

Annual Report 2004

**Broad Capabilities,
Clearly Defined Priorities**

NAGASE

PROFILE

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

Nagase & Co., Ltd., the nucleus of our group, was established as a dyestuffs wholesaler in Kyoto in 1832. In 1900, it started importing synthetic dyestuffs from Chemical Industry of Basel. In the ensuing years, it has opened up new markets worldwide together with its customers and accumulated considerable know-how in its role as “a technology and intelligence oriented trading company.” At the same time, it has enhanced its capabilities in new product R&D, manufacturing and processing.

Today, the Nagase Group comprises more than 100 companies in Japan and overseas. The Group is building a new business model that organically combines the trading, marketing, R&D, manufacturing and processing functions of these companies to provide a high-level response to customer needs. In doing so, we aim to offer new proposals as “a technology and intelligence oriented company that turns wisdom into business.” Looking ahead, along with its customers worldwide, the Nagase Group will seize business opportunities to continue to develop and grow.

► Management Philosophy

The Nagase Group is a member of the world society. As such, it is our duty to maintain good and fair business practices and, through continued growth and development, provide society with the goods and services needed while improving the welfare of our employees.

► Slogan

A technology and intelligence oriented company that turns wisdom into business

► Long-term Vision

To continue to meet global customer opportunities with high-value-added businesses that provide new functions and services based on chemicals and related business areas.

► “The Nagase Way” Action Principles

- 1) Always be customer-oriented.
- 2) Always be a creative challenger.
- 3) Always use the power of the Nagase Group.
- 4) Always think globally and act locally.
- 5) Always think systematically and act speedily.

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A Cautionary Note on Financial Data and Graphs

All yen amounts presented in this annual report have been truncated after the second decimal point in the case of billions of yen and yen amounts, and after the lowest whole number in the case of millions of yen amounts. Percentages are rounded to the nearest decimal point. Years in graphs represent fiscal years ended March 31.

A Cautionary Note on Forward-looking Statements

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

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

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

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

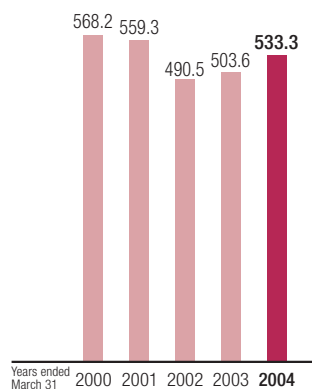
FINANCIAL HIGHLIGHTS

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

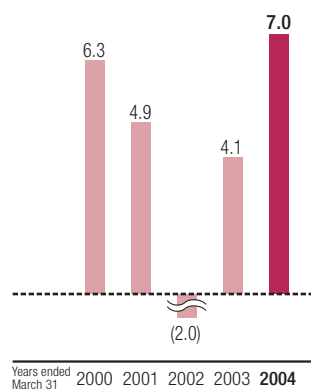
	Millions of Yen			Change	Thousands of U.S. Dollars (Note)
	2004	2003	2002	2004/2003	2004
For the Year:					
Net Sales.....	¥ 533,301	¥ 503,688	¥ 490,583	5.9%	\$5,045,898
Chemicals.....	231,360	223,656	218,524	3.4	2,189,043
Plastics.....	170,996	165,810	175,252	3.1	1,617,901
Electronics.....	118,978	99,759	83,660	19.3	1,125,726
Health Care.....	11,966	14,461	13,146	(17.3)	113,217
Gross Profit.....	53,494	51,899	46,976	3.1	506,140
Operating Income.....	10,244	8,433	1,673	21.5	96,924
Net Income (Loss).....	7,010	4,186	(2,097)	67.4	66,326
At the Year-end:					
Total Assets.....	¥ 310,793	¥ 284,800	¥ 300,073	9.1%	\$2,940,609
Shareholders' Equity.....	156,210	140,944	144,176	10.8	1,478,001
		Yen		Change	U.S. Dollars
Per Share Data:					
Net Income (Loss).....	¥ 54.69	¥ 31.72	¥ (15.39)	72.4%	\$ 0.51
Shareholders' Equity.....	1,227.82	1,107.54	1,082.15	10.8	11.61
Cash Dividends.....	9.00	8.00	8.00	12.5	0.08

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.69=U.S.\$1, the approximate Tokyo exchange market rate as of March 31, 2004.

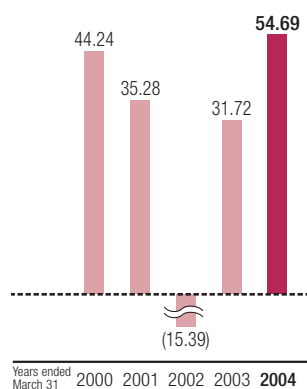
Net Sales
(¥ Billion)



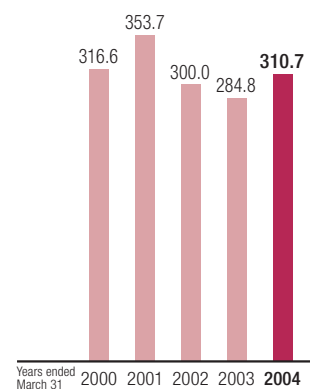
Net Income (Loss)
(¥ Billion)



Net Income (Loss) per Share
(¥)



Total Assets
(¥ Billion)



NAGASE AT A GLANCE

MANAGEMENT VISION

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

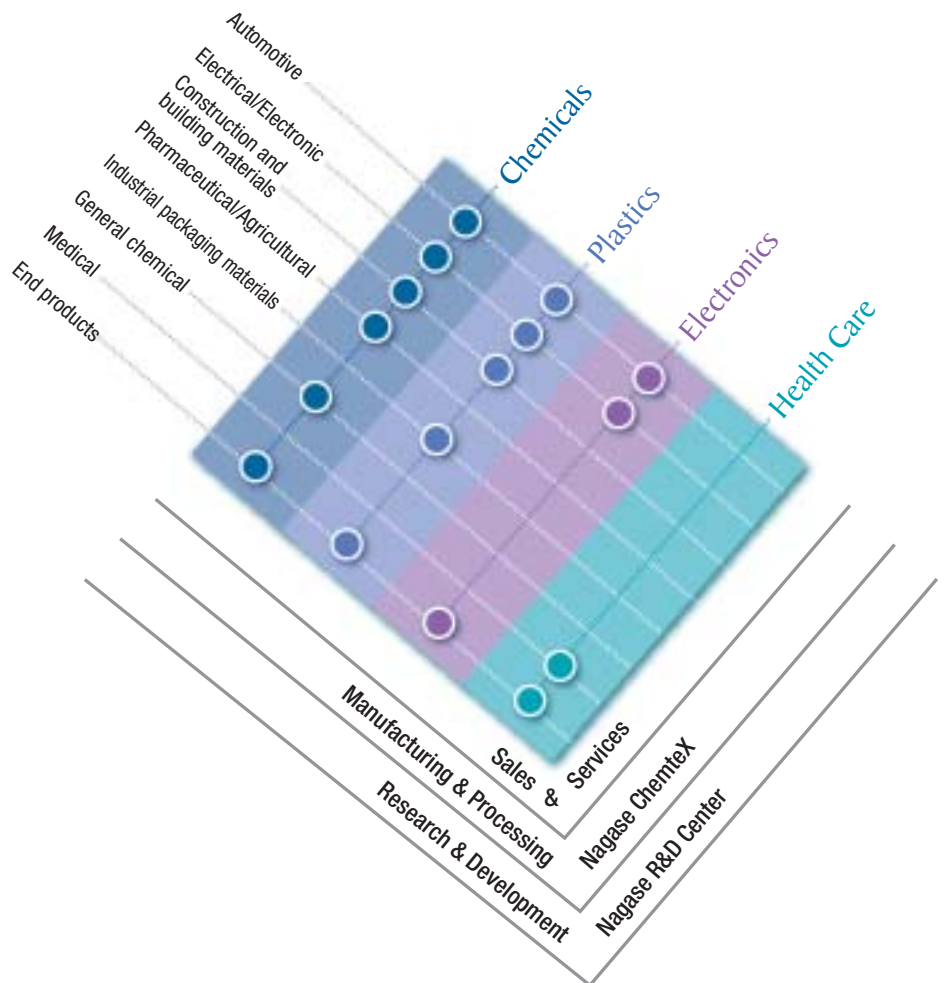
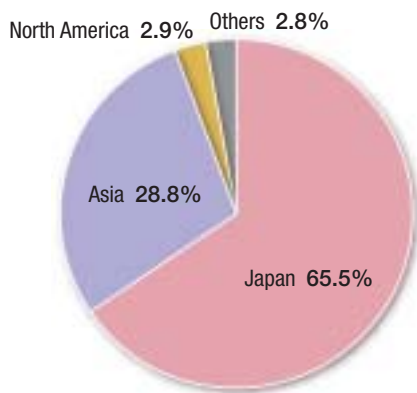
Nagase has adopted "A technology and intelligence oriented company that turns wisdom into business" as its management vision for the 21st century. Rooted in a thoroughgoing customer-oriented approach that insists "the market provides all the answers," this vision expresses our determination to exploit our "technology," "information" and "wisdom," enhanced by experience, to create businesses that go beyond the intermediary role of the trading company. Customer demands are becoming more diverse, more complex and more sophisticated. The straightforward intermediary business approach is no longer enough to satisfy these demands. At the same time, we are aware that regardless of the industry, the era in which a single company can meet all market needs alone is long gone. To help customers create new value, therefore, we will continue to propose and develop new businesses while strengthening our role as a reliable business partner.

Nagase's Strengths

- Relationships developed over many years with more than 6,000 excellent companies
- Group manufacturing, research, development and marketing functions to provide superior products and services
- The ability to create and propose business models that go beyond being just an intermediary to maintain leadership
- Innovative technological and information-gathering capabilities based in the field of chemicals
- Solid finances

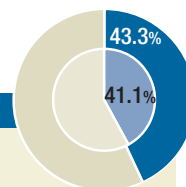
Comprehensive Strengths of the Nagase Group

Net Sales by Region
(Net sales in fiscal 2003: ¥533.3 billion)



CHEMICALS

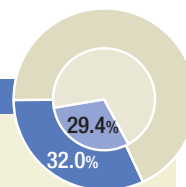
■ Net Sales ■ Operating Income



BUSINESS	CUSTOMER SEGMENT	MAIN PRODUCTS HANDLED
Colors & Imaging Group	Textile processing (clothing, car interiors, other products), resins, synthetic fiber, ink and paint, IT, pigment dispersion, printing, inkjet toner, heat sensitive paper, functional dyes, flat panel displays	Dyestuffs, dyeing auxiliaries, industrial chemicals, finishing agents, textile-processing resins, adhesives for textiles, pigments, pigment dispersing agents, resin additives, UV cured resins, silicones, dyes and related chemicals for imaging and recording, chemicals for paper manufacturing, materials for paints and inks
Performance Chemicals Group	Paints and inks, resins, synthetic fibers, urethane foam, flame retardants, FRP, plasticizers	Plastic materials, plastics and pigments, solvents, additives for paints and inks, urethane materials, flame retardants, plastic additives, polymer filters
Speciality Chemicals Group	Organic synthesis, surfactants	Petrochemical products, electronics chemicals, raw materials for household products, surfactants, fluorochemicals, silicones
Fine Chemicals Group	Pharmaceuticals, food/feed chemicals, agricultural chemicals, household products	Pharmaceuticals (raw materials, intermediates, APIs, formulations, excipients), diagnostics, laboratory and research products, agricultural chemicals (intermediates, bulks, formulations, submaterials), household insecticides (bulks, formulations), animal health products, enzymes, fermentation products, toiletry raw materials, functional food ingredients, health food materials, food additives, nutritional supplements, feed and culturing products

PLASTICS

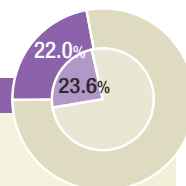
■ Net Sales ■ Operating Income



BUSINESS	CUSTOMER SEGMENT	MAIN PRODUCTS HANDLED
Plastics First Group Plastics Second Group Plastics Third Group	Automotive, electrical, electronics, civil engineering	General-purpose resins, functional resins, auxiliaries, plastic products, plastic-related equipment, devices and dies, software engineering, housing equipment, construction services

ELECTRONICS

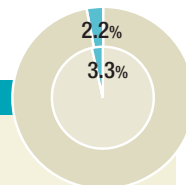
■ Net Sales ■ Operating Income



BUSINESS	CUSTOMER SEGMENT	MAIN PRODUCTS HANDLED
Electronics First Group	Electronics components, semiconductors, liquid crystal	Semiconductor manufacturing equipment, chemical management systems, chemicals for the production of semiconductors and liquid crystal, semiconductor packaging materials, semiconductor packaging systems, insulating materials, fluoroplastic-related products, epoxy resin-related products, electroless plating systems
Electronics Second Group	Semiconductors, displays, communications, electronic devices	Liquid crystal displays, material for liquid crystal displays and organic light-emitting diodes (LED), precision abrasive materials, wireless communication modules and systems, communications-related integrated circuit chips, surface defect inspection systems, DVD equipment for the consumer market, other products

HEALTH CARE

■ Net Sales ■ Operating Income



BUSINESS	CUSTOMER SEGMENT	MAIN PRODUCTS HANDLED
Beauty Care Products Group	General consumer market	Cosmetics, health foods, beauty foods
Medical Care Products Group	Medical institutions, universities, laboratories	Microbiological test devices, clinical diagnostic systems, infectious disease control systems, radiation measurement-related products, electronic medical record systems

Note: Percentage of net sales and operating income shown for Health Care includes the Others segment.

MESSAGE FROM THE MANAGEMENT



Left: Hiroshi Nagase
President

Right: Hideo Nagase
Chairman

In the first year of the Medium-term Management Plan WIT21, Nagase & Co., Ltd. achieved its second straight year of growth in sales and profits, supported by a favorable market environment and the steady realization of benefits from the business structure reforms and infrastructure reinforcement we have focused on. From its base in chemicals, Nagase seeks to develop businesses that meet customers' needs. With a broad portfolio of business activities consisting of R&D and manufacturing as well as our core trading functions, we seek to grow and develop with shareholders, customers and all stakeholders as a technology and intelligence oriented company that turns wisdom into business.

► Results for the Fiscal Year Ended March 31, 2004

During fiscal 2003, the year ended March 31, 2004, the Japanese economy showed a gradual recovery. Although consumer spending lacked momentum, an upturn in exports supported improvement in corporate earnings, assisted by the psychological boost stemming from rising stock prices.

Under these conditions, with the support of efforts by all employees to expand sales during the first year of WIT21, domestic sales increased 3.6 percent and overseas sales increased 10.6 percent compared with the previous fiscal year. Consolidated net sales of the Nagase Group increased 5.9 percent to ¥533.30 billion.

Operating income increased 21.5 percent year-on-year to ¥10.24 billion due to higher gross profit and our reduction of selling, general and administrative expenses. Although extraordinary gains and losses due to changes in accounting standards for retirement benefits and the return of the substitutional portion of Welfare Pension Fund Plans resulted in a net extraordinary loss, this was more than offset by a substantial decline in loss on devaluation of investments in securities. As a result, net income increased 67.4 percent year-on-year to ¥7.01 billion. Net income per share was ¥54.69.

Following the Company's long-standing policy of paying stable dividends, we paid a ¥1.00 commemorative dividend to mark the fortieth anniversary of the listing of Nagase's shares on the Tokyo Stock Exchange in addition to the ordinary dividend of ¥8.00, for total dividends of ¥9.00 per share of common stock.

► Growth through Promotion of WIT21

The numerical targets and basic strategies of WIT21, which we launched during fiscal 2003, are shown in the chart on the right. The goal of WIT21 is to convert the entire company's business structure to become a solutions-

oriented company that creates its own business, rather than simply acting as an intermediary.

Under WIT21, we will create new solutions-oriented businesses by taking full advantage of the Nagase Group's strengths, which include the know-how we have developed over the years based on the chemical business; relationships of trust with more than 6,000 excellent client companies and business partners; our technology, intelligence and wisdom; and collaboration and partnerships among divisions. By doing so, we aim to take the initiative in the market and raise Nagase's corporate value.

Specifically, the plan identifies four sectors as strategic business areas where we will execute our basic strategies: electronics, life sciences, automotive and overseas operations. We will aim to expand revenues by concentrating business investment in these areas.

