

# Consolidated Financial Statements for the First Quarter of Fiscal Year Ending March 31, 2009

July 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

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Stock exchange listing: Tokyo, Osaka

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

## 1. Results for the First Quarter of the Fiscal Year Ending March 31, 2009 (April 1, 2008 – June 30, 2008)

### (1) Net Sales and Income

(Percentages represent change compared with the previous first quarter.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Three months ended June 30, 2008	187,709	–	4,673	–	5,396	–
Three months ended June 30, 2007	179,508	4.9	5,100	(7.4)	5,828	(6.4)

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Three months ended June 30, 2008	3,121	–	24.28	24.27
Three months ended June 30, 2007	(5,519)	–	(42.98)	–

### (2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Three months ended June 30, 2008	407,315	208,158	49.2	1,560.01
Fiscal year ended March 31, 2008	419,869	208,377	47.8	1,559.97

(Reference) Equity capital: Three months ended June 30, 2008: ¥200,590 million; Fiscal year ended March 31, 2008: ¥200,554 million

## 2. Dividends

	Dividends per share (¥)				
	1st quarter	2nd quarter	3rd quarter	Year-end	Full year
Fiscal year ended March 31, 2008	–	–	–	17.00	17.00
Fiscal year ending March 31, 2009	–	–	–	–	–
Fiscal year ending March 31, 2009 (est.)	–	10.00	–	10.00	20.00

Note: Revisions to projected dividends during the three months ended June 30, 2008: No

## 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 2nd quarter	385,000	–	10,600	–	11,100	–	6,500	–	50.55
Full year	770,000	0.7	21,000	(8.9)	22,000	(11.4)	13,000	29.9	101.10

Note: Revisions to projected consolidated results during the three months ended June 30, 2008: No

#### 4. Other

- (1) Changes in major subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): No
- (2) Use of simplified accounting methods or special accounting methods for preparation of quarterly financial statements: Yes  
See "4. Other" of "Qualitative Information and Financial Statements" on page 4.
- (3) Changes in accounting rules, procedures, presentation method, etc., for the quarterly Consolidated Financial Statements (changes in material items that form the basis for the preparation of the quarterly consolidated financial statements)
  - (a) Changes in consolidated accounting methods: Yes
  - (b) Changes other than (a) above: YesSee "4. Other" of "Qualitative Information and Financial Statements" on page 4.
- (4) Number of shares issued and outstanding (common stock)
  - (a) Number of shares at end of period (including treasury stock):  
Three months ended June 30, 2008: 138,408,285 shares; Fiscal year ended March 31, 2008: 138,408,285 shares
  - (b) Treasury stock at end of period:  
Three months ended June 30, 2008: 9,825,850 shares; Fiscal year ended March 31, 2008: 9,844,934 shares
  - (c) Average number of shares during the period:  
Three months ended June 30, 2008: 128,569,083; Three months ended June 30, 2007: 128,430,109

Note: Cautionary Remark Regarding Forward-Looking Statements

1. The projected consolidated results for the fiscal year ending March 31, 2009 have not been revised from projections announced on April 30, 2008. The projected consolidated results for the fiscal year contained in this document are based on information currently available to the Company on the date of release. Due to various factors, actual results may differ materially from the forecast.
2. Effective from the fiscal year ending March 31, 2009, the Company applies the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its Implementation Guidance, "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14). Quarterly consolidated financial statements have been prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

## Qualitative Information and Financial Statements

### 1. Qualitative Information on Consolidated Operating Results

#### (1) Summary of Overall Performance

During the first quarter of the fiscal year ending March 31, 2009, the three months ended June 30, 2008, the Japanese economy was at a standstill with slowing corporate capital investment and consumer spending. In the global economy, the risk of an economic downturn is growing, with concerns that a possible economic recession in the United States due to the subprime mortgage crisis may have repercussions in Asia.

Under these conditions, domestic sales for the first quarter increased 6.4 percent compared with the same period of the previous fiscal year to ¥108.43 billion and overseas sales increased 2.2 percent to ¥79.27 billion for total net sales of ¥187.70 billion, a 4.6 percent increase.

Gross profit increased 2.5 percent compared with the same period of the previous fiscal year to ¥19.52 billion due to the increase in sales, but selling, general and administrative expenses increased due to factors including amortization of actuarial gain in retirement benefit accounting. Consequently, operating income decreased 8.4 percent to ¥4.67 billion and ordinary income decreased 7.4 percent to ¥5.39 billion. However, an extraordinary loss of ¥14.3 billion recorded in the same period of the previous fiscal year related to the voluntary recall of products had no significant effect on the three months ended June 30, 2008, and net income was ¥3.12 billion.

#### (2) Segment Summary

##### **[Chemicals] Sales: ¥69.96 billion, a 10.8 percent increase from the same period of the previous fiscal year**

Overall sales were strong in the Chemicals segment. Sales increased in the performance chemicals business, which handles products such as raw materials for paint and urethane, and raw materials and additives for plastics, due in part to the effect of a price increase for raw materials. In addition, sales expanded in the color and imaging business, which handles pigments, dyestuffs and other products related to color, and in the specialty chemicals business, which handles a wide range of products including surfactants, industrial oil solutions and organic synthetic raw materials such as silicone and fluorochemicals.

