as silicones and fluorochemicals, sales were generally strong. Sales of products made by Nagase ChemteX Corp., the Group's core manufacturer, showed particularly robust growth, centered on products for LCD-related applications.

###### **[Plastics] Sales: ¥274.66 billion, 12.3 percent increase year-on-year**

Sales in the Plastics segment increased overall. Sales to the automotive industry increased sharply, and overseas sales of products for precision equipment and electronic equipment applications also continued to expand, mainly in the ASEAN region. However, there were decreases in sales of engineering plastics and components for optical applications, primarily to customers in Taiwan, and in sales of certain other domestic businesses.

- Overall sales increased in businesses centered on precision equipment and electronic equipment applications such as printers and copiers. While overseas sales increased in the ASEAN region and in the Hong Kong and Shanghai regions, sales of engineering plastics for CDs, DVDs and other media applications, primarily in Taiwan, and sales of LCD components decreased.
- Sales to the automotive industry increased strongly overall. Brisk sales continued in Asia, including South China and Thailand and other ASEAN countries. Sales in North America and Europe also increased, while sales in Japan rebounded.

- In the housing equipment and building materials business, sales of original Nagase products using wood composite materials, as well as related products, increased, but sales of other general building materials decreased due in part to the effect of the revised Building Standards Law. Sales to the packaging materials industry were flat, and sales of the electronic component assembly business, which is part of downstream operations in the plastics business, decreased.
- Among the Group's domestic manufacturing companies, sales increased at Setsunan Kasei Co., Ltd., which handles plastic coloring and compounding. Sales increased marginally at Kotobuki Kasei Corp., a manufacturer of plastic trays used in food packaging, but decreased slightly at Totaku Industries, Inc., a manufacturer of various types of flexible hose and pipes for industrial applications and household appliances.

**[Electronics] Sales: ¥163.83 billion, 8.6 percent increase year-on-year**

Sales in the Electronics segment increased steadily overall. Sales of equipment decreased, but sales of LCD components expanded. In addition, products including chemicals for manufacturing of LCDs and other products and precision abrasive materials for semiconductors and other applications sold well.

- In the electronic chemicals business, which is centered on original products manufactured by Nagase ChemteX Corp. and other Group companies, sales of supply and control equipment for front-end-of-line photolithography for LCDs and semiconductors decreased. However, sales of chemicals and formulated epoxy resins were strong, resulting in an increase in sales overall.
- In the LCD-related business, including post-processing, sales of optical film and LCD modules decreased, but sales of derivative businesses including LCD component processing and aluminum housing materials for electronic equipment increased strongly, while sales of optical film also expanded, resulting in an overall increase in sales.
- Sales of precision abrasive materials used in silicon wafer processing and encapsulants used in post-processing of semiconductors were strong. Sales of substrates for hard disks also increased.

**[Life Sciences] Sales: ¥56.48 billion, 5.5 percent increase year-on-year**

In the Life Sciences segment, sales in the beauty care products business, which handles cosmetics and health foods, decreased slightly, but sales of pharmaceutical raw materials and intermediates in the fine chemicals business increased, resulting in solid overall growth in sales.

- In the fine chemicals business, sales of fermentation products were flat, but strong domestic sales of pharmaceutical raw materials and intermediates, in addition to growth in overseas sales centered on North America and Europe, resulted in an overall increase in sales.
- In the beauty care products business, which handles cosmetics and health foods, sales increased due to the renewal of some core products. However, sales of existing cosmetic and health food products were weak, resulting in a slight decrease in sales overall.

**[Others] Sales: ¥1.93 billion, 62.7 percent decrease year-on-year**

Sales of the Others segment decreased substantially because of the transfer of the business of direct sales of DVD movie software and other products to consumers in the second half of the previous fiscal year, in addition to a voluntary recall of portable DVD players and other products.