Medium-term Management Plan WIT21 Goals (Fiscal 2003–Fiscal 2005)

	Fiscal 2003 (Actual)	Fiscal 2005 (Projected)
Net Sales	¥533.3 billion	¥550.0 billion
Domestic	¥349.5 billion	¥330.0 billion
Overseas	¥183.7 billion	¥220.0 billion
Operating Income	¥10.2 billion	¥11.0 billion

Basic Strategies	Performance Targets	Strategic Areas
<ul style="list-style-type: none"> ① Set ourselves apart from competitors by creating a wholly customer-oriented business. ② Nurture and strengthen market-leading businesses. ③ Make use of the Group's resources and distinctive identity to create new businesses. 	<ul style="list-style-type: none"> ● Consolidated operating income of ¥11.0 billion ● Focus on capital costs 	<ul style="list-style-type: none"> ① Electronics ② Life sciences ③ Automotive ④ Overseas operations

Electronics

The electronics industry is expected to continue growing dramatically on a global scale. Building on a lineup of products it has amassed over many years, such as chemicals for semiconductor production and chemical products for the electronics industry, Nagase is developing related non-chemical materials and moving into downstream operations such as processing, assembly and sale of components and even the sale of finished consumer goods, with the aim of expanding its presence in electronics and related markets.

A key initiative in fiscal 2003 was the establishment of Nagase ChemteX (Wuxi) Corp., a production plant for formulated epoxy resins in Wuxi, China. The plant, which began production on a commercial basis in December 2003, will support the efforts of Nagase ChemteX Corp. to apply its expertise in manufacturing proprietary products in expanding overseas, primarily in Asia. In addition, Nagase Finechem Singapore (Pte) Ltd., which was established in 2001, completed construction of and began operating facilities for recycling of chemical agents, a strength of Nagase in Japan, in addition to producing chemicals for use in manufacturing semiconductors and liquid crystals.

In fiscal 2004, we will expand production capacity and localize raw material procurement to enhance our cost competitiveness. In addition, we will expand and raise the efficiency of our processing base in South China through Nagase International Electronics Ltd., which was established in Hong Kong in March 2004 to reinforce our LCD device processing and assembly business overseas. In sales of finished consumer products, sales of DVD-related equipment and peripheral recording media products, as well as Internet-based sales of DVD movie software, have expanded steadily, and we will continue focusing on these areas.

Life Sciences

Reorganization in the pharmaceutical industry is taking place on a global scale, driven by competition in new drug development, particularly genomic drug discovery. In Japan, competition is intensifying due to the impact of reductions in National Health Insurance (NHI) drug prices. This, together with the planned revision of the Pharmaceutical Affairs Law in 2005, will likely lead pharmaceutical companies to increase outsourcing of drug manufacturing.

In light of these industry trends, we are using our R&D and manufacturing functions to support the streamlining efforts of corporate customers. Specifically, we are focusing on providing support in three areas: new drug development; existing and generic drugs; and new drug discovery. To achieve these goals, Nagase ChemteX operates a small-scale production facility for pharmaceutical intermediates, while the Nagase R&D Center conducts research and development activities. Our original plan to establish a full-scale production facility compatible with current Good Manufacturing Practice (c-GMP) has been postponed so that we can increase the plant's versatility and flexibility in terms of the items it can manufacture. We will further deepen the Nagase R&D Center's collaboration with outside research institutions, and will strengthen our contract synthesis business.

We transferred sales functions for cosmetics and health foods to Nagase Beauty Care Co., Ltd. with the goal of enhancing the mobility and competitiveness of these businesses. In addition, we are diversifying sales channels by combining sales at retail outlets with door-to-door sales in the Tokyo metropolitan area, and expect to generate synergy between the two sales systems.

Automotive

The automotive industry is now in the age of true global production, encompassing not only automakers but also component manufacturers, as production shifts to the United States as well as central Europe and China. Moreover, the spread of supply-and-demand relationships beyond the conventional *keiretsu* framework is expanding new business opportunities.

Based on the relationships with clients we have built by selling them raw materials for plastics, we have been expanding our business domain into areas such as molding of automotive components, integration of the component design business with the molding business, execution of purchases on behalf of customers at overseas bases, and development of a supply management system in Japan and overseas.

In fiscal 2003, we upgraded our sales office in London by placing it under the direct control of the head office, and incorporated our office in Tianjin, an automotive industry hub in northern China, as Tianjin Nagase International Trading Co., Ltd. We also established Nagase Plastics Design and Die (Tianjin) Co., Ltd. as an overseas base with the same functions as Design & Die Co., Ltd., and made an equity investment in Design and Die USA Inc., which was established in October 2002 and is now preparing for full-scale operation.

In addition, we increased the capital of Toyo Quality One Ningbo Co., Ltd. and Guangzhou Kurabo Chemicals Co., Ltd., both of which are joint venture companies in the urethane business in China, to expand their capacity. We will continue to broaden our business domain through collaboration within the Group, not only in the fields of plastics and chemicals but also in regard to block materials for model molds (DENATool) manufactured by Nagase ChemteX in the electronics business.

Overseas Operations

In addition to our operations in the electronics and automotive sectors, we are expanding our overseas business in Greater China (mainland China, Hong Kong and Taiwan) and Southeast Asia. One example is the so-called East China region, centering on Shanghai. In this region, Nagase's customers, led by Japanese and Taiwanese companies, are continuing to establish and expand their operations. This is giving rise to a complex supply-and-demand framework in which these companies, along with local firms, are supplying their products to each other. We are establishing a network and increasing our personnel so that we can supply products and services to these companies comprehensively and effectively.

► Accelerating Implementation of WIT21

As described above, we are making steady progress in the WIT21 goal of transforming ourselves into a business solutions-oriented company. In our view, however, the speed and dynamism of this effort has not yet reached a satisfactory level. The mindset from our previous organization of chemical products, plastics, electronics and health care is still lingering, and our development in our strategic business areas is not as dynamic as it should be. We want to further promote our transformation by encouraging collaboration within Nagase, within the Nagase Group and with suppliers and customers.

New Internal Organization

We are now in the second year of WIT21, and it will be a critical year for determining our ability to shift to the business structure we envision. Therefore, in April 2004, we established a new organizational structure to strengthen collaboration based on a consensus of our major strategic business areas. The ties that held together the previous four divisions have been abolished and replaced with a flat organization consisting of 13 parallel business groups. We will clarify the responsibility and authority of general managers, while directors in charge will take on responsibility for supervision of strategic business areas. We will also promote measures for businesses that require strategies beyond this organization, in pursuit of overall optimization.

* The directors in charge give detailed explanations of this new organizational structure in the following pages.

Fostering Employee Development

To achieve the objectives of WIT21, it is important that each employee set high targets and focus constantly on achieving them with an entrepreneurial spirit. To support this, Nagase also puts effort into employee development. By strengthening management education and enhancing training to upgrade skills for planning and executing business strategies, we aim to develop people who can create business globally. Moreover, we provide regular opportunities for employees and top management to share our management vision and discuss business strategies, and we are instilling a spirit of challenge through active debate. I am pleased that through these activities, Group employees are reorienting their thinking toward the achievement of WIT21.

Reinforcing the Corporate Structure of Domestic Sales Subsidiaries

We are also taking steps to strengthen the corporate structure of domestic sales subsidiaries. As part of our business restructuring, Shizuoka Nagase Co., Ltd. was merged into Nagase Chemical Co., Ltd. in April 2004 to form the new Nagase Chemical Co., Ltd. Similarly, we merged Kyushu Nagase Co., Ltd. into Nishinohon Nagase Co., Ltd., which made a new start under the same name. We will continue to restructure the business of domestic sales subsidiaries and streamline their management to enhance their corporate structure.

► Strengthening Corporate Governance

Nagase recognizes the growing importance of enhancing corporate governance and ensuring quick decision-making and transparency in management in the face of globalization. We are implementing various measures based on this awareness.

Under the executive officer system we adopted in 2001, the Board of Directors has functioned as the body in charge of making decisions on management policies and strategies and supervising the execution of operations. This system has been very effective in speeding up decision-making and enhancing execution capabilities. In 2002, we reduced the terms of office of directors and executive officers from two years to one year, and in June 2004 we brought in one outside director.

The Board of Auditors sets the auditing policy of auditors in accordance with laws and the Articles of Incorporation, and forms an audit opinion based on reports by each auditor. Auditors attend all meetings of the Board of Directors and express their opinions as necessary. In addition, we have established an advisory board with two outside experts, who serve a monitoring function by checking and advising management from an objective viewpoint.

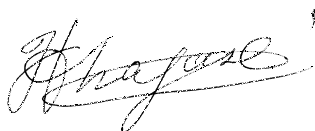
For compliance management, in 2001 we set up the Compliance Committee, which works to ensure legal compliance and enhance corporate ethics. In November 2003, we established the Nagase Group Code of Conduct, and in December 2003 we held more than 10 briefing sessions for officers and employees of the Nagase Group to make sure it is well understood.

► Increasing Corporate Value

Since Nagase's establishment, the Company has followed a management philosophy of carrying out good and fair business practices. In other words, Nagase's first priority is meeting its responsibility to shareholders, customers and all stakeholders by expanding its profits and continuing to grow through honest, transparent management.

By accelerating the measures currently in progress to achieve the objectives of WIT21, we will work to increase Nagase's corporate value and further raise shareholder value. We hope for your continued support and guidance in our efforts.

July 2004



Hideo Nagase
Chairman



Hiroshi Nagase
President

MANAGEMENT DISCUSSION: REINFORCING THE STRATEGIC AREAS OF WIT21

To reinforce the strategic areas of the Medium-term Management Plan WIT21, Nagase introduced a new structure in April 2004 that changed its business framework to pursue overall optimization of the Nagase Group. In this feature, the four directors in charge of sales discuss their respective missions and their approaches to business development.



From left:	Kazuo Nagashima	Director and Executive Officer	Electronics First Group; Electronics Second Group; GM, Electronics Second Group; GM, Medical Care Products Group
	Yoshizo Shibata	Director and Managing Executive Officer	Overall Sales Groups
	Kyoichi Zushi	Director and Executive Officer	Overall Sales Groups
	Eiji Asami	Director and Executive Officer	Colors & Imaging Group; Performance Chemicals Group; Speciality Chemicals Group

► Integration of the Four Strategic Areas

Zushi: My duty is twofold: I am in charge of overall sales and also in charge of overseas business. I try to devote about 80 percent of my work to company-wide sales. My role as director in charge of overall sales is to develop various measures for optimizing the whole company and to assist the president in making proper management decisions.

From my standpoint as the director in charge of overall sales, I will implement the Medium-term Management Plan WIT21, and also map out an image of where the Company will be five to ten years from now. In addition, I want to focus on shaping an environment for determining issues such as the human resource and budget requirements for smooth business operations.

In individual business areas, my mission is to build our

automotive-related business into a ¥60 billion business, which will be centered on the Plastics Second Group but will also include Chemicals and Electronics. For overseas business, I will draw up a strategic plan for allocating business resources to Europe and North America, ASEAN and Greater China.

General managers of each group are responsible for business groups, and take full responsibility for executing daily business. They are also responsible for supervision, which entails considering job combinations and ways of working that will help to optimize the Company's overall operations.

The goal of WIT21 is to integrate the four strategic areas throughout the Company in a real sense, without relying on our traditional organizational structure, and to create a structure that enables us to expand each of

these areas. In a sense, our goal is to integrate information by breaking down the boundaries separating business units and building bridges between them.

Shibata: What it comes down to is that each business group should steadfastly do what it has decided to do, and in addition, we will create a new business structure to take advantage of intangible strengths. This is Nagase's first attempt at something like this, so getting it to run smoothly is very challenging. If we're not careful, line operations may end up interfering, which could lead to confusion in the organization. But if it goes well, and we can integrate information, we can realize significant benefits.

In the areas I'm in charge of, my mission is to determine how to organically link related business divisions and Nagase Group companies to strengthen the area of life sciences. This is a theme that will also require my wisdom as a director in charge of overall sales.

Asami: I am responsible for overseeing three business groups, with a focus on chemicals. I see my primary mission as creating new business by generating synergy between these three groups and other groups. The functions the market requires of Nagase as a trading company are changing from providing and procuring goods to proposing ideas for and investing in customers' businesses. One of the objectives of our reorganization is to create a framework for responding to this change. Under our business model built around chemicals, plastics, electronics and health care, we had some difficulty conducting business through inter-Group cooperation. The new model will enable divisions to collaborate more freely. I believe we have established a foundation that will allow us to offer truly effective proposals to customers and our partner manufacturers.

Nagashima: Speed is essential in everything now, but the electronics industry, the area I'm in charge of, moves especially quickly. This makes it even more important for us to conduct business by making swift, accurate judgments and selecting partners. To do that, we need to be thoroughly customer-focused, gather information, put together a business model, and prepare for a certain amount of risk in conducting our business. Because

manufacturers are no longer doing everything with their own resources, trading companies can develop various opportunities by teaming up with manufacturers. For example, for production in China, we can be in charge of local hiring, production management, quality management and labor management, while our partner, the manufacturer, furnishes basic technology and production technology. This allows us to conduct collaborative business with a division of roles, and in fact, we are already engaged in such collaboration.

► The Meaning of Nagase's Long-term Vision – "Based on Chemicals"

Asami: Nagase started out as a dyestuffs wholesaler. Until now, dyestuffs and other pigments were only used for coloring, but now they are also being applied in the growth field of electronics. Likewise, our focus has been shifting to development of applications rather than development of new materials, as chemicals themselves will probably continue to be at the center of industry. I understand the phrase "based on chemicals" to include this meaning.

Zushi: Nagase's core competence is chemicals. If we pursue wild schemes that are far removed from this, we will have difficulty succeeding. What this means is that we should expand our business on the basis of our strengths. Another meaning is that while there are various manufacturing industries, they all involve chemicals to some extent. For example, chemicals are involved in the fuel cell batteries being developed for next-generation automobiles. Similarly, chemicals drive many other growth and leading-edge industries, such as pharmaceuticals and biotechnology. So the phrase incorporates the idea that the Nagase Group wants to expand its business in these areas.

Yoshizo Shibata
Director and Managing Executive Officer
Overall Sales Groups



Shibata: Chemicals are the foundation of all manufacturing industries, and the people and knowledge that Nagase has nurtured through many years in the chemical business will be a powerful tool. Even though we say “based on chemicals,” there are many jobs in our electronics business divisions which, at first glance, have nothing to do with chemicals. However, we work by drawing upon our strengths and assets in chemicals, the basis of all manufacturing industries, and this brings benefits for each business in the Nagase Group. The phrase also carries this meaning.

Nagashima: People might have the image that the electronics field is removed from chemicals, but for example, optical film, semiconductors, epoxy resins and glass materials all use chemicals in their production process. The truth is, except for a few products, it would be difficult to conduct business without some knowledge of chemicals.

► **Strategic Developments in the Electronics Field Investment in Nagase ChemteX (Wuxi), a modified epoxy resin manufacturer**

Zushi: The modified epoxy resin business has been a successful business for Nagase for many years in Japan. Our strategy for the future is to build a manufacturing base in China, which is now the fastest-growing market. The domestic market is mature and we cannot expect it to grow further, but the Chinese market will continue growing rapidly. Nagase ChemteX (Wuxi) Corp. is a capital investment targeting that market. In addition, several years from now, a new era will arrive and the level of technology will advance. Rather than starting out in China then, our strategy is to first build a foundation on a small scale so we’ll be ready for the future. In the areas we are targeting – for example, insulation materials for electronic

components, electric power and building power distribution – we plan to gradually increase production capacity. Most

customers are local Chinese or Taiwan-affiliated companies. At this time, raw materials are exported from Japan, but local procurement is an urgent issue from the standpoint of tariffs, currency exchange and cost, and we are moving quickly to address this.

Mobile Phone Related Fields

Nagashima: Annual production of mobile phones is now about 500 million units worldwide. Mobile phones contain various components, including liquid crystal displays, semiconductors, batteries and crystals, and demand for these products continues to grow. The Nagase Group is involved to a certain degree in all these product fields. We want to expand business in the areas where we are strong by participating in areas such as processing materials for silicon wafers and crystals and materials for displays.

Power amplifiers are manufactured by Group company Gigatec Inc. and sold by Nagase, but demand is projected to grow rapidly for use in next-generation mobile base stations. In China, the PHS market is expanding briskly, which has supported strong growth in Gigatec’s results in the past fiscal year. Gigatec is building the infrastructure that will enable it to respond to both the need for leading-edge products such as amplifiers for next-generation mobile communications and demand for PHS power amplifiers in developing countries.

Nagase’s Presence in the Liquid Crystal Panel Plasma Display Market

Asami: The market for liquid crystal and plasma display panels is expected to grow to 10 to 20 times its present size in the future. Currently, each of Nagase’s business groups participates in this market. In the area of chemicals, the products we handle include coloring agents and films that cut infrared rays in plasma displays, and master batches used in light reflectors of liquid crystal displays and polarizing materials and color filter pigments. In the electronics business, we handle the modules and films that use these products, and in the plastics business we handle housings for flat panel displays. However, our role

Left: **Kazuo Nagashima**
Director and Executive Officer
Electronics First Group; Electronics Second Group;
GM, Electronics Second Group; GM, Medical Care Products Group

Right: **Eiji Asami**
Director and Executive Officer
Colors & Imaging Group; Performance Chemicals Group;
Specialty Chemicals Group



as directors in charge of sales is to achieve even greater business development for the entire Nagase Group through company-wide collaboration.