##### **[Plastics] Sales: ¥65.56 billion, a 7.9 percent increase from the same period of the previous fiscal year**

Sales were firm in Asia, centered on Thailand and elsewhere in the ASEAN region and eastern China including Shanghai. Despite a decrease in domestic sales for precision instruments and electronics applications and a slight drop in sales of building and packaging materials, automotive-related sales grew, and overall sales in the Plastics segment increased.

##### **[Electronics] Sales: ¥37.99 billion, a 7.2 percent decrease from the same period of the previous fiscal year**

Sales continued to expand for precision abrasive materials and other products handled by the information and functional materials business. Although formulated epoxy resin and chemical sales increased, sales in the electronic chemicals business rose only slightly due to a decrease in sales of chemical supply and control equipment used in LCDs and semiconductor front-end processing. However, sales in the display business, which primarily handles processing of components for LCDs and electronic equipment, decreased significantly compared with the same period of the previous fiscal year. As a result, overall segment sales decreased.

##### **[Life Sciences] Sales: ¥ 13.74 billion, a 1.8 percent increase from the same period of the previous fiscal year**

Overall segment sales increased slightly. Despite an increase in sales of pharmaceutical intermediates in the fine chemicals business, sales of agricultural chemicals and other products decreased. Sales increased slightly in the beauty care business, which handles cosmetics and health foods.

##### **[Others] Sales: ¥0.43 billion, a 62.1 percent decrease from the same period of the previous fiscal year**

Segment sales decreased significantly due to the voluntary recall of portable DVD players and other products and the suspension of sales of related products that began in the previous fiscal year.

### 2. Qualitative Information on Consolidated Financial Position

#### (1) Assets, Liabilities and Net Assets

Total assets decreased ¥12.55 billion from the end of the previous fiscal year to ¥407.31 billion, mainly due to decreases in notes and accounts receivable and cash and cash equivalents.

Despite an increase in long-term debt, total liabilities decreased ¥12.33 billion from the end of the previous fiscal year to ¥199.15 billion due to factors including decreases in short-term loans and notes and accounts payable.

Net assets decreased ¥0.21 billion from the end of the previous fiscal year to ¥208.15 billion due to factors including a decrease in translation adjustments, despite increases in retained earnings from net income and net unrealized holding gain on securities.

As a result, the net worth ratio increased 1.4 percentage points to 49.2 percent from 47.8 percent at the end of the previous fiscal year.

## **(2) Cash Flows**

Net cash provided by operating activities was ¥9.36 billion, due to factors including a decrease in working capital and net income before income taxes and minority interests.

Net cash used in investing activities was ¥2.65 billion, mainly as a result of purchases of property and equipment.

Net cash used in financing activities was ¥6.81 billion, due to a decrease in short-term loans and the payment of dividends, despite proceeds from long-term debt.

As a result, the balance of cash and cash equivalents at June 30, 2008 was ¥20.12 billion, a decrease of ¥3.35 billion from the end of the previous fiscal year.

## **3. Qualitative Information on Projected Consolidated Results**

At present, there is no change to the consolidated and non-consolidated performance forecasts announced on April 30, 2008.

## **4. Other**

### **(1) Changes in Significant Subsidiaries during the Period (Changes in specified subsidiaries due to changes in the scope of consolidation)**

None applicable.

### **(2) Use of Simplified Accounting Methods or Special Accounting Methods for Preparation of Quarterly Financial Statements**

The Company uses special quarterly accounting methods to determine income tax payments, including calculations for some consolidated subsidiaries using the estimated annual effective tax rate based on the normal effective statutory tax rate.

### **(3) Changes in Consolidated Accounting Rules, Procedures, Presentation Method, etc. for the Quarterly Consolidated Financial Statements**

- (a) Effective from the three months ended June 30, 2008, the Company applies the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, issued March 14, 2007) and its Implementation Guidance, “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14, issued March 14, 2007). Quarterly consolidated financial statements have been prepared in accordance with the “Regulation for Quarterly Consolidated Financial Reporting.”
- (b) Effective from the three months ended June 30, 2008, the Company applies the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued July 5, 2006), changing from primarily using the cost or market method to the average method (method for reducing the carrying amount of inventories below book value due to decline in profitability) for the valuation of inventories held for normal sale. As a result, gross profit, operating income, ordinary income and income before income taxes and minority interests each decreased by ¥428 million.
- (c) Effective from the three months ended June 30, 2008, Company applies the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, issued May 17, 2006) and carries out necessary consolidated financial adjustments. There is no effect on income from these changes.
- (d) Previously, finance lease transactions without title transfer were accounted for as operating leases. However, companies are able to apply “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued June 17, 1993 (First Committee of Business Accounting Council), revised March 30, 2007) and its Implementation Guidance, “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 (issued January 18, 1994 (Japanese Institute of Certified Public Accountants), revised March 30, 2007) on quarterly financial statements of fiscal years beginning on or after April 1, 2008. Accordingly, the Company has applied the revised accounting standard from the three months ended June 30, 2008. The revised accounting standard requires that all finance lease transactions be capitalized.

In addition, leased assets related to finance lease transactions without title transfer are depreciated on a straight-line basis, with the lease periods as their useful lives and no residual value.

The Company will continue to account for finance lease transactions without title transfer where the lease transaction started before the first year of application as operating leases.

There is no effect on income from these changes.