## Forecast for the Fiscal Year

(Million yen)

	Net Sales	Operating Income	Ordinary Income	Net Income
Year ending March 31, 2009	770,000	21,000	22,000	13,000
Year ended March 31, 2008	764,755	23,063	24,823	10,005
Year-on-year comparison	100.7%	91.1%	88.6%	129.9%

### a. Performance Forecast for the Fiscal Year ending March 31, 2009 (Fiscal 2009)

The economic outlook for the fiscal year ending March 31, 2009 is for weaker growth in the global economy due to the effects of trends including rising raw material prices, the U.S. economic slowdown, and exchange rate volatility.

The Nagase Group has launched WIT2008 (W: Wisdom, I: Intelligence, T: Technology), a medium-term management plan for the three years from April 2006. In the year ending March 31, 2009, which is the final year of WIT2008, Nagase had intended to achieve the plan's original numerical targets of consolidated net sales of ¥770.0 billion and consolidated operating income of ¥24.0 billion. However, Nagase now expects consolidated operating income to be limited to ¥21.0 billion. Reasons for this include increases in personnel expenses from amortization of actuarial gains in retirement benefit accounting, and in depreciation and amortization expenses due to new capital investment, as well as the effects of the stronger yen. An exchange rate of ¥100 to US\$1 is used as the basis of the performance forecast.

### b. Forecast by Business Segment

In the Chemicals segment, sales are projected to increase 1.6 percent to ¥272.0 billion, as Nagase focuses on increasing sales of original Nagase Group products and expanding sales in Asia. In the Plastics segment, sales are projected to increase just 0.9 percent to ¥277.0 billion, with increasing sales of products for automotive applications but a decrease in sales of products for precision machinery and electronic equipment. In the Electronics segment, sales are projected to decrease 2.6 percent to ¥159.5 billion due to a decrease in sales of products for display-related applications. In the Life Sciences segment, sales are projected to increase 5.9 percent to ¥59.8 billion as a result of expanding sales of pharmaceutical raw materials and intermediates. In the Others segment, sales are projected to decrease 12.1 percent to ¥1.7 billion.

The forecast for the fiscal year ending March 31, 2009 is calculated on the basis of information available to the Company at present. However, the forecast may differ significantly from actual results due to unforeseen changes in economic conditions or the operating environment, including the effect of economic trends in the United States and China, the effect of changes in crude oil prices on the materials industry, and changes in the supply/demand balance in the market, particularly for LCDs and other electronic equipment related products.

## (2) Analysis of Financial Position

### a. Summary of Consolidated Balance Sheets

Total assets decreased ¥2.98 billion compared with the end of the previous fiscal year to ¥419.86 billion despite an increase in notes and accounts receivable reflecting the increase in net sales. Main factors in the decrease included a decrease in investments in securities due to a decline in stock prices and the sale of stocks.

Liabilities increased ¥0.3 billion from the end of the previous fiscal year to ¥211.49 billion, despite decreases in deferred tax liabilities and notes and accounts payable, due to factors including the provision of a reserve for voluntary recall of products and increases in short-term loans and long-term debt.

Net assets decreased ¥3.29 billion compared with the end of the previous fiscal year to ¥208.37 billion. Although retained earnings increased, net assets decreased mainly because of a decrease in net unrealized holding gain on securities included in net assets.

As a result, the net worth ratio declined 0.7 percentage points from 48.5 percent to 47.8 percent.

## b. Summary of Consolidated Cash Flows

Net cash used in operating activities was ¥2.58 billion, due to factors including an increase in working capital and income taxes paid.

Net cash used in investing activities was ¥7.00 billion, as a result of factors including purchases of property, plant and equipment and intangible fixed assets that offset proceeds from sales of investments in securities.

Net cash provided by financing activities was ¥10.73 billion. Cash dividends paid were offset by factors including proceeds from long-term debt and a net increase in short-term loans.

As a result, the balance of cash and cash equivalents at the end of the interim period was ¥23.48 billion, an increase of ¥1.56 billion compared with the end of the previous fiscal year.