► Methods of Promoting Collaboration

Shibata: Until now, information exchange has taken place on the supervisor level, but this has always been done in a linear fashion. Under our oversight, the strategic themes we are promoting for the whole company, such as collaboration, are producing qualitative results. But in reality, this is quite difficult because executives cannot make appropriate decisions if they do not have a good grasp of practical business conditions. Also, it is important to create actual examples of groups that collaborated or the people involved being fairly evaluated. We will study effective structures including personnel ratings.

Zushi: In plastics, we already have business activities in the electronics field. Currently we have a lot of work that is considered to be in the plastics category that would also fit into the electronics category.

Shibata: Among the customers of our chemical business, which accounts for over ¥200 billion in sales, very few are not doing work related to electronics. If we closely examine the business structure of these customers, we can come up with various combinations.

► Strategic Developments in the Life Sciences Field

Shibata: Nagase has been doing business in the life sciences field for more than 40 years. One issue now is that measures to contain health care costs are broadening to include emphasis on maintaining good health rather than just treating illness. In Nagase's life sciences operations, we have developed business independently in four areas – pharmaceuticals, functional foods, cosmetics and household products – and we have not had a common strategy for these areas. Consequently, we need to first create a strategy, then address urgent matters such as numerical targets and the synergy we can expect.

Our pharmaceutical-related business is organic synthesis, but we have reached the limits of this field. As pharmaceutical manufacturers are increasingly outsourcing organic synthesis to increase efficiency, we have to decide whether this is the type of work that Nagase should do. While the number of pharmaceutical manufacturers is decreasing due to mergers, there are numerous

companies manufacturing pharmaceuticals on a contract basis, so providing the functions of a contract manufacturing company to pharmaceutical manufacturers as our only strategy has limitations. Looking ahead, this ¥6 trillion market will not increase, and may even decrease. By offering functional foods, which are a category positioned between pharmaceuticals and foods, together with pharmaceuticals, we hope to help people manage their health without the need to consult a doctor.

For example, rosemary is a natural extract that Nagase developed originally as a cosmetic, but it can also be used as a health food. If we can increase its purity, it may even have possibilities as a pharmaceutical. Having products like this as the core may also create the potential for bartering and cross-licensing with pharmaceutical manufacturers. To that end, I believe we can make even more effective use of powerful Group assets such as the Nagase R&D Center and Nagase ChemteX Corp., and this is something we should focus on.

This industry has a wide range of needs for services and information, and we view these as business opportunities. Affiliated company MEDICANET Co., Ltd. collects clinical trial data by requesting clinical trials from university hospital doctors instead of pharmaceutical companies. Nagase has sent two employees to this company, which has enhanced our contacts with hospitals in just one year. This is a good example of how we are fostering a life sciences business and how efficient it is even in terms of human resources.

► Strategic Developments in the Automotive Field

Zushi: Our business in the automotive area is currently centered on plastics, so our first goal will be to expand this sector. Design & Die Co., Ltd. is a company that designs automotive components and metal molds. In China, where car manufacturers continue to move their operations, this company is broadening its business activities by conducting processes from design to die manufacturing, and will ultimately provide plastics or the products that use them.

Japanese auto manufacturers have established operations in Japan, North America, Europe and Asia, but Nagase can perform functions such as parts procurement overseas and fulfill other roles they cannot take on in Japan. This is the main reason we chose the automotive industry as one of our strategic areas. It is the prime example of a global industry, and the key manufacturing centers for the future will be China, the United States and

Central Europe. In the ASEAN region, Thailand will also be an important base.

Shibata: Not all manufacturers can adapt to the global four-region structure of car manufacturers due to limitations in their manpower and physical resources. This presents the Nagase Group with a major opportunity to increase its presence in the market, including through overseas alliances.

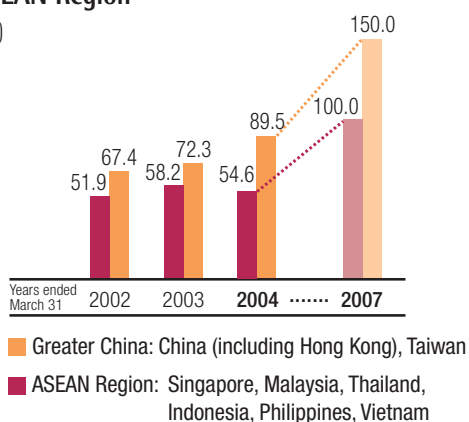
Nagashima: We sell Nagase ChemteX's epoxy resin to the automotive industry, but automobiles also have a strong relation to electronics, and use various electronic components such as liquid crystal displays. Therefore, we plan to promote collaboration with the plastics business.

Zushi: A major asset of our company is our ability to deploy our network in the plastics business from materials to components. We must increase Nagase's presence in the automotive industry by creating plastics with added value.

Asami: In the chemical business, automotive-related products include urethane materials, dyestuffs and paints. About 30 percent of the paints produced in Japan are related to the automotive sector. However, the sales representatives for these materials have little awareness that they are doing work related to the automotive industry. For example, if we can inform paint manufacturers about the capabilities that Nagase acquires from the planning and design stage through Group company Design & Die this could provide powerful support to the

Net Sales and Projections in Greater China and the ASEAN Region

(¥ Billion)



Coating Materials Division. I think we should strengthen efforts like this in China.

► Strategic Developments Overseas

Zushi: Substantial growth in the domestic market is unlikely in the years ahead, but the Nagase Group's consolidated overseas sales ratio is increasing. How to raise our proportion of overseas sales is therefore a key issue for Nagase.

For fiscal 2006, we are targeting net sales of ¥150 billion in Greater China, our fastest growing overseas market, and ¥100 billion in the ASEAN region. The United States and Europe are the largest markets after these two.

Shibata: We have been doing business in China since the country's shift to a path of reform and liberalization about 10 years ago. Previously, we did business through Hong Kong. There is a sense that we got a late start compared to major trading companies and other specialized trading companies. In the last three years we have made advances in our business operations with considerable speed, including the creation of seven production bases. However, because each business group has conducted its business independently, this is still inadequate from a total perspective and in terms of optimizing our infrastructure. China is also a country with many risks, so we will need to devote substantial energy to achieving our sales target of ¥150 billion. If we do not establish a solid foundation to some degree by about 2006, we will no longer have an advantageous position in the market.

Nagashima: Nagase International Electronics Ltd.,

Nagase Group's Network in Greater China



established in March 2004, is a company that will control our manufacturing business in the South China region. We want to reinforce and expand our manufacturing operations with this region as the center. The world's production bases are becoming concentrated in so-called Greater China, and we plan to invest steadily in business expansion there, not only because of the local production costs, but also because of the region's attraction as a consumer market. Measures to bolster our sales network, including reallocation of marketing bases and efficiency improvement, will be an important theme.

Asami: We offer support for Japanese companies expanding overseas. For example, for Japanese automobile manufacturers and related companies, we can provide functions such as an Internet-based inventory management system, and, if necessary, storage. We are now using these capabilities to support these companies and to expand our business.

Nagashima: Although production is shifting to Asia, much of this actually is due to U.S. companies having items manufactured in Asia. In such cases, certification work is done in the United States, so Nagase's functions in the U.S. are also very important.

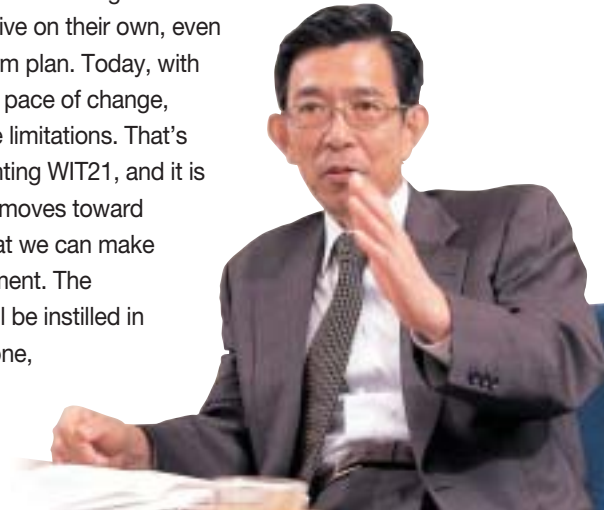
Zushi: Many new technologies and business models are still coming out of the U.S. and Europe. In this sense as well, steady activities including information gathering in the U.S. and Europe will be essential to our ability to respond to new fields.

Shibata: In the pharmaceutical industry, as in the automotive industry, China and India are increasingly playing the role of "large-scale factories" for U.S. and European manufacturers. In electronics, India supplies software to the United States. It is important that we develop our strategies in light of these general trends.

► Determination to Achieve WIT21

Zushi: WIT21 is a three-year plan, but Nagase is building a foundation and strengthening its capabilities with a view to five and ten years from now. We realize that securing and developing human resources is critical to this effort. We will work to build our infrastructure in this area as well by expanding our business with not only Japanese staff but also high-caliber Chinese employees.

Shibata: Traditionally, Nagase has had a corporate culture in which sales managers were able to take the initiative on their own, even without a medium-term plan. Today, with the increasingly rapid pace of change, individual efforts have limitations. That's why we are implementing WIT21, and it is critical that everyone moves toward the same goals so that we can make good on our commitment. The meaning of WIT21 will be instilled in and shared by everyone, from top management to rank-and-file employees, and we want to create a corporate culture that encourages people to carry through the plan and do whatever it takes to achieve our stated goals. This will become the foundation for sustained growth for the Nagase Group.



Kyoichi Zushi
Director and
Executive Officer
Overall Sales Groups

Asami: If this corporate culture takes root, I believe it will become an excellent company that is clearly differentiated from our competitors. Today, in an age when companies need to offer specialized technology and information, we also need an education system that fosters people with broad perspectives in addition to their areas of specialization.

Strengthening existing businesses and continuously investing in new businesses is also crucial, so we can't be lax in those areas. However, we also need to deploy our intelligence and know-how, the intangible assets of the Nagase Group, to create new businesses based on strong leadership. This is where our mission lies.

Nagashima: Electronics is obviously a field that will continue to grow at a rapid pace, and I feel we are responding sufficiently. While paying careful attention to resources and information of business groups outside of electronics and affiliated companies, we want to carry out and expand our business from the viewpoint of overall optimization. Our goal is to maximize the power of the Nagase Group and create and aggressively implement an efficient business model.

BOARD OF DIRECTORS, CORPORATE AUDITORS AND EXECUTIVE OFFICERS

(As of June 29, 2004)



Standing (from left):

Haruyuki Niimi
Eiji Asami
Kyoichi Zushi
Yoshizo Shibata
Makoto Tsuruoka
Kazuo Nagashima

Seated (from left):

Akira Naitoh
Hideo Nagase
Hiroshi Nagase
Reiji Nagase

BOARD OF DIRECTORS

Representative Director and Chairman	Hideo Nagase	Director and Executive Officer	Makoto Tsuruoka (GM, Finance Division; GM, Accounting Division; GM, General Affairs Division)
Representative Director, President and CEO	Hiroshi Nagase	Director and Executive Officer	Eiji Asami (Colors & Imaging Group; Performance Chemicals Group; Speciality Chemicals Group)
Representative Director and Senior Managing Executive Officer	Akira Naitoh (Overall Administrative Divisions; GM, Legal Division; GM, Credit Division; GM, IT Planning Office)	Director and Executive Officer	Kazuo Nagashima (Electronics First Group; Electronics Second Group; GM, Electronics Second Group; GM, Medical Care Products Group)
Director and Managing Executive Officer	Reiji Nagase (President, Nagase ChemtX Corporation)	Outside Director	Haruyuki Niimi (Representative Director and Chairman, Showa Shell Sekiyu K.K.)
Director and Managing Executive Officer	Yoshizo Shibata (Overall Sales Groups)		
Director and Executive Officer	Kyoichi Zushi (Overall Sales Groups)		

CORPORATE AUDITORS

Standing Corporate Auditors	Yasuhiro Kashiwada Shunsuke Okabe Hideo Yamashita	Corporate Auditor	Eisaku Kimura
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EXECUTIVE OFFICERS

Nagase ChemtX Corporation	Takeo Kaneko	GM, Plastics First Group; CEO, Greater China	Susumu Ozawa
GM, Beauty Care Products Group; GM, Life Sciences Business Planning Office	Makoto Ono	CEO, ASEAN	Masamichi Kan
GM, Nagoya Branch Office	Shingo Bamba	GM, Plastics Third Group	Osamu Kitaguchi
GM, Personnel Division; GM, Business Process Coordinate and Management Division	Koji Kuramitsu	GM, Fine Chemicals Group; GM, Nagase R&D Center	Masuhiro Nojiri
GM, Corporate Planning Office	Takashi Okamoto	GM, Plastics Second Group	Masao Hidaka
		GM, Performance Chemicals Group	Toshiro Yamaguchi

Note: GM=General Manager

EFFECTIVE CORPORATE GOVERNANCE

At Nagase, our management policy has always been to carry out good and fair business practices. Aware of the importance of quick decision-making and action and transparency in management, we are aggressively working to strengthen corporate governance in order to carry out this philosophy and continue to raise corporate value.

► Business Execution and Auditing Framework

Nagase adopted a Board of Auditors system. The Board of Directors is composed of ten directors, including one from outside the Company. With regular meetings once a month, the Board of Directors is clearly positioned as the body in charge of making decisions on management policies and strategies and supervising the execution of operations.

The Board of Auditors consists of four auditors, including two from outside the Company. Also holding regular monthly meetings, the Board of Auditors decides the auditing policies of auditors in accordance with laws and Articles of Incorporation and offers its opinions to management in the form of an Auditors' Report, based on the reports of each individual auditor. The auditors also attend meetings of the Board of Directors, and express their opinions as necessary.

We introduced an executive officer system in June 2001, and have appointed 19 executive officers (8 serving concurrently as directors). The Board of Executive Officers holds a regular monthly meeting to ensure quick decision-making for business execution.

In addition, we have established an advisory board of two outside experts based on our view that it is important to have

the Company's management practices evaluated and checked objectively. Certified public accountants Shin Nihon & Co. are commissioned to conduct a fair and impartial audit.

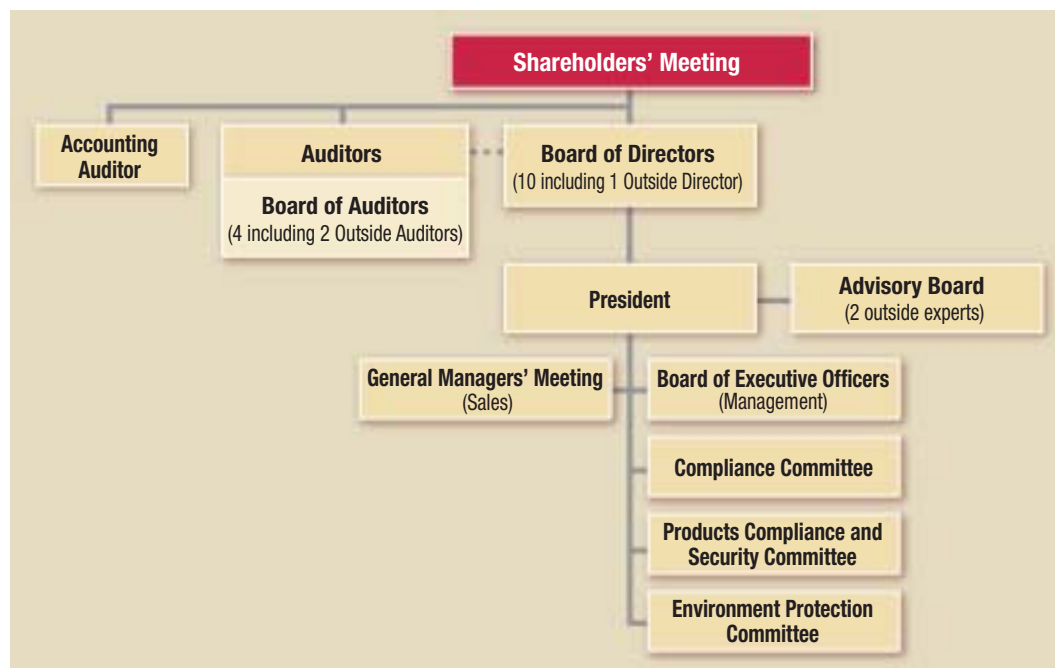
At the Annual General Meeting of Shareholders held on June 29, 2004 the Board of Directors invited Mr. Haruyuki Niimi, the global-minded, experienced Representative Director and Chairman of Showa Shell Sekiyu K.K., to serve as an outside director of the Company.

Neither the outside director nor the outside auditors have any personal, capital or business relationship with, or any other interest in, the Company.

► Risk Management System

In order to achieve management compliance we established the Compliance Committee in 2001, and have since endeavored to ensure compliance with laws and regulations, and to enhance corporate ethics. In November 2003, we established the Nagase Group Code of Conduct, and in December 2003, held more than 10 briefing sessions targeting officers and employees of the Nagase Group, to ensure thorough understanding of the Code.

Corporate Governance System



CORPORATE SOCIAL RESPONSIBILITY (CSR) ACTIVITIES

The Nagase Group is a member of society and, as such, it is our duty to behave in a manner in keeping with this role by maintaining good and fair business practices and providing society with the goods and services it needs. Through continued growth and development, Nagase can improve the welfare of its employees, while making a contribution to society. Nagase aggressively promotes activities in line with this corporate philosophy.

We believe that using our strength in information and technology to create and provide products and services demanded by society is one way in which we contribute to society. Moreover, we are steadily working to contribute to society in ways such as conducting environmental preservation activities in compliance with ISO 14001 guidelines at all offices and the Nagase R&D Center, and contributing to coexistence with local communities and to the development of scientific technology.

► Environmental Preservation Activities

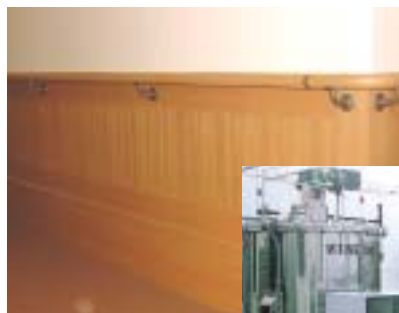
Under the environmental policy of developing businesses that give full consideration to environmental issues, we aim to contribute to environmental preservation through expansion and creation of eco-businesses. We will use our strength in information and technology to implement various measures from this perspective. First, Nagase is putting its strengths in technology and information to work to prevent pollution by using green chemistry and green products. We present alternatives to the hazardous substances that cause air, soil and water pollution, and provide safety-related information on chemical products.

Second, we support efforts to achieve zero emissions. The concept of zero emissions, referring to a company's total emissions of waste, was first advocated by the United Nations University in 1994. We have developed a chemical management system and solvent recovery system that contribute to the realization of this goal. The chemical management system monitors the concentrations of chemicals used in the manufacture of semiconductors and LCDs, and regulates substances used in order to make the process more stable while significantly reducing the amount of chemicals used. The waste solvent recovery system processes waste that cannot be reduced to zero by a single corporation, and uses it as raw materials for different industries.

We are aggressively developing eco-materials, devices and systems that contribute to lessening environmental impact. The Nagase Group established a new manufacturing company in Singapore in September 2001. The plant is capable of both producing the chemicals used to manufacture LCDs, semiconductors and electronic devices,

and recycling those chemicals after use. Nagase Finechem Singapore (Pte) Ltd. is able to efficiently use limited resources by recovering, recycling and reusing the chemicals it produces and sells. The reduced emissions also lessen the impact on the environment. The company has been granted "Pioneer Status" by the Singapore government, a distinction given to new companies that benefit the country. The Nagase Group is building a network linking Japan, Korea, Taiwan and Singapore for the production, sale, recovery and reuse of chemicals used in LCD, semiconductor and electronic device manufacturing throughout Asia.

Coexisting with society is one of our environmental policies, and we support and cooperate with other organizations working to protect the environment. This includes participation in the Nippon Keidanren Committee on Nature Conservation, the Japan Foreign Trade Council Global Environment Committee, the Osaka Chamber of Commerce and Industry Environmental Problem Research Council, and others. We are also part of the Nihonbashi Kobuna-cho recycling drive, a small but meaningful contribution to the local community.



Pluswood, an environmentally friendly product that uses a new type of wood composite material



Chemical management system

► Contributing to Growth of Scientific Technology

Nagase has a long history of developing enzymes and technologies for organic compounds for use not only in the chemical industry but for a wide range of applications in various industries including pharmaceuticals. Through these activities we intend to promote awareness of the importance

of basic technology in biochemistry and organic chemistry, and aid in the broad advance of scientific technology in Japan. To mark the 70th year since Nagase's founding, we established the Nagase Science and Technology Foundation.

Established in April 1989 and designated a public interest corporation by the former Science and Technology Agency, the Nagase Science and Technology Foundation aims to contribute to the development of the social economy by advancing science and technology through assisting research and development and supporting international exchange in fields including biochemistry and organic chemistry. Including research grants to researchers, financial support for attendance at overseas and domestic conferences and support for lectures, the Foundation has awarded a cumulative 251 research grants and 178 international exchange fellowships totaling approximately ¥676,500 thousand. (International exchange fellowships

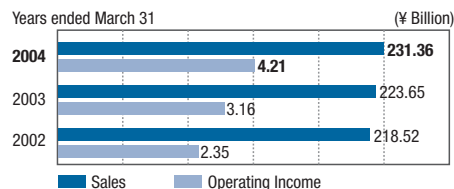
have been suspended as of fiscal 2004.)

Researchers who have received Nagase Science and Technology Foundation grants have won awards from organizations including the Enzyme Engineering Society, the Chemical Society of Japan and the Society for Biotechnology, and are active in the fields of biochemistry and organic chemistry. In addition, the Foundation contributes to conferences by providing support to participants in the Human Genome Organization, International Organic Chemistry Conference, the International Congress of Photosynthesis and other conferences. We believe that R&D in biochemistry and organic chemistry leads to the development of various applications in the chemical and many other industries, and substantially contributes to the advancement of scientific technology and the welfare of mankind.

Research Grants Provided in 2004		
Name	Present Office/Position	Subject Matter/Research Paper Title
Biochemistry		
Chiaki Ogino	Graduate School of Natural Science & Technology, Kanazawa University/ Assistant Professor	Improvement of phospholipid function by phospholipid metabolite enzyme and its application to pharmaceutical intermediate chemicals
Hiroyasu Onaka	Toyama Prefectural University, Biotechnology Research Center/ Assistant Professor	Studies on the biosynthesis of heterocyclic antibiotics produced by actinomycetes and the approach to the new derivative production
Noriho Kamiya	Graduate School of Engineering, Kyushu University/ Associate Professor	Development of a new protein immobilization strategy through enzymatic post-translational modification
Hiroshi Kanzaki	Graduate School of Natural Science & Technology, Okayama University/ Associate Professor	Studies on novel enzymes involved in biosynthesis of microbial peptide secondary metabolites
Hiroshi Shimizu	Graduate School of Information Science and Technology, Osaka University/ Professor	Metabolic Pathway Modeling of Biodegradable Polymer, Poly-Hydroxy Alkanoates
Toru Nakayama	Graduate School of Engineering, Tohoku University/ Associate Professor	Discovery and molecular analysis of a novel mechanism of intracellular compartmentation of plant enzymes
Takashi Yagi	Research Institute for Advanced Science and Technology, Osaka Prefecture University/ Professor	Establishment of yeast strains that express human genes responsive to chemical substances and the application of the strains
Toru Yoshimura	Graduate School of Bioagricultural Science, Nagoya University/ Professor	Structure and Function of Mammalian-type Amino Acid Racemases
Organic Chemistry		
Hideaki Oikawa	Graduate School of Science, Hokkaido University/ Professor	Synthetic study of indole alkaloids with cyclization enzymes toward combinatorial synthesis
Kouichi Oe	Graduate School of Engineering, Kyoto University/ Professor	Highly Atom-Economical Approach to Carbene and Nitrene Complexes and Its Catalytic Application
Takeshi Okuma	Research Center for Materials Science, Nagoya University/ Associate Professor	Asymmetric Hydrogenation of Ketones Catalyzed by Newly Devised Metal Complexes
Tomohiko Owada	Graduate School of Pharmaceutical Sciences, The University of Tokyo/ Professor	Self-Assembly of Helix Peptides through Hydrophobic Recognition
Katsuaki Konishi	Graduate School of Environmental Earth Science, Hokkaido University/ Associate Professor	Control of semiconductor nanocluster functions by using π -mediated forces
Makoto Sasaki	Graduate School of Life Sciences, Tohoku University/ Professor	Total Synthesis and Structure-Activity Relationship Studies of Cytotoxic Polycyclic Ethers
Michio Murata	Graduate School of Science, Osaka University/ Professor	Functional study of membrane proteins using synthetic natural products

REVIEW OF OPERATIONS

CHEMICALS



In Chemicals, sales rose 3.4 percent over the previous fiscal year to ¥231.36 billion, due to growth generated by the automotive-related urethane business and increased sales of speciality chemicals for oil solutions and paints. Operating income increased 33.1 percent to ¥4.21 billion.

► COLORS & IMAGING GROUP

The Colors & Imaging Group sells materials and systems under the theme of “color and light.” This includes pigments for the “in” colors of a season, as well as state-of-the-art materials for transmitting information optically and through data imaging. With the Japanese market undergoing fundamental structural changes, we are actively developing businesses that respond to the globalization of our customers’ operations and cover a wide range of the global market.

(The Dyestuffs Division, the Coloring Materials Division of the Performance Chemicals Group and the Imaging and Recording Materials Division of the Coating and Imaging Materials Group were consolidated to create the Colors & Imaging Group as of April 2004.)



Nagase’s original field of business was dyestuffs, and the Colors & Imaging Group, which brings together a diverse group of products from different business fields that involve “color” and “light,” forms part of the Company’s core. Nagase is the only marketing distributor able to handle this entire area, from pigments to related materials derived from them, which only a marketing distributor is able to deal with. Our goal for the future is to establish a unique position as “Nagase: The Color Company,” offering creative solutions for color and light.

Hiroshi Hanamoto
GM, Colors & Imaging Group

Another business, based on the key theme of “pigments and films,” is steadily expanding the range of product applications to include reflection sheets for liquid crystal displays, pre-paid subway cards, soft-drink cans and rewritable cards.

In the area of imaging and recording materials, sales of dyestuffs for flat panel displays and inkjet toner were strong, offsetting the decrease in domestic sales of materials for heat-sensitive and pressure-sensitive paper. As a result, both sales and earnings were higher than in the previous fiscal year. Although the Japanese market was sluggish, our joint venture in the U.S. for the production of heat-sensitive dyestuffs performed well, significantly exceeding expectations.

Strategies and Results

The Japanese market for textile dyestuffs showed signs of contracting, but some of the textile processing operations that had shifted overseas returned to Japan due to the effects of SARS and the strong yen. In addition, there were several other positive factors, such as an increase in the Company’s orders following a restructuring of the supply chain between manufacturers and customers, and the launch of a business exporting textile treatment products to China. As a result, sales for all dyestuff-related products were roughly the same as in the previous fiscal year.

This year was the second year of Borderless Action in the Textile Field (BOAT21), a project designed to promote new textile-related business ideas that transcend industry affiliations or national borders. Subsidiary Nagase Colors & Chemicals Co., Ltd., which handles the sale of dyestuffs, established an overseas operations division and is working to develop business in Asia, especially China.

In particular, we are forming tie-ups with

Japanese textile manufacturers, in which we dispatch Nagase engineers to their overseas plants to provide support for the entire production cycle, from planning to the finished product. To improve quality control at our partners’ facilities in China, Nagase offers a wide range of knowledge and expertise through NCC Shanghai Techno Center Co., Ltd.

In the area of environmentally sensitive dyestuffs, the Company’s latest original product DENAPLA, which joins DENAWOOL, has attracted a great deal of attention from the market.

In the area of functional pigments, both sales and earnings increased due to lively demand for color filter applications in Japan as well as steady growth of our existing business in China. We have begun sales of color dispersion for highly transparent weather-resistant organic pigments, which functional pigments are used in mobile phones, an area that continues to grow, as well as outdoor applications with elaborate designs. This was a typical product developed by combining Nagase’s pigments and dispersing technologies.

Future Direction

Sales volume in the Japanese textile dyestuffs market will continue to remain flat, but as the needs of our customers become more diverse, we are developing a wider range of applications for colors used in dyes and pigments. Our many years of experience and knowledge enable us to engage in a variety of businesses, covering a broad segment of the color-related field from small lots of highly designed products to mass-produced goods. We also plan to focus on further development of the Color Lab, which works closely with users to create custom-made colors and functional effects.

Overseas, we are focusing on measures to strengthen our local marketing capabilities, particularly through Japanese companies that act as our

manufacturing and sales partners in China. In the printing field, our printing operations in China targeting Japanese clients continued to receive new orders for playing cards from major game and toy manufacturers. The Company also began

handling procurement for essential materials in the current fiscal year.

Light-related operations are an area in which future growth is expected. In particular, sales of dyestuffs for flat panel displays and DVD-R products as well as

related applications are on the rise.

In our heat-resistant paper business, we are moving forward with outsourcing materials to China and working to expand sales to the global market.

CLEARLY DEFINED PRIORITIES

The several new products used in computer-to-plate (CTP), a new printing technology, are an excellent example of our corporate slogan, "turning wisdom into business." Like the previous innovations of inkjet for on-demand printing and sublimation printing, CTP is a revolutionary new technology that is expected to change the entire structure of the industry and is considered the future of photo plating. In this field, Nagase has established a product procurement network and related expertise through its previous dealings in Kodak products, and is able to draw on the collective strength of the Nagase Group to handle a broad range of products from printing substrates such as paper and film to materials used in the printing process. We presently sell materials for CTP to overseas markets, and plan to expand our CTP-related business by making use of the knowledge, network and technology cultivated by the Nagase Group.

CTP printing technology, which has recently attracted attention



► PERFORMANCE CHEMICALS GROUP

The Performance Chemicals Group is responsible for Nagase's core business as a chemical-based company. Handling a broad range of petrochemical products, from commodities to value-added products, we contribute to Nagase's core function by further strengthening its operating base. In addition, as our customers' business activities become more global in nature, we are working to create new business opportunities by focusing on exports and overseas production, leveraging the collective strength of the Nagase Group, and collaborating with other business groups and affiliated companies.

(With the restructuring of our operations in April 2004, the Coating Materials Division of the Coating and Imaging Materials Group was integrated into the Performance Chemicals Group.)



The Performance Chemicals Group is the center of the chemicals business. In integrating the coating materials and performance chemicals businesses, we are aiming to create synergy between the two fields. In the past, the Performance Chemicals Group primarily supplied materials to manufacturers of chemical intermediates, then sold the finished products to the Coating Materials Division, which supplied them to the paint and ink industries. Through integrating all of these functions into a single organization we have been able to expand our operations further by providing high-quality information and proposals about our materials and products. In the future, we plan to focus on establishing a new business model that will involve cooperating with other business groups.

Toshiro Yamaguchi
Executive Officer
GM, Performance Chemicals Group

Strategies and Results

Although the growth rate in the Japanese paint and ink industries was nearly flat, the Coating Materials Division achieved higher sales compared with the previous fiscal year and market share also increased. This was due to the success of measures to boost sales of imported products from companies such as Dow Chemical and Eastman Chemical, and to solidify our operating base by enhancing our development capabilities and customer service. In particular, our "weekly full container service," which consolidates the cargo of multiple customers into a single container in order to lower transportation costs and minimize resources required for export-related operations, is steadily

achieving results. Another example is our cooperation with other divisions not only in the area of raw materials, but also in providing overseas sales support for paint-related products, thereby enabling us to respond to customers' needs and increase customer satisfaction. These new proposals that utilize the advantages of the entire Nagase Group have had a favorable impact on our domestic operations.

The Performance Chemicals Divisions comprise the urethane, filter, commodity product and functional plastic additives businesses. Sales of urethane products were strong due to our efforts to target the automotive industry overseas, particularly in China. Toyo Quality One Ningbo Co., Ltd. and Guangzhou Kurabo Chemicals

Co., Ltd., two joint ventures established together with customers to manufacture urethane products in China, commenced full-scale operations in 2002, and we plan to further increase their production capacity. As for the filter business, sales of our patented Denafilter polymer filter and our cleaning business were both strong. On the other hand, sales in the commodity products business were sluggish because of the war in Iraq and the impact of SARS, despite our shift into overseas markets. Sales in the functional plastic additives business were also lower than in the previous fiscal year due to a decrease in exports, primarily to Korea.

Currently, we are working to establish an operating base for environmentally friendly products and our environment cleanup business. Conventional paints contain large amounts of solvents called volatile organic compounds (VOCs), which are a major cause of air pollution. Consequently, we are developing new types of low-VOC and water-based solvents. In addition, we are working together with engineering and construction companies to develop a soil and water purification business using by-products of the manufacturing process for pigments used in paint.

A customer survey that was initiated

during the previous fiscal year to improve customer satisfaction has proved extremely valuable. As a result, we broadened the scope of the survey this year from just purchasing agents to include a wide sample of our customers' employees, such as engineers, and also introduced the survey at our overseas subsidiaries. We are using the results of this comprehensive and objective assessment and analysis to closely tailor our business activities to the needs of our customers and markets.

Future Direction

In the commodity products and functional plastic additives businesses, both of which were weak last year, we are working to rebuild our business strategy to utilize internal and external synergies, while developing a new business model as we have done in the urethane and filter businesses. In our overseas operations, we have launched a project to provide support to Japanese manufacturers transferring

their production bases to China and ASEAN countries. Another endeavor is an expansion of our global supplier's products business in China, following the success of a similar project to improve the supplier's business in Japan. The Performance Chemicals Group as a whole plans to quickly increase the percentage of overseas sales by staying dedicated to our customer-oriented approach and taking advantage of the strengths of the Nagase Group.