## c. Trends in Cash Flow Indicators

	Year ended March 31, 2004	Year ended March 31, 2005	Year ended March 31, 2006	Year ended March 31, 2007	Year ended March 31, 2008
Net worth ratio	50.3%	49.8%	49.6%	48.5%	47.8%
Net worth ratio based on market value	38.8%	40.8%	51.0%	45.1%	31.2%
Interest-bearing debt to cash flow ratio	2.6 years	8.2 years	–	1.9 years	–
Interest coverage ratio	13.9	3.3	–	12.6	–

Notes: Net worth ratio = (Net assets – Stock acquisition rights – Minority interests) / Total assets

Net worth ratio based on market value = Market capitalization of shares / Total assets

Interest-bearing debt to cash flow ratio = Interest-bearing debt / Operating cash flow

Interest coverage ratio = Operating cash flow / Interest expense

\*All indicators are calculated on the basis of consolidated financial figures.

\*Total market value of shares is calculated by multiplying the closing price of shares at the end of the period by the total number of outstanding shares at the end of the period.

\*Operating cash flow refers to net cash provided by operating activities in the Consolidated Statements of Cash Flows. Interest-bearing debt refers to all debt for which interest is payable as declared in the Consolidated Balance Sheets. Interest expense refers to the amount of interest paid as shown in the Consolidated Statements of Cash Flows.

## (3) Dividend Policy and Dividends for the Fiscal Years Ended March 31, 2008 and Ending March 31, 2009

The Nagase Group's basic policy is to further enhance its corporate structure and earnings capabilities to continue generating steady dividends for shareholders, based on comprehensive consideration of medium-to-long-term demand for funds to meet future growth and consolidated business performance trends. The Nagase Group intends to use internal funds effectively to enhance future business activities and its management base.

Based on this policy, for dividends applicable to the fiscal year ended March 31, 2008, Nagase plans to pay a year-end dividend of ¥17.00 per share. Nagase elected not to pay an interim dividend, mainly because of expenses associated with the voluntary recall of portable DVD players and other products sold by Nagase, which were accounted for as an extraordinary loss.

For the fiscal year ending March 31, 2009, Nagase plans to pay total cash dividends of ¥20.00 per share, consisting of interim and year-end dividends of ¥10.00 each.

#### **(4) Operating and Other Risks**

The Nagase Group is engaged in trading, marketing, research and development, manufacturing and processing, and conducts global business activities in the five segments of Chemicals, Plastics, Electronics, Life Sciences and Others. The following presents an overview of major operating and other risks to which the Nagase Group's businesses are subject by their nature and that exert or could exert a significant influence on investor decisions. Forward-looking statements are Nagase Group estimates as of March 31, 2008.

##### **a. Overall Operating Risk**

The Nagase Group conducts a wide spectrum of operations in the fields of chemicals, plastics, electronics and life sciences from its base in chemicals. The chemical industry both in Japan and internationally is subject to significant volatility that could impact the Group's performance and financial position.

##### **b. Product Market Conditions**

The Nagase Group is extensively involved in the chemicals, plastics and other businesses that deal in petrochemicals manufactured from naphtha.

Raw material market conditions and the balance of supply and demand are key factors determining market conditions for each product. Changes in these conditions could impact the Group's performance and financial position.

##### **c. Impact of Fluctuations in Foreign Currency Exchange Rates**

The Nagase Group undertakes import and export transactions and non-trade business transactions that involve foreign currencies. Fluctuations in foreign currency exchange rates impact the value of transactions denominated in foreign currencies when translated into yen. The Nagase Group works to minimize the risks associated with fluctuations in foreign currency exchange rates by hedging these transactions using forward foreign exchange contracts. However, fluctuations in foreign currency exchange rates could exert a material impact on the Group's performance and financial position. The Nagase Group also includes corporations domiciled in countries other than Japan that maintain their financial statements in currencies other than Japanese yen. Fluctuations in foreign currency exchange rates could therefore impact the consolidated financial statements upon translation of the accounts of these corporations into Japanese yen.

##### **d. Risks Involved in Operating Overseas**

A significant percentage of the Nagase Group's activities involve selling and manufacturing overseas, principally in China, Southeast Asia, Europe and North America. As a matter of policy, the Nagase Group makes every effort to determine trends in markets overseas and respond appropriately to them. However, failure on the part of the Nagase Group to make accurate projections due to unexpected events including factors related to the regulatory systems and customs of overseas countries could impact the Group's performance and financial position.