CLEARLY DEFINED PRIORITIES

Guangzhou Kurabo Chemicals, a joint venture with Kurabo Industries, Ltd., and Toyo Quality One Ningbo, a joint venture with Toyo Quality One Corporation, are both engaged in the production of urethane in China. Due to the strong performance in the automotive industry and other growth fields, the plants continued to operate at full capacity and sales were brisk. We have plans to expand the production facilities, and anticipate further growth.



► SPECIALITY CHEMICALS GROUP

The Speciality Chemicals Group supplies a range of products, including electronics chemicals, raw materials for household products, surfactants, fluoro chemicals and silicones, to industries involved in organic synthesis products such as surfactants and other chemical intermediates. We are concentrating on adding value to our operations and improving the productivity of our sales organization through a thorough focus on the specific needs of customers and industries.

(The Speciality Chemicals Group was spun off from the Performance Chemicals Group as of April 2004.)



Our goal is to be a group of specialists capable of proposing new businesses to customers and suppliers. The source of the value that the Speciality Chemicals Group adds is the activity of our individuals and teams. Increasing the quantity and quality of this activity will allow us to become a group of specialists and expand our trading rights. To this end, we are working to strengthen our organization through measures such as incorporating IT and improving our support staff. Over the long term, we are focusing on developing high-level, specialized expertise in our sales force.

Kazuo Mitsuhashi
GM, Speciality Chemicals Group

In particular, we are focusing on developing products for the electronics and energy markets through cooperation with our partners and customers in core business areas as well as with Nagase's Electronics Groups. One example is our successful new business model, in which the Speciality Chemicals Group's customers order manufacturing of products from Nagase ChemteX, which are then marketed by the Electronics business groups. In addition, we are developing chemical products for the automotive industry, where market needs are expected to become more apparent in the future.

Strategies and Results

During fiscal 2003, sales and operating income of speciality chemicals increased. While exports of special epoxy compounds manufactured by Nagase ChemteX Corp. remained constant, domestic sales of speciality chemicals for auxiliaries and metal working fluids and products imported from China rose.

The business strategy of the Speciality Chemicals Group has been to increase the profit margin by adding value and improving efficiency, rather than simply working to achieve higher sales. As a result of these efforts, the Speciality Chemicals Group is one of the most profitable business groups in the Chemicals segment.

We focus on customer-driven marketing activities for manufacturers in the organic synthesis and surfactant industries. In addition, through a tie-up with the Performance Chemicals Group of Nagase ChemteX, we conduct marketing activities and develop strategies that include the import and export of Nagase ChemteX products. In China, we possess a specialized facility for our original analysis technology, to which we dispatch engineers, and are building a business using Nagase's strengths.

Furthermore, we are expanding our range of business activities from supplying raw materials, which has been our traditional focus, to developing applications.

Future Direction

The Speciality Chemicals Group will continue utilizing the Nagase Group's information and business development capabilities to create profitable businesses in niche areas. We expect to achieve the goals of WIT21 a year ahead of schedule, and are already looking ahead to the next medium-term management plan by developing a strategy to increase earnings by 150 to 200 percent.

CLEARLY DEFINED PRIORITIES

The Speciality Chemicals Group is particularly focused on developing new materials in the area of organic synthesis. Promising markets in the organic synthesis field include the automotive, electronics chemicals and next-generation energy devices industries. In conjunction with other companies in different fields, we are exploring future needs and investigating possible uses for products throughout the development process. We let customers know our development plans to see if there is interest, and then work closely with them to create revolutionary new materials through a trial and error process.



► FINE CHEMICALS GROUP

The Fine Chemicals Group provides a broad range of highly functional products and services in the field of life sciences, which is one of the key strategic segments of WIT21. Business areas include pharmaceuticals, food/feed chemicals, agricultural chemicals and household products.



Nagase aims to apply its original fermentation technology in the development of functional and health foods. To do so, we are working together with outside manufacturers as well as the Beauty Care Products Group of Nagase to create new business opportunities in the field of life sciences. I am bringing my experience of working in both a trading company and a manufacturing company to the Fine Chemicals Group, which forms the core of operations in Nagase's life sciences segment. By opening up new areas and deepening its efforts in the pharmaceutical, food and household products businesses, we will work to further enhance the collective strength of the Nagase Group.

Masuhiro Nojiri
Executive Officer
GM, Fine Chemicals Group;
GM, Nagase R&D Center

year Nagase entered into an agreement with Eiken Chemical Co., Ltd. and Polymedco, Inc. to market reagents and equipment for fecal occult blood testing in the United States. The products produced by Eiken will be sold on consignment through Nagase by Polymedco. By acquiring these marketing rights and making use of the sales network of Polymedco, Nagase will work to expand business in the U.S. market for fecal occult blood testing reagents, which is expected to grow to ¥20 billion in the next five years.

In the agricultural chemicals business, sales of intermediates imported from China and India increased, and this will continue to be an area of focus in the future.

Strategies and Results

During the year under review, sales of intermediates for new pharmaceuticals expanded, offsetting lower revenues from a decline in exports of food additives for Europe and the U.S. As a result, overall net sales for the Fine Chemicals Group increased.

The pharmaceutical industry has seen a decrease in the number of manufacturers due to global mergers and acquisitions, and an ensuing decline in the number of new drugs developed. Although the outsourcing of drug manufacturing is expected to increase in Japan following the revision of the Pharmaceutical Affairs Law scheduled to take effect in 2005, this will also intensify competition in the outsourcing business. The Fine Chemicals Group will work to expand the contract manufacturing business, in addition to the current core business realized by our own process

development, by fully utilizing Nagase ChemteX Corp.'s Fukuchiyama Factory, a c-GMP API facility satisfying all the regulatory requirements of the U.S., Europe and Japan, which came into operation in June this year.

The Nagase Group has extensive experience in the enzyme business. We not only provide enzymes to be used as raw materials, but are also developing a business that supplies functional materials incorporating our own unique enzymes and offers customized production on consignment of high-value-added enzyme products that combine organic synthesis technology, an area of strength for Nagase, with enzyme and fermentation technologies.

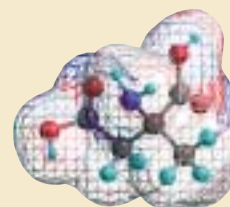
The reagents business of the Health Care Group was integrated into the Fine Chemicals Group. This has created synergy in areas such as sales of new reagents for drug discovery. In addition, during the fiscal

Future Direction

As competition intensifies among pharmaceutical contract manufacturers, Nagase is working on new strategies and directions in addition to supplying intermediates and APIs for new drugs, which is the current mainstay of its operations. Nagase Medicals Co., Ltd., a member of the Nagase Group that specializes in the manufacture of injectable drugs, is restructuring its consignment operations to develop a business that takes advantage of Group-wide strengths in formulation in addition to bulks, intermediates and APIs.

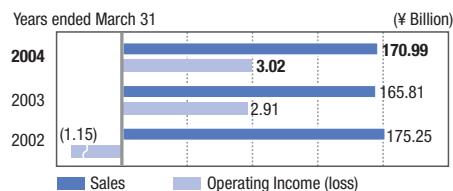
CLEARLY DEFINED PRIORITIES

The Fine Chemicals Group is starting work toward production of unnatural amino acids. We mean by unnatural amino acids not only enantiomers of natural amino acids, but also those such as α , α -disubstituted amino acids that do not exist in nature. By using a sophisticated chiral phase-transfer catalyst developed by Professor Keiji Maruoka of Kyoto University, we are able to selectively produce such unnatural amino acids. We plan to develop mass-production capability by 2005, and market the product to pharmaceutical companies for use as intermediates or in drug design and discovery. The business is expected to grow to ¥5 billion by the year ending March 31, 2008.



Example of an unnatural amino acid

PLASTICS



Plastics sales in fiscal 2003 increased 3.1 percent to ¥170.99 billion, as the increase in sales in the Greater China region, particularly locally procured products, more than offset the decrease in exports from Japan. Operating income increased 3.7 percent to ¥3.02 billion.

► PLASTICS FIRST GROUP

The Plastics First Group is responsible for developing new plastics-related businesses, and also plays a major role in increasing exports from Japan and expanding the overseas operations of the Plastics segment. We market a range of products including plastics, auxiliaries, packaging materials, equipment, facilities and software to various markets and industries in Japan and overseas.



What manufacturers require from us as a trading company is changing. The practice of the past was to purchase products alone, but today, our customers expect us to assist with all aspects of their business, including coordination with overseas operations. Our customers have confidence in our ability to respond to changes in the market, made possible by our large number of subsidiaries in Japan and overseas and our network of contacts. We are continuing to focus on these efforts, developing a business model with high added value by forming partnerships not only within the Plastics segment but in all the Company's business areas.

Susumu Ozawa
Executive Officer
GM, Plastics First Group;
CEO, Greater China

being able to commission all aspects of their business, from processing to sales and even marketing development in several different regions, to a single company.

We also worked to maximize the collective strength of the Nagase Group by clarifying the roles of the head office and Group companies. The head office is responsible for creating new and value-added businesses, while existing businesses are handled by consolidated subsidiaries as fully as possible. In October 2003, we transferred a business totaling ¥10 billion in sales to Nagase Plastics & Co., Ltd., giving that company a bigger and better staff for plastics-related operations.

Strategies and Results

Many of our customers are continuing to relocate their production bases to the Greater China region. As a result, overseas sales of functional resins increased as we strengthened our sales forces by expanding our sales offices. Exports of liquid crystal optical waveguide-related materials for digital home electronics and molding machines increased substantially, particularly to Taiwan. However, exports of products for optical disc applications decreased due to intense price competition, and sales in Southeast Asia declined partly due to the relocation of customers' production bases to China. As a result, sales overall increased only slightly.

Sales for applications in electrical and electronic equipment were strong due to higher sales in the field of mobile phones and the launch of a new components business for industrial electronic equipment.

In Greater China, we worked to build an operating base capable of a comprehensive and efficient supply of products to the fast-growing eastern region, particularly

Shanghai. Through specific measures such as integrating a joint venture created with a Taiwanese company that is one of our established customers, we strengthened our organization and improved our competitiveness in a region with a complicated supply and demand structure of Japanese, Taiwanese and locally-owned companies.

We also cooperated with manufacturing subsidiaries in the Nagase Group. Nagase Precision Plastics Shanghai Co., Ltd., a joint venture created with machine manufacturer Kotobuki Kasei Corp., produces computer memory module trays. Through collaboration with Nagase sales companies, sales rose steadily during fiscal 2003 and the company plans to expand its facilities in the current fiscal year. Another example of this strategy is Setsunan Kasei Co., Ltd., a compounding manufacturer of engineering plastics. When an order is received by Setsunan Kasei, all marketing activities for that order are handled by the Plastics First Group, enabling the Nagase Group to comprehensively manage the business from production to sales. Customers appreciate

Future Direction

We are continuing to expand our business and restructure our core operations in the Greater China region, as set out in WIT21. Tianjin Nagase International Trading Co., Ltd. was originally established in November 2003 as a sales company for automotive plastics, but now conducts negotiations in a variety of other fields. Relying on our expansive network of sales offices covering all of China, we are coordinating with other divisions to develop a new business model.

In our overseas operations, some of the Plastics First Group's service areas overlap with those of our local affiliates. We plan to review this situation in order to develop a business model that harnesses the capabilities of the Nagase Group in a more effective and efficient manner.

CLEARLY DEFINED PRIORITIES

We have made substantial progress in establishing an operating base for our plastics business in Greater China. We currently have seven production facilities and seven sales offices in the region. During the year under review, we laid the groundwork for real business development by restructuring and strengthening sales company Shanghai Hua Chang Trading Co., Ltd., strengthening relationships with non-Japanese customers, and bolstering human resources at our local offices. We are also focusing on training local staff. Starting this year, we have established a training program in which locally hired Chinese and Taiwanese employees are sent to the head office for thirteen months to learn about fundamental aspects of Nagase such as our management philosophy.



► PLASTICS SECOND GROUP

The Plastics Second Group handles automotive-related materials and products, which is one of the four strategic areas outlined in WIT21. Part of our business involves selling plastic materials, products, molding equipment, and auxiliary equipment. In addition, based on our concept of offering optimal global procurement through a coalition of different industries, we have established a network centered around subsidiary Design & Die Co., Ltd. This network handles everything from component design and the development of prototypes to mass-production dies. We also act as purchasing agents for our customers' overseas facilities. Through our relationships with companies in the increasingly global automotive industry, we are growing our operations both in Japan and abroad.



With many Japanese automakers moving their production bases overseas, having offices in those locations and deploying staff with automotive-related expertise will be crucial to the growth of our business. Nagase Group companies located overseas, which had previously worked to develop each business group individually, now go beyond the group framework to meet the needs of customers. Furthermore, we are collaborating with the Chemicals, Electronics and Plastics businesses, devising various approaches to win over the same group of customers.

Masao Hidaka
Executive Officer
GM, Plastics Second Group

Tianjin Nagase International Trading Co., Ltd. in November 2003.

The decline of the traditional *keiretsu* framework in the automotive industry has opened up new business opportunities for Nagase. As automakers pursue cost reductions and work to shorten the time to market, they increasingly need to be able to outsource everything from design to parts procurement. Being able to respond to this need is one of the Nagase Group's competitive advantages, and we expect significant growth in the future by integrating the entire process from component design to ordering of dies and procurement of materials and products.

Strategies and Results

Overseas sales in fiscal 2003 increased by more than 30 percent year-on-year, and domestic sales also rose significantly due to our customer-oriented approach and capabilities as a purchasing agent. Our strategy is to expand our automotive-related business both in Japan and overseas through a process of selection and concentration, with the Nagase Group managing each aspect from products and market area to partnerships and alliances. One such example is the steady expansion of our new business model, in which Design & Die subcontracts projects from component design and the development of prototypes to mass-production dies. To provide support to the increasing numbers

of manufacturers of automotive components as well as finished automobiles who are shifting production overseas, we acquired an equity stake in Design and Die USA Inc. in October 2003. In addition, we established Nagase Plastics Design and Die (Tianjin) Co., Ltd. to respond to the anticipated influx of Japanese as well as Chinese, European and American manufacturers in the area.

We are focusing primarily on enhancing our overseas facilities in line with the increasing number of our customers who are moving their production bases out of Japan. Specifically, we made the representative office in London a branch office under the direct control of the head office so that it can conduct business activities, and established

Future Direction

In the future, we will not merely offer goods and services, as we have traditionally done, but at the same time will develop our new business model, growing our operations through alliances, and expanding our products business. We will collaborate with other business groups to provide our customers with optimal solutions by developing a range of value-added products such as odor-absorbing seats and cloth and environmentally friendly plastics.

CLEARLY DEFINED PRIORITIES

The Plastics Second Group has launched a new business model making use of the collective strength of the Nagase Group, in which large plastic products for Japanese automakers in the U.K. are manufactured at a Nagase Group company's Indonesia plant and delivered by our London office using just-in-time delivery. The entire process is handled from within the Nagase Group, from procurement of materials and components to product management. Our U.K. customers have been very pleased with this project, saying "It could only have been accomplished by Nagase."



Plastic products:
built-in camping table

► PLASTICS THIRD GROUP

The Plastics Third Group is developing a new business based on the “Eco Life” concept of environmentally friendly living. In the field of lifestyles, housing and environment we are working to build an integrated business structure and expand our operations. Our efforts extend from the upstream sector, which involves supplying raw materials to manufacturers of building materials, housing and office automation (OA) equipment, to the downstream sector of providing goods and services, particularly our own original products, either directly to end-users or through general contractors and distributors.



Under WIT21, we plan to shift from our traditional business that merely brokers between materials manufacturers and products manufacturers to a business model that enables us to sell our own products. To create a smooth flow from the upstream to the downstream sectors of the market, we will focus on marketing our original Pluswood building material and offering unique services, while also responding to customers' needs by broadening our lineup of products from other companies and raw materials.

Osamu Kitaguchi
Executive Officer
GM, Plastics Third Group

business of manufacturing plastic molded components for industrial electronics has been performing well and sales have substantially increased. We also developed a plastic recycling system for telecommunications equipment manufacturers and an international procurement support network for the housing industry, resulting in growth in sales of materials.

Future Direction

To optimize our business processes, the Plastics Third Group was reorganized by function in April 2004, reducing the number of Strategic Business Units (SBU) from nine to four. Each SBU will reach its full potential as soon as possible.

Moreover, we are working to improve our income ratio by reviewing distribution and marketing expenses, as well as costs that we pass along to our production partners. We are also working to increase sales by expanding our e-business infrastructure. We have already begun Internet-based sales of Pluswood.

Strategies and Results

In the area of building materials, housing and OA equipment, sales increased approximately 10 percent as we began moving toward a business model that would allow us to exercise leadership.

In particular, sales of Pluswood, which uses a new type of material made from a composite of wood and non-vinyl chloride thermoplastic, more than doubled over the previous fiscal year. Pluswood combines the texture of wood with the functionality of plastic. It is not only easy to use and environmentally friendly, but also enjoys a

strong reputation among people seeking interiors and furnishings in a soothing woodgrain. As a result, the number of large-scale orders has risen. Nagase does not have regular marketing channels for building materials, and is in the process of developing its own sales network. As a result, we have quickly received orders for the interiors of many major hospitals, retirement homes and luxury hotels.

A plastic concrete mold developed by another company but marketed primarily by Nagase has also started to generate results.

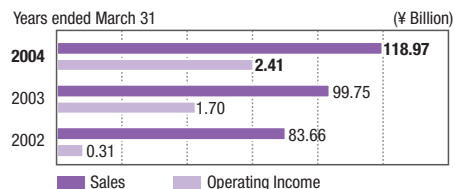
In addition, the recently launched

CLEARLY DEFINED PRIORITIES

For the recent total renovation of the Imperial Hotel in Tokyo, Pluswood was used for the fittings in all guest rooms as well as in certain parts of the walls and ceilings. Nagase plans to use this track record as the basis for growth in the new field of hotels, office buildings and stores.



ELECTRONICS



Electronics, one of the four strategic areas of WIT21, was a driving force behind the company's good results in fiscal 2003, with the liquid crystal-related business performing particularly well. Sales increased 19.3 percent over the previous fiscal year to ¥118.97 billion, and operating income increased 41.2 percent to ¥2.41 billion.

► ELECTRONICS FIRST GROUP

The Electronics First Group produces materials and equipment used in manufacturing processes and provides system solutions to the semiconductor, liquid crystal and electronics component industries. We are actively working to expand our overseas operations in China, Taiwan, Singapore and Southeast Asia, while creating a highly profitable business that integrates both manufacturing and trading.



The main strength of the Electronics First Group is our ability to integrate manufacturing and trading to provide distinctive value-added products to niche markets. Moreover, by collecting information from our position as the section of the Company that is closest to end markets, we will promote cooperation with other groups and take the lead in developing business in the field of Electronics, a strategic area under WIT21.

Tomitaka Ito
GM, Electronics First Group

produced commodities. At the same time, we are working to compensate for the sales lost to a general shift in production overseas with the development and production of new and distinctive products in Japan.

In addition, OnFine Co., Ltd., established as a joint venture with the Osaka Gas Group in 2002, is a new business model that markets products for which Osaka Gas Chemicals Co., Ltd. produces raw materials that are processed by Nagase ChemteX. Furthermore, the Electronics First Group is currently developing a business model that emphasizes effective joint development and marketing through partnerships with manufacturers that possess specialized technologies. One example of these efforts is the joint development of optical products such as anti-reflective film and film processing materials.

Strategies and Results

During fiscal 2003, sales were favorable across the board due to the booming digital electronics market.

Sales of chemicals for the production of semiconductors and liquid crystal, particularly the Group's own products manufactured by Nagase ChemteX Corp., were strong, in combination with sales of related equipment.

In the area of functional materials, sales of Group products manufactured by Nagase ChemteX were solid, as were sales of other products such as formulated epoxy resin for the heavy and light electrical machinery industries and semiconductor encapsulants. However, domestic sales of insulating materials for some electronic components decreased slightly with the trend toward moving production facilities overseas.

The Electronics First Group adds the functions of a trading company to its manufacturing capabilities. We are making full use of these characteristics to fulfill one of the basic strategies of WIT21, which is to set ourselves apart from competitors by creating a thoroughly customer-oriented

business. In addition, to accommodate our customers, who are increasingly shifting their production bases overseas, the Nagase Group is further expanding its production facilities in Asia.

Nagase Finechem Singapore (Pte) Ltd., which began operations in the fall of 2002, manufactures chemicals used in the production of semiconductors and LCD panels. The company's facility for the recycling of chemicals, an area in which Nagase excels in Japan, began operations during fiscal 2003. In addition, subsidiary Nagase Engineering Service Korea Co., Ltd. will begin local production and sale of semiconductor and liquid crystal manufacturing equipment in Korea during the current fiscal year, joining Nagase CMS Technology Co., Ltd., which markets the same products in Japan. Nagase ChemteX (Wuxi) Corp., a manufacturer of formulated epoxy resins in China, began operating commercially in December 2003.

The Electronics First Group is focusing on increasing both sales and profitability by shifting production overseas and improving production capacity in order to build an overseas production system for mass-

Future Direction

During fiscal 2004, the Electronics First Group will work to quickly realize profits from the overseas operations we have invested in as well as from our domestic niche market business. Our alliance strategy involves targeting mainly mid-sized chemical manufacturers with which we have had long relationships and aggressively developing products for high-value-added niche markets. In addition, there is still room for improvement in information sharing among divisions. As a result, we are working to consolidate the expertise of the Nagase Group, which encompasses a wide range of products in both upstream and downstream sectors, in order to offer creative solutions to our customers.

CLEARLY DEFINED PRIORITIES

Nagase ChemteX (Wuxi), a manufacturer of formulated epoxy resins in China, began operating commercially in late 2003 with a production capacity of 3,000 tons per year. In June 2004, production capacity was increased to 4,000 tons per year. Aiming to become China's top producer of formulated epoxy products in terms of volume and product lineup, the company plans to expand its production capacity to 5,000 tons per year in the future so that it can begin supplying products to local companies and export them from China to Southeast Asia.



► ELECTRONICS SECOND GROUP

The Electronics Second Group handles products associated with the downstream sector of the electronics market, including liquid crystal displays (LCDs) and materials used in their production and processing, optical films, slurries used as precision abrasive materials in semiconductor processing, and inspection systems for surface defects, in addition to operating a glass processing business. The Group also actively works to provide products that meet market needs, such as consumer DVD equipment, and leverages the strength of the Nagase Group, including Gigatec Inc., a manufacturer of components for mobile phone base stations.



With the extremely rapid pace of advances in the electronics industry, it is important to make quick, accurate judgments in matters such as choosing business partners. As a result, the Electronics Second Group is aggressively working to promote its operations by gathering information through an intensive focus on customer trends, establishing a business model and assessing risk factors. At the same time, we are concentrating on collaborating effectively with other manufacturers to acquire elemental and production technologies that the Nagase Group does not possess.

Kazuo Nagashima
Director and Executive Officer
Electronics First Group; Electronics Second Group;
GM, Electronics Second Group; GM, Medical Care Products Group

Nagase International Electronics Ltd. in March 2004, aimed at enhancing and raising the efficiency of our assembly and processing facilities in South China.

Demand for PHS and mobile telephones is expanding rapidly in the Chinese market. Gigatec is a manufacturer engaged in development, design, materials procurement and performance testing for power amplifiers for mobile base stations. The company is a fabless manufacturer that outsources assembly to other manufacturers, and is currently developing a power amp unit for a next-generation mobile base station, high-frequency power plasma production equipment for semiconductor manufacturing processes, and a router for digital terrestrial broadcasting.

Strategies and Results

The performance of the Electronics Second Group substantially exceeded projections due to strong demand in the semiconductor and liquid crystal industries.

In the liquid crystal field, sales of materials for displays were particularly strong in Japan, as were exports, especially to Greater China. Sales of modules also increased significantly. Overseas assembly and processing of components, traditionally a strategic business for the Electronics Second Group, was also strong.

In the field of communications products, overall sales remained firm, although sales of components for wireless base stations to China declined as demand reached saturation point.

Sales of precision abrasives were supported by strong exports, primarily to Asia. Sales of hard disk drive-related materials and components also increased. Sales of processing materials for silicon wafers continued to expand significantly, and we were successful in acquiring new customers.

Sales of DVD-related equipment and peripheral recording media increased substantially. This is an area on which we have focused in recent years as part of efforts to expand into the downstream

sector of the electronics market. Sales of DVD movies to consumers over the Internet also rose. In marketing finished consumer goods, we are working to improve competitiveness by increasing sales efficiency. To this end, we are actively investing in introducing business management systems, such as customer management and inventory control in the DVD player business, and developing human resources.

This year, the Electronics Second Group also worked to create an operating structure that would enable us to achieve sustainable growth, our key task. Because demand fluctuates greatly in the device industry for displays and communications components, it is important to take initiatives that anticipate market trends in order to ensure continued growth in earnings. Consequently, we established

Future Direction

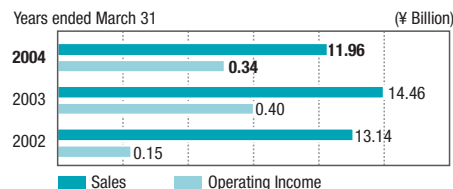
Markets where dramatic growth is forecast include small and medium-sized displays used in mobile telephones, large-scale monitors for computers and televisions, and communications markets such as mobile telephones, ADSL and broadband. In these growth markets, we are focusing on building a new business model to accommodate the full range of customers' needs in the areas of technological innovation and logistics.

CLEARLY DEFINED PRIORITIES

Nagase International Electronics, established in March 2004, centralizes management production and employment for all of the Nagase Group's production facilities in South China to improve operating efficiency in the region. We will develop our comprehensive strengths in China as we have in Japan.



HEALTH CARE



During fiscal 2003, although sales of cosmetics, health foods, and medical information and diagnostics-related products were largely the same as in the previous fiscal year, sales of radiation measurement products declined. As a result, Health Care sales fell 17.3 percent compared with the previous fiscal year to ¥11.96 billion, and operating income decreased 15.6 percent to ¥0.34 billion.

(The data used in the text and graph for sales and operating income in this section include both Health Care and Others.)

► BEAUTY CARE PRODUCTS GROUP

The Beauty Care Products Group manufactures and sells cosmetics, health foods and beauty foods for the consumer market, under the philosophy of contributing to the creation of a beautiful, healthy, and prosperous society by providing safe, high-quality products and services that enhance beauty both inside and out. Products are sold door-to-door throughout Japan by our team of 40,000 salespeople, and also in retail stores through Herbal Care Co., Ltd. We have been opening beauty salons across the country that offer enhanced counseling services using high-tech devices, to provide additional opportunities for customers to experience our products.



On the strength of efforts in fiscal 2003 to enhance our business infrastructure, including the restructuring of our sales network, in the current fiscal year and beyond we plan to expand our operations by continually introducing new products that accommodate customers' diversifying needs and fit with the characteristics of our door-to-door and retail sales channels.

Makoto Ono
Executive Officer
GM, Beauty Care Products Group;
GM, Life Sciences Business Planning Office

increase in the current fiscal year and beyond.

"pour toi" (French for "for you"), a retail store created by Herbal Care in 2002, has opened new locations, bringing the total to seven. The stores target women in their twenties and thirties, offering aromatherapy-based cosmetics and products complemented by counseling and treatment.

Future Direction

Developing highly original products is crucial in order to differentiate ourselves from other companies. As a result, we will work with external research institutions and the Nagase R&D Center to continue to create new products. In the current fiscal year, we plan to introduce skin care products containing rosemary extract, as well as beauty foods based on the concept of "skin care from the inside out."

We will maintain door-to-door sales as our primary sales channel. However, to accommodate customers' diversifying needs, we will continue to be active in using other sales channels, including retail stores and salons, while also investigating the development of a mail-order business. In terms of advertising, in addition to the community-based activities of our salespeople, this year we will begin advertising to promote our brand and products to the general public.

Strategies and Results

During fiscal 2003, the Beauty Care Products Group spun off Nagase Beauty Care Co., Ltd. as an independent sales company in order to revitalize the door-to-door sales network by creating a sales force tailored to each region where we do business. Furthermore, in an effort to diversify our sales channels, we increased the number of "pour toi" retail outlets to seven primarily in department stores in the Tokyo metropolitan area. However, overall sales for the fiscal year remained generally flat, as the effects of these developments have not yet materialized.

In the field of beauty care, we manufacture and sell products in the fast-growing health foods market as well as a line of high-grade cosmetics developed by Nagase that are made with rosemary extract to prevent the signs of aging. These are primarily sold door-to-door by our sales

force of 40,000 people nationwide. Door-to-door sales are a type of community activity and a sales format in which human relations are an important factor. With this feature in mind, we have been steadily opening new beauty salons that aim to improve customer satisfaction. Nagase Beauty Care has turned its 28 offices throughout Japan into beauty salons. In addition, 600 of the managers in our door-to-door sales force have been setting up beauty salons in their own homes. Nagase provides them with everything necessary to operate a salon, such as furnishing, beauty care equipment and signs, and works to improve services by offering technical support and training in skin counseling, facial care and makeup. The salons operate at a high capacity, and customers are more likely to purchase products when they are able to test them out themselves and talk with salespeople. The salon business has expanded faster than anticipated, and we expect sales to

CLEARLY DEFINED PRIORITIES

The effects of rosemary extract were discovered through joint research by external research institutions and the Nagase R&D Center, and we continue to make presentations at scientific conferences and develop products based on these findings. Significant results of our research on rosemary during fiscal 2003 included the addition of Cella White Mask to the Cella White Essence V series, a popular line of beauty products launched in April 2002. In addition, we introduced Sanage AW Excellent Concentrate Mask, a highly effective wrinkle treatment that incorporates genkwanine, a substance discovered in rosemary that stimulates the production of collagen and hyaluronic acid. Another recently introduced product that has received an enthusiastic response from customers is Alphametics Tufteep Affect, a new hair restoration product for women.



► MEDICAL CARE PRODUCTS GROUP

The Medical Care Products Group, which is engaged in the sale of medical equipment to medical institutions, primarily handles medical information systems and clinical diagnostic systems. We use our network in the medical industry that we have been building for more than thirty years to expand sales of high-growth products.

The medical care business works to strengthen and broaden the health care business, a strategic area of WIT21. In this growing yet highly competitive market, Nagase will offer products and services that make use of the asset of the solid relationships with customers and distributors the Company has built up over more than 30 years in the clinical laboratory testing field. In addition, Nagase will retool its business strategy to center on developing and providing systems that meet the need of hospitals and clinics in their shift to computers.

Future Direction

In the field of medical information systems and clinical diagnostic systems, the Medical Care Products Group will follow its lineup of infectious disease control systems by focusing on development of original systems and handling new types of analytical instruments for measuring sedimentation, blood gas, electrolytes, and allergens. We are also collaborating with the working group Nagase Medix Co., Ltd. to expand sales by emphasizing cost consciousness. In the field of microbiological testing, we will continue development of new types of imaging microplate reader and 192-hole plates for antibody susceptibility tests. In the radiation field, we have entered into a distribution agreement with the synOdys Group of France to develop a business targeting nuclear fuel companies and the nuclear power safety management market.

Strategies and Results

In the field of medical information systems and clinical diagnostic systems, sales were roughly the same as in the previous fiscal year. However, sales of radiation measurement-related products declined due to lack of demand for equipment, which had contributed to sales in the previous fiscal year. Furthermore, as part of efforts to restructure our operations, the reagents business was consolidated into the Fine Chemicals Group to create greater synergy. As a result, total sales decreased.

One product that generated solid results was an infectious disease control system developed jointly with Saga Medical School Hospital. This system utilizes a hospital's intranet to quickly circulate infectious disease-related information, such as the results of microbiological testing. This results in earlier detection, preventing nosocomial infection while also reducing medication costs. The system has already been introduced at hospitals nationwide, receiving strong endorsements from major university hospitals and other medical institutions.

BASES FOR GROWTH IN KEY STRATEGIC SECTORS OF WIT21: NAGASE CHEMTEX AND NAGASE R&D CENTER

Research and development, production and processing are paramount to cultivating and strengthening the areas of strategic focus of WIT21. The missions and strategic development of the Nagase R&D Center and Nagase ChemteX Corp. are key components of the Nagase Group's research and development, production and processing.

NAGASE CHEMTEX

Nagase ChemteX handles production for the Nagase Group. Nagase ChemteX is targeting the promising fields of electronics and life sciences with a focus on businesses that incorporate distinctive products and technologies, including formulated epoxy resins, epichlorohydrin derivatives, chemicals for photolithography, bulk pharmaceuticals and intermediates and enzymes.

Nagase ChemteX's strengths lie in its foundation as one of Japan's leading manufacturers of original formulated epoxy products for the downstream sector of the epoxy market, with more than thirty years' experience in production technologies for materials used in the industrial and electronic industries. Development of new materials for the growing electronics industry is progressing, supported by our strengths in organic synthesis and formulated product technologies, application development capabilities and strong relationships with Nagase Group customers. We believe our mission is to improve our performance in this industry, while building the foundations for second and third businesses, that will follow our life sciences business.