##### **e. Impact of Changes in Stock Prices**

The Nagase Group maintains a portfolio of marketable stock, primarily shares of companies with which the Group transacts business, and is subject to the risk of changes in the prices of these shares. As a matter of policy, the Nagase Group seeks to reduce this risk by continuously reviewing and reorganizing its shareholdings. However, changes in stock prices could impact the Group's performance and financial position. Moreover, a drop in stock prices that reduces return on pension plan assets could impact the Group's profitability by increasing retirement benefit costs.

##### **f. Counterparty Credit Risk**

The Nagase Group is exposed to credit risk because it extends credit to buyers in a diverse array of transactions in Japan and overseas. As a matter of policy, the Nagase Group moves to reduce credit risk by taking measures such as obtaining guarantees and collateral in correlation with the financial condition of buyers. In addition, although the Nagase Group makes efforts to ensure stable, uninterrupted product procurement, the continuous supply of products the Group handles could become difficult due to the deterioration of the financial condition or bankruptcy of suppliers or other parties involved in transactions. Materialization of these risks could impact the Group's performance and financial position.

##### **g. Risk of New Investments**

The Nagase Group's businesses are based on brokerage transactions, and the Group is working to develop

high-value-added businesses. As a matter of policy, the Nagase Group is therefore supporting the ability of the Nagase R&D Center, Group manufacturing subsidiaries and other Group organizations to provide high-level technologies and information through measures such as aggressively investing in new businesses and strategic acquisitions. However, this policy entails operating risks that are different from those inherent in the Group's conventional, low-risk brokerage businesses. The increased latent risks involved could impact the Group's performance and financial position.

#### **h. Product Quality Risk**

The Nagase Group operates the Nagase R&D Center and manufacturing subsidiaries to provide high added value to customers, and devotes scrupulous attention to the quality of the technologies and products the Group thus provides. In addition, the Nagase Group assumes liability for the products it handles as an importer, and devotes the same attention to the quality of these products. However, issues such as defects in these products would terminate sales and require the Nagase Group to reimburse customers, which could impact the Group's performance and financial position.

#### **i. Risks of Handling Various Chemicals**

Chemicals are a core business of the Nagase Group, which imports and exports a diverse array of products for a broad range of applications. The Group's exports are therefore subject to the application of regulations that aim in part to maintain international peace and safety, including the Foreign Exchange and Foreign Trade Control Law and the Export Trade Control Order, and imports are subject to the Chemical Substances Control Law and other laws and regulations. The Nagase Group has therefore established the Security Trade Control Committee and the Chemical Management Committee, which work to assure compliance with the above regulatory systems and with laws related to chemical product management in China, Europe, North America and elsewhere. Contravention of these regulatory systems would result in restrictions on business activities, and therefore could impact the Group's performance and financial position.



## 2. Management Policies

### (1) Basic Management Policy

The content has not changed significantly from that announced with the Summary of Consolidated Interim Business Results on October 30, 2006, and is summarized as follows:

Nagase seeks to become a unique company that combines the functions of a trading company and a manufacturer by exploiting technology, information and wisdom enhanced by experience. We will continue reinforcing these functions and offering business solutions in order to be our customers' partner of choice in their business operations.

The summary of consolidated interim business results in which the management policy is described in greater detail is available at the following URL:

<http://www.nagase.co.jp/english/investor/08-h19.html>  
<http://www.tse.or.jp/listing/compsearch/index.html>

### (2) Management Objectives and Medium-Term Strategies

In the contents disclosed with the Summary of Consolidated Interim Business Results on October 30, 2006, Nagase set the numerical targets of consolidated net sales of ¥770 billion and consolidated operating income of ¥24 billion for fiscal 2008, the final year of the medium-term management plan WIT2008. However, Nagase has revised these targets to consolidated net sales of ¥770 billion and consolidated operating income of ¥21 billion, as described in "1. Business Performance, (1) Analysis of Business Performance, Forecast for the Fiscal Year" on page 5.