Reiji Nagase
Director and Managing Executive Officer
President, Nagase ChemteX Corporation

Nagase Group management focuses not only on trading company functions but also on displaying originality and increasing added value by keeping production within the Group. Nagase ChemteX holds the central role for production in the Group. We develop, produce, supply and assure the quality of technologies for chemicals as well as plastics. We cooperate closely on research and development with the Nagase R&D Center, the research and development organization for Nagase. We dispatch research and development staff in the life sciences field to the Nagase R&D Center to conduct joint research by forming teams with researchers there. Our Harima Plant is central to research and development of electronics and other industrial materials.

During fiscal 2003, sales and earnings rose as increased demand for materials for digital home appliances and other products in the electronics industry led to growth in sales, particularly of high-value-added products.

► Electronics

Our liquid encapsulant for semiconductors, adhesives for optical devices related to image sensors, materials for organic electroluminescence and other original products have been enthusiastically received. Cycles of demand and the pace of technological development in the electronics industry are extreme, so expanding business through investment and technological development is important to keep from falling behind. We will continue to concentrate on research and development of original products and aggressively invest in expanding production facilities.

► Life Sciences

In life sciences, we do business in two fields: pharmaceutical-related products and enzymes. In the pharmaceutical-related products field, we provide fine chemicals used as ingredients in pharmaceuticals, conduct contract production of pharmaceutical intermediates, and provide development support for related production processes. At the Fukuchiyama Factory, a c-GMP compliant facility for the production of investigational drugs as well as small quantities

of pharmaceuticals and intermediates has been operating since summer 2003, when construction was completed.

In the industrial enzymes field, we went beyond merely selling enzymes by launching new business initiatives that use our fermentation technology for the production of useful fermented products. We plan to use a lipid-degrading enzyme in launching a series of phospholipids for use as ingredients in the fast-growing market for health foods, emulsifiers for foods and raw materials for pharmaceuticals.

Competition in the pharmaceuticals market is intensifying. Factors causing a supply imbalance include a decrease in the number of new global drugs, lower National Health Insurance (NHI) prices for drugs in Japan as a result of policies to restrain medical expenses and the emergence of Chinese, Indian and other new suppliers. For this reason, we are restructuring our research and development and production systems in line with an overall reform of functions and basic strategies in the Nagase Group's life sciences business.

► Global Production Systems

Nagase ChemteX currently has three factories in Japan, located in Fukuchiyama, Harima and Itami, as well as overseas production facilities in Singapore, China and Taiwan.

To further improve efficiency of Japanese production bases, Nagase plans to concentrate production in Fukuchiyama and Harima next year. Moreover, we received ISO 14001 certification of environmental management at the Harima Factory during fiscal 2003, and are working to obtain certification of the Fukuchiyama Factory.

We are expanding overseas business by upgrading facilities at Nagase Finechem Singapore (Pte) Ltd., which handles manufacturing of chemicals used in the electronics field and recycling. In China, we have established manufacturing subsidiary Nagase ChemteX (Wuxi) Corp. in a joint venture with Nagase & Co., Ltd. to produce formulated epoxy resins, and are moving ahead with a plan to expand production. In Taiwan, we have created an operating system by installing our equipment at a business partner's factory, and we will start local production in Europe through contract production with partners there.

► Industrial Materials

As one of Japan's largest manufacturers of formulated epoxy products, Nagase ChemteX is focusing not only on the electronics field but also on the civil engineering and construction industries. Targeted applications for our specialty plastic Epomar include roads, building floors and sewerage systems. We will further strengthen our cost competitiveness under the current conditions of supply imbalance caused by factors including overall sluggishness in the public corporation sector.

CLEARLY DEFINED PRIORITIES

The Nagase Group is concentrating on the development of next-generation materials for the electronics industry. We are now dedicating all our efforts to developing and marketing four types of materials: fluorene, polysilane, Denatron and organic/inorganic hybrid compounds. With their high transparency and excellent electrical properties, these chemical substances can be used in revolutionary applications. Sales of fluorene increased steadily starting in the second half of fiscal 2003. With its major application as a material for LCDs, significant growth is expected to continue, particularly for use in the rapidly growing large-screen LCD television market.

The fluorene and polysilane businesses are based at OnFine Co., Ltd., a joint venture established with the Osaka Gas Group. The combination of the Osaka Gas Group's materials development and mass production technologies and the Nagase Group's formulation technology, application development capability and comprehensive domestic and international sales network has created synergies. Organic/inorganic hybrid compounds are developed independently at our Harima Factory, and Denatron is produced through a tie-up with HC Starck GmbH, based in Germany. Expectations are high for both products for use as advanced materials for electronics, due to their excellent electrical and optical properties.



NAGASE R&D CENTER

The Nagase R&D Center focuses on technology development for manufacturing processes. Under its policy of serving the Nagase Group as the driving force behind R&D in the twenty-first century, the Nagase R&D Center fulfills the following three basic functions: ① independent creation of research themes, ② drawing out market needs, and ③ providing solutions for customers' problems. These efforts are paying off in the form of numerous patents for manufacturing processes for various fine chemical products.

① Independent Creation of Research Themes

The Nagase R&D Center looks at market needs from the viewpoint of technology development and proposes business themes by developing the seeds of technologies. To meet such creative requirements, the Nagase R&D Center collaborates with universities, public research institutes, and the research organizations of other companies as well as working on research programs independently. These activities have led to the development of new technology platforms, related patent applications, and businesses featuring them. One example in fiscal 2003 is our success in developing scalable manufacturing processes for unnatural amino acids in collaboration with Kyoto University. We are now planning to launch the unnatural amino acid business with a full product lineup in 2005.



② Drawing out Market Needs

Nagase's research and development is exploited systematically for market needs identification. We have made public our R&D achievements through filing for patent applications and giving presentations at academic conferences and lectures to establish the Nagase brand featuring a high level of technical sophistication, which culminates in the development of high-value-added businesses that other companies find difficult to tackle.

③ Providing Solutions for Customers' Problems

Nagase provides customers with new and improved manufacturing processes, develops original products that are available only through our proprietary manufacturing processes, and helps customers commercialize their developmental products through analytical evaluation to identify new added value. Being a trading company with production capabilities, Nagase provides solutions that make use of the capabilities of the Nagase Group at every stage of business. For example, the Nagase R&D Center works with Nagase ChemteX on process development when its sales departments can procure raw materials.

The Nagase R&D Center also plays an important role in strengthening Nagase ChemteX's organic synthesis technology and biotechnology (fermentation and enzyme technologies). Upon the start of WIT21, aiming at increasing operational efficiency by reorganizing human resources and research theme assignments, the Nagase R&D Center moved to specialize in the life sciences while Nagase ChemteX's Harima Factory took up product development in the electronics field. Such specialization has allowed the Nagase Group to operate as a contractor dealing with comprehensive businesses ranging from development of new products to their manufacturing in the life sciences and electronics fields, both of which are areas of focus for the Group.

The core competence of the Nagase R&D Center's activities lies in chiral technologies, which are an integrated mix of organic synthesis and biotechnology. As manufacturing technologies indispensable to the pharmaceutical industry, they are currently the focus of global attention. With few companies possessing strength in both organic synthesis and biotechnology, Nagase has received many contract orders for process development from pharmaceuticals manufacturing companies, which reflects their high assessment of our chiral technologies.

Core Technologies and Main Research Themes at the Nagase R&D Center

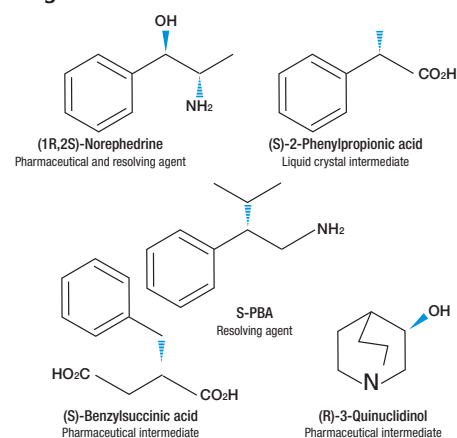
- ① Developing and proposing manufacturing processes that use organic synthesis and biotechnology (microorganisms and enzymes), in particular for fine chemicals including pharmaceuticals, pharmaceutical intermediates and liquid crystal intermediates.
- ② Application of technologies effectively designed for isolation and biological assay of natural products to developing health food and cosmetics.
- ③ Developing enabling technologies for Nagase ChemteX: chiral technologies, genetic engineering, microbial screening, discovery technologies to identify new active principles in natural resources, microbial metabolic pathway engineering.
- ④ Others: Analysis and evaluation technologies (analysis of pharmaceuticals, evaluation of plastics additives), response to regulatory affairs.

► Results of Research

In the cosmetics business, the Nagase R&D Center succeeded in fundamentally renewing Nagase's popular rosemary extract, one of the products developed at the Nagase R&D Center, for the first time in ten years. It is also continuing to develop new related products using cell culture technologies and evaluation technologies to test antioxidant activities. All these moves have helped to increase the value of the rosemary brand in the Nagase beauty care business.

In the area of enzyme research, in anticipation of growing concerns about viral contamination that should drive a shift from animal enzymes to microbial enzymes, we have been developing technologies to allow engineered microorganisms to produce enzymes of animal origin inexpensively. Having succeeded in the microbial production of a rabbit liver esterase, we are now actively advising pharmaceutical manufacturers on how to use the esterase produced by the engineered microorganism in the pharmaceutical development process, so that its range of applications can be expanded.

Representative Products Developed at the Nagase R&D Center



► WIT21 Strategies and Targets

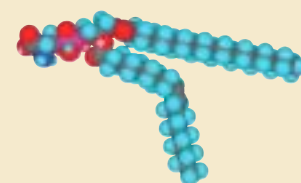
The strategic objectives of the Nagase R&D Center are five-fold:

- ① Focus on developing the select technologies that help Nagase's operation in the life sciences business
- ② Use the Nagase Group's R&D resources to full advantage through collaboration with Nagase ChemteX
- ③ Collaborate with universities and other R&D organizations and take advantage of public funds to strengthen enabling core technologies
- ④ Build up brand strategy aiming at the acquisition of research contracts
- ⑤ Develop core technologies to support Nagase ChemteX; assist in the launch of new products and the development of manufacturing processes to increase the Group's profits.

The keyword in attaining these strategic goals is "independence." To achieve the WIT21 targets, we are pursuing independence in three areas: (1) independence from the trading company operations through acquisition of a reputation as a highly rated research institute; (2) independence of researchers through performing excellent scientific work; and (3) independence gained from our shift from a cost center to a profit center.

CLEARLY DEFINED PRIORITIES

Using cutting-edge technologies for genetic manipulation to advantage, the Nagase R&D Center succeeded in developing a production method to supply hydrolytic enzymes acting on phospholipids at 1/1000 of the cost of existing methods. This led to significant contributions to the fermentation product development business at Nagase ChemteX. Through these initiatives, we are planning to develop and launch new phospholipid-related products into the rapidly growing health food and cosmetics areas.



SIX-YEAR SUMMARY

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

	Millions of Yen						Thousands of U.S. Dollars (Note)
	2004	2003	2002	2001	2000	1999	2004
For the Year:							
Net Sales	¥ 533,301	¥ 503,688	¥ 490,583	¥ 559,372	¥568,293	¥563,222	\$5,045,898
Gross Profit.....	53,494	51,899	46,976	55,140	55,287	53,214	506,140
Operating Income	10,244	8,433	1,673	7,752	8,147	7,791	96,924
Net Income (Loss).....	7,010	4,186	(2,097)	4,945	6,371	3,560	66,326
At the Year-end:							
Total Assets	¥ 310,793	¥ 284,800	¥ 300,073	¥ 353,776	¥316,657	¥298,524	\$2,940,609
Shareholders' Equity	156,210	140,944	144,176	153,498	134,838	125,929	1,478,001
Interest-Bearing Debt.....	16,417	16,578	16,677	23,878	26,681	24,678	155,331
Per Share Data:							
	Yen						U.S. Dollars (Note)
Net Income (Loss)	¥ 54.69	¥ 31.72	¥ (15.39)	¥ 35.28	¥ 44.24	¥ 23.75	\$ 0.51
Shareholders' Equity	1,227.82	1,107.54	1,082.15	1,104.80	952.67	862.06	11.61
Cash Dividends	9.00	8.00	8.00	8.00	8.00	8.00	0.08
Ratios:							
	Yen						U.S. Dollars (Note)
	(%)						
Ratio of Gross Profit to Sales.....	10.0	10.3	9.6	9.9	9.7	9.4	
Total Asset Turnover (Times).....	1.8	1.7	1.5	1.7	1.8	1.9	
Return on Assets (ROA)	2.4	1.4	(0.6)	1.5	2.1	1.2	
Return on Equity (ROE).....	4.7	2.9	(1.4)	3.4	4.9	2.9	
Shareholders' Equity Ratio	50.3	49.5	48.0	43.4	42.6	42.2	
Interest Coverage Ratio (Times)	25.7	22.9	5.8	11.9	13.5	8.9	
Debt to Equity Ratio (Times)	0.11	0.12	0.14	0.16	0.22	0.20	
Number of Employees	2,884	2,790	2,718	2,952	2,954	2,664	

Note: U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥105.69=U.S.\$1, the approximate Tokyo exchange market rate as of March 31, 2004.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

Overview of Results

The Nagase Group imports and exports a diverse array of products and engages in domestic transactions, with Nagase & Co., Ltd. (the "Company" or "Nagase") at its center. In addition, the Nagase Group manufactures and sells products and provides services. These businesses are conducted by 102 related companies, consisting of 71 subsidiaries and 31 affiliates.

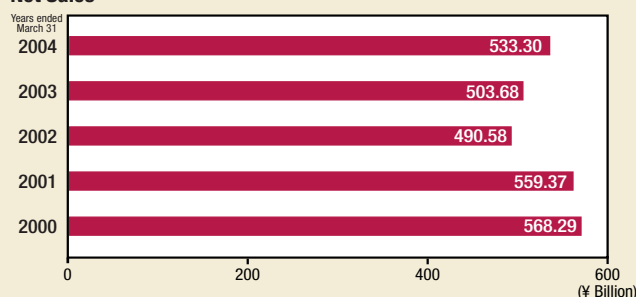
The Company added two subsidiaries to the scope of consolidation during the fiscal year ended March 31, 2004, Nagase Finechem Singapore (Pte) Ltd. and Nagase Beauty Care Co., Ltd., because these subsidiaries had become increasingly material to consolidated results.

Net Sales

During the year ended March 31, 2004, the Japanese economy recovered gradually. Although consumer spending still lacked momentum due to concerns about the labor market and other issues, business performance of companies improved as a result of the improvement in exports, supported by the psychological boost stemming from the rise in stock prices.

In these circumstances, we made efforts to improve our business performance. As a result, consolidated net sales increased 5.9 percent year-on-year, or ¥29.61 billion, to ¥533.30 billion. Domestic sales increased 3.6 percent year-on-year, or ¥12.02 billion, to ¥349.55 billion. Overseas sales increased 10.6 percent year-on-year, or ¥17.58 billion, to ¥183.74 billion.

Net Sales



Gross Profit and Selling, General and Administrative Expenses

Cost of sales increased 6.2 percent year-on-year, or ¥28.01 billion, to ¥479.80 billion. As a result of the increase in net sales, gross profit increased 3.1 percent year-on-year, or ¥1.59 billion, to ¥53.49 billion. The ratio of gross profit to net sales decreased 0.3 percentage points to 10.0 percent.

Selling, general and administrative (SG&A) expenses decreased 0.5 percent year-on-year, or ¥0.21 billion, to ¥43.25 billion as a result of Groupwide operating expense reductions. The ratio of SG&A expenses to net sales improved 0.5 percentage points to 8.1 percent.

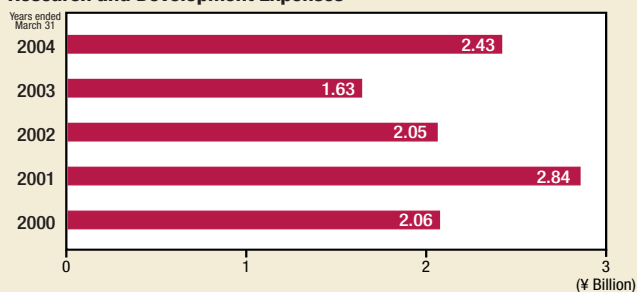
Research and Development Expenses

The Nagase Group engages in research and development with the objective of integrating the comprehensive strengths of the Group in developing new products and sharing technological information.

The Nagase R&D Center develops products based on user needs and conducts applied research. Current research and development themes include research of fermentation technology using chiral synthesis technology and enzymes for application to pharmaceutical intermediates, and the use of natural ingredients in developing cosmetics and health foods. Customers hold the Nagase Group's technology development capabilities in high regard.

In addition, the Nagase Group deploys a precise understanding of customer needs acquired from its marketing network and its extensive portfolio of organic synthesis and compounding technologies in developing and expanding sales of products such as plastics additives and coating materials. The Nagase Group uses the many patents it has obtained from its research and development activities to increase earnings. For the year ended March 31, 2004, research and development expenses totaled ¥2.43 billion, compared to ¥1.63 billion in the previous fiscal year.