The summary of consolidated interim business results in which the management objectives and medium-term strategies are described in greater detail is available at the following URL:

<http://www.nagase.co.jp/english/investor/08-h19.html>  
<http://www.tse.or.jp/listing/compsearch/index.html>

### (3) Issues to be Addressed by the Company

#### Implementation of the Company-wide Strategies of WIT2008

To reinforce the corporate structure for sustainable growth, we are conducting operations according to the following seven strategies.

##### a. Expand the Business Base

We are working to expand existing businesses, establish new ones and expand our production bases. Our aim is to further solidify the industry position that we have established to date through a variety of business activities that leverage the relationships with many excellent customers we have cultivated and our network of sales and production bases, primarily in Asia.

During the interim period ended September 30, 2007, Nagase decided to establish a joint venture company in Japan to oversee its textile-related business in China. In addition, we established a representative office of Nagase (Taiwan) Co., Ltd. in Xiamen, Fujian Province, China. At the plastics coloring joint venture in Vietnam, a masterbatch factory began operations, and construction is under way on a compounding plant.

##### b. Invest Aggressively in Strategic Areas

Centered on electronics, life sciences, automotive and overseas operations, which are the strategic areas of WIT2008, we will invest in carefully selected projects while ensuring they are compatible with our technology and market strategies. In total, we plan to make investments on the order of about ¥30 billion over three years for projects such as new construction and renovation of production facilities at Group manufacturing companies.

During the interim period ended September 30, 2007, in the area of electronics, Nagase International Electronics Ltd. established a new base to expand its manufacturing and processing business in South China. In the area of life sciences, Nagase ChemteX Corp. constructed a new facility for large-scale production of phospholipids, a functional food ingredient.

**c. Restructure for High Profitability**

To increase our proportion of higher-margin businesses, we are developing original Nagase Group businesses centered on our manufacturing companies and the Nagase R&D Center. In this way, we are working to achieve higher profitability for the entire Group by increasing the proportion of high value-added businesses.

During the interim period ended September 30, 2007, operations began at the Nagase Application Workshop, which was established in Amagasaki, Hyogo Prefecture to centralize analysis and product development functions for plastics, coating materials, and materials and additives related to textile processing. At Nagase ChemteX Corp., we introduced a recycling plant and stripping agent facility as part of our efforts to build a recycling business for chemicals used in LCDs and semiconductors. In addition, we constructed a manufacturing facility for nanoscale inorganic composites, which have applications in products such as optical film. Meanwhile, we continue to review unprofitable businesses, and based on our strategy of specializing in electronic materials in our epoxy business, we withdrew from construction-related operations in the formulated epoxy resin business, including sewage and water pipe corrosion inhibitors.

**d. Maintain a Sound Financial Position**

Nagase will continue to emphasize cash flow oriented management. While working to improve operating cash flow, we will constantly review assets and focus on maintaining a sound financial position. In particular, to manage the operating assets of our overseas bases, we are promoting the development of an inventory management and operating structure that achieves a balance between meeting customer needs and minimizing stock requirements.

**e. Ensure Thorough Risk Management**

To comprehensively identify, understand and control the various types of risk that arise in conjunction with its operations, the Nagase Group must further enhance its risk management system. Given this situation, we continue to review our organizational structure to implement and enhance thorough regulatory oversight in all our business activities. In addition, we established the Internal Control System Committee, which is improving internal controls for financial reporting and working to create a business risk management system.

**f. Improve the Consolidated Management System**

To strengthen Group management, the Nagase Group is stepping up the measures it has been taking to enhance ties with subsidiaries and affiliates in each business. These measures include promoting sharing of strategies and information, and personnel exchange. In addition, we are working to enhance the Group operating structure by reviewing the functions of domestic and overseas subsidiaries and affiliates and by promoting more efficient use of management resources.

**g. Enhance Personnel Quality and Quantity**

Nagase's most important asset is its people. We are currently hiring diverse personnel with a high level of expertise who are able to respond to the changes in our business structure and handle new businesses. In addition, we have established a Human Resources Development Team and are conducting a training program that will ensure employees of overseas subsidiaries and affiliates contribute strongly to the Nagase Group's future growth. In these and other ways, Nagase is promoting human resource development at all levels, including at subsidiaries and affiliates.