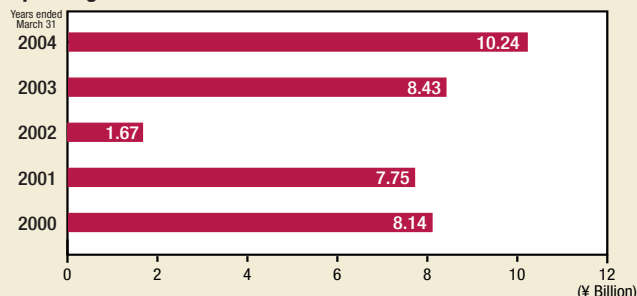
Research and Development Expenses



Operating Income, Net Other Income and Net Income

Operating income increased 21.5 percent year-on-year, or ¥1.81 billion, to ¥10.24 billion, as a result of the increase in gross profit and decrease in SG&A expenses. The ratio of operating income to net sales increased 0.2 percentage points to 1.9 percent.

Operating Income

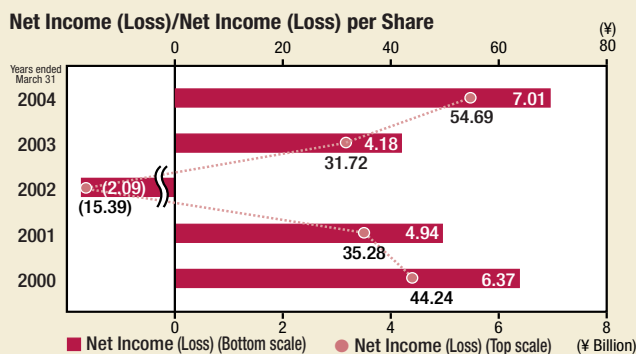


Net other income totaled ¥1.47 billion, compared to net other expenses of ¥0.90 billion for the previous fiscal year. The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expense, improved to 25.7 times from 22.9 times for the previous fiscal year.

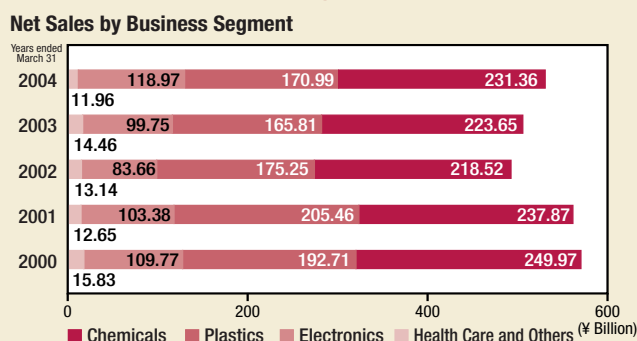
Gain on sales of investments in securities increased to ¥0.72 billion from ¥0.58 billion in the previous fiscal year, while loss on sales of investments in securities decreased to ¥0.38 billion from

¥0.49 billion for the previous fiscal year. Loss on devaluation of investments in securities decreased to ¥0.21 billion from ¥3.92 billion in the previous fiscal year as a result of the increase in stock prices during the fiscal year. Net gain on sales of property and equipment totaled ¥0.52 billion, compared to net loss on sales of property and equipment totaling ¥0.22 billion in the previous fiscal year. Gain on compensation for suspension of purchase transactions, which totaled ¥1.56 billion in the previous fiscal year, was not recorded in the current fiscal year. However, changes in the method for accounting for the retirement benefits of employees, discussed in detail in Note 3(a) and Note 8 to the consolidated financial statements, resulted in an extraordinary gain from amortization of unrecognized prior service cost totaling ¥4.20 billion and a gain on return of substitutional portion of Welfare Pension Fund Plans totaling ¥3.39 billion. These extraordinary gains were offset by amortization of unrecognized actuarial loss totaling ¥8.23 billion.

As a result of the year-on-year change to net other income and improved operating profitability, income before income taxes and minority interests increased 55.7 percent year-on-year, or ¥4.19 billion, to ¥11.72 billion. Income taxes net of deferrals rose in line with the increase in income before income taxes. Despite a year-on-year decrease in minority interests, net income therefore increased 67.4 percent year-on-year, or ¥2.82 billion, to ¥7.01 billion. Net income per share increased to ¥54.69 from ¥31.72 for the previous fiscal year.



Results by Business Segment



Chemicals

Segment sales increased 3.4 percent year-on-year, or ¥7.70 billion, to ¥231.36 billion. Segment operating income increased

33.1 percent year-on-year, or ¥1.04 billion, to ¥4.21 billion. Sales increased in the automotive-related urethane business, as did sales of speciality chemicals relating to oil solutions and paints.

Sales of plastics additives increased slightly overall. While domestic sales increased as a result of continuing customer-oriented activities, exports to South Korea, which had been strong in the previous fiscal year, decreased in the year ended March 2004 due to reduced production volume among customers.

Sales generated by the urethane business increased as a result of its positioning in the strategic automotive-related business area, and the Nagase Group's active expansion into overseas markets in collaboration with customers, particularly in China. The Nagase Group's filter-related business featuring in-house products also grew steadily.

Sales of pigments increased slightly overall due to the growth of new printing businesses and solid sales to major customers.

Sales of recording material increased slightly overall, as efforts made to expand sales in growth markets such as inkjets, plasma displays and DVDs offset the decrease in domestic sales of materials for heat- and pressure-sensitive paper.

In the pharmaceutical and food additive markets in the strategic life sciences sector, sales of imported bulk pharmaceuticals and domestic sales of antibiotic intermediates and other products expanded. In health care, the reagents-related business was consolidated to enhance synergy. Sales increased overall despite the decline in the import agent business targeting the United States and Europe and exports of food additives.

Sales of speciality chemicals increased overall, as sales of special epoxy compounds made by Nagase ChemteX Corp. remained constant, while sales of imported speciality chemicals related to oil solutions and export sales to China both increased.

Sales of dyestuffs decreased overall, as the decrease in domestic sales eclipsed the efforts made to increase overseas sales, especially in China, amid the shift towards markets overseas.

Plastics

Segment sales increased 3.1 percent year-on-year, or ¥5.18 billion, to ¥170.99 billion. Segment operating income increased 3.7 percent year-on-year, or ¥0.10 billion, to ¥3.02 billion. Sales increased overall compared to the previous fiscal year, as the increase in sales in the Greater China region, especially locally procured products, more than offset the decrease in exports from Japan.

Overseas sales of functional resins increased. The Nagase Group reinforced its sales force by expanding sales offices, and customers continued to relocate their production bases to the Greater China region. However, exports of optical disc applications from Japan decreased due to intensified price competition, and sales in Southeast Asia declined due in part to the relocation of customers' production bases to China. As a result, overall sales increased only slightly.

Exports of liquid crystal-related components and materials and molding machinery increased, particularly in Taiwan, as a result of intensive marketing activities in growth sectors.

The strategically important automotive business expanded, as a result of the dramatic increase in sales in North America, combined with the Group's thoroughly customer-oriented approach in Japan and enhanced procurement intermediary functions.

Sales in the field of electric and electronic equipment were strong, as a result of an increase in sales in the field of mobile phones and the launch of a new components business for industrial electronic equipment.

Sales in the field of packaging materials and housing and building materials were essentially unchanged year-on-year. Sales did not increase substantially despite the group's efforts to switch to a business model that will enable the Group to take the initiative and increase sales of its own products.

Electronics

Segment sales increased 19.3 percent year-on-year, or ¥19.21 billion, to ¥118.97 billion. Segment operating income increased 41.2 percent year-on-year, or ¥0.70 billion, to ¥2.41 billion. The liquid crystal-related business performed extremely well and sales expanded significantly.

In the liquid crystal sector, sales of materials for displays were extremely strong in Japan, as were exports, especially to the Greater China region. Sales of modules and other products also increased substantially. Assembly and processing of components overseas, a strategic focus of the Group, also performed well.

The Group's business related to agents used in the production of semiconductors and liquid crystal also performed well, particularly the Group's own products manufactured by Nagase ChemteX. Sales of related devices also increased substantially.

Sales of communication components had increased dramatically in the previous fiscal year, but decreased during the year to March 2004, as the demand for wireless base stations in China reached the saturation point.

Sales of precision abrasive materials increased due to strong exports, particularly to Asia. Sales of hard disk drive-related materials were also strong. As a result, overall sales increased year-on-year.

In the field of functional materials, sales of the Nagase Group's own products manufactured by Nagase ChemteX were strong. Sales of formulated epoxy resin targeting the heavy and light electric machinery industries were also solid, as were sales of semiconductor encapsulants. Sales of packaging materials for electronic components, however, decreased slightly. As a result, overall sales were essentially unchanged year-on-year.

Sales of DVD-related equipment and peripheral media products for recording increased dramatically. The Nagase Group has been emphasizing these sectors in recent years as part of its drive to expand downstream in the electronics category. Also, sales to end-users over the Internet increased substantially, with the addition of DVD movie titles.

Health Care and Others

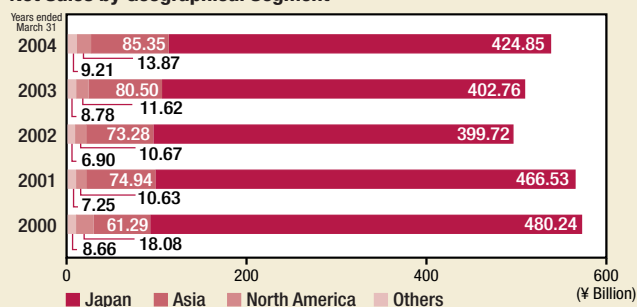
Segment sales decreased 17.3 percent year-on-year, or ¥2.49 billion, to ¥11.96 billion. Segment operating income decreased 15.6 percent year-on-year, or ¥0.06 billion, to ¥0.34 billion. Sales in the fields of cosmetics, health foods, medical information and clinical examination were essentially unchanged year-on-year, while sales in the field of radiation measurement decreased.

In the fields of cosmetics and health foods, the Nagase Group transferred its traditional door-to-door sales functions to Nagase Beauty Care, which improved mobility. The Nagase Group also operates seven "pour toi" retail outlets, primarily in department stores in the Tokyo metropolitan area, with the aim of diversifying sales channels. Sales were essentially unchanged year-on-year, as the effects of these initiatives were limited during the year to March 2004.

In the fields of medical information and clinical examination, sales were approximately the same as in the previous fiscal year. Sales declined in the field of radiation measurement, absent the spot demand for facilities in the previous fiscal year. Overall sales decreased, as the reagents-related business was consolidated into the pharmaceuticals sector in the Chemicals segment to enhance synergy.

Results by Geographical Segment

Net Sales by Geographical Segment



Intersegment sales are excluded from net sales. Results by geographical segment differ from the domestic and overseas net sales figures discussed earlier because sales in Japan discussed below include domestic import and export transactions and the overseas transactions of Nagase Group companies domiciled in Japan. These transactions, however, were included in the discussion of overseas sales above.

Japan

Sales in Japan increased 5.5 percent year-on-year, or ¥22.08 billion, to ¥424.85 billion. Operating income in Japan increased 24.0 percent year-on-year, or ¥1.32 billion, to ¥6.83 billion. In the Electronics business, sales of liquid crystal-related products expanded substantially. In the Chemicals business, sales of automotive-related urethane products and speciality chemical products also increased. In the Plastics business, however, sales of functional resins decreased.

Asia

Sales in Asia increased 6.0 percent year-on-year, or ¥4.85 billion, to ¥85.35 billion. Operating income in Asia increased 6.8 percent year-on-year, or ¥0.17 billion, to ¥2.70 billion. In the

Electronics business, sales of liquid crystal-related products expanded substantially. Sales in the Plastics business also expanded significantly, supported by higher sales in the Greater China region.

North America

Sales in North America increased 19.3 percent year-on-year, or ¥2.24 billion, to ¥13.87 billion. Operating income in North America increased 83.4 percent year-on-year, or ¥0.14 billion, to ¥0.32 billion. In the Plastics business, sales of automotive-related plastics increased. In the Chemicals business, however, sales of recording materials decreased.

Others

Sales in other regions increased 4.8 percent year-on-year, or ¥0.42 billion, to ¥9.21 billion. Operating income in other regions decreased 6.7 percent year-on-year, or ¥0.01 billion, to ¥0.15 billion. In the Chemicals business, sales of food additive-related products increased in Europe.

Profit Sharing Policy

Dividend Policy

The Nagase Group's basic policy is to further enhance its corporate structure and earnings capabilities to continue to generate steady dividends for shareholders.

Cash dividends for the fiscal year ended March 31, 2004 totaled ¥9.00 per share, consisting of an ordinary dividend of ¥8.00 per share and a commemorative dividend of ¥1.00 per share in celebration of the fortieth anniversary of Nagase's stock exchange listing.

The Nagase Group intends to use internal reserves effectively to enhance future business activities and management foundations.

Stock Option System

In the fiscal year ended March 2003, the Nagase Group introduced a stock option system aimed at boosting the motivation and morale of Group employees to improve their performance and further enhancing the Company's corporate value by aligning the interests of the Group with those of shareholders. During the year ended March 31, 2004, the Nagase Group issued rights to purchase new shares in the form of stock options to directors, auditors, executive officers and company managers, as well as to directors and individuals with an equivalent title at subsidiaries. The Nagase Group also increased the number of shares of stock granted under the system, and expanded the scope of individuals able to participate in the system.

Liquidity and Financial Position

Cash and cash equivalents as of March 31, 2004 increased 10.4 percent from a year earlier, or ¥1.98 billion, to ¥21.03 billion. An increase in notes and accounts receivable resulting from higher sales used cash totaling ¥8.52 billion. However, the increase in income before income taxes and minority interests to ¥11.72 billion resulted in net cash provided by operating activities totaling ¥6.43 billion. Net cash used in investing

activities totaled ¥1.68 billion as the Nagase Group used cash provided by operations for purchases of property and equipment and purchases of investment securities, and to fund short-term loans receivable, net. Net cash used in financing activities totaled ¥1.83 billion due to repayment of bank loans and payment of cash dividends.

The Nagase Group will redeem corporate bonds totaling ¥7.0 billion at the end of November 2004, and expects to fund this redemption using external capital resources.

Net Cash Provided by Operating Activities

Net cash provided by operating activities increased 46.4 percent year-on-year, or ¥2.03 billion, to ¥6.43 billion. Income before income taxes and minority interests increased ¥4.19 billion year-on-year to ¥11.72 billion. The increase in net sales resulted in the use of cash totaling ¥8.52 billion to fund an increase in notes and accounts receivable. This was offset by a net increase in working funds totaling ¥4.26 billion resulting from a ¥1.16 billion decrease in inventories and a ¥3.10 billion increase in notes and accounts payable.

Net Cash Used in Investing Activities

Net cash used in investing activities totaled ¥1.68 billion, which represented a year-on-year reduction in cash flow totaling ¥2.65 billion because investing activities provided net cash totaling ¥0.96 billion in the previous fiscal year. Purchases of property and equipment decreased marginally to ¥3.05 billion from ¥3.13 billion for the previous fiscal year. Purchases of investments in securities, however, increased to ¥4.97 billion from ¥1.01 billion in the previous fiscal year. In addition, short-term loans receivable, net increased ¥1.79 billion.

Net Cash Used in Financing Activities

Net cash used in financing activities totaled ¥1.83 billion, compared to ¥7.64 billion in the previous fiscal year. Primary factors included decrease in short-term loans, net totaling ¥1.12 billion, compared to ¥3.20 billion in the previous fiscal year, and purchases of treasury stock totaling ¥0.01 billion, compared to ¥3.26 billion in the previous fiscal year. Cash dividends paid was essentially unchanged at ¥1.19 billion.

Cash Flow Summary

	(¥ Billion)		
	2004	2003	2002
Net cash provided by operating activities	6.43	4.39	12.35
Net cash provided by (used in) investing activities	(1.68)	0.96	(1.30)
Net cash used in financing activities	(1.83)	(7.64)	(8.61)

As a result of the above, cash and cash equivalents at the end of the year increased 10.4 percent from a year earlier, or ¥1.98 billion, to ¥21.03 billion.

Assets

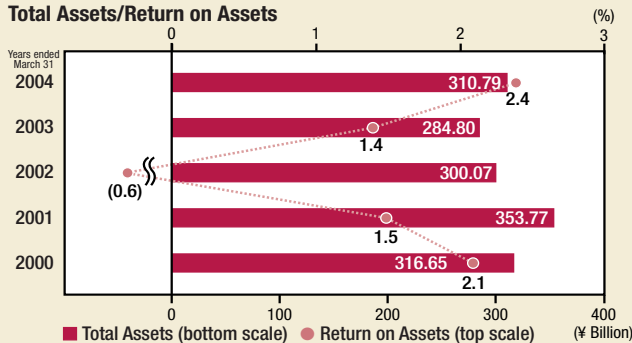
Total assets as of March 31, 2004 increased 9.1 percent from a year earlier, or ¥25.99 billion, to ¥310.79 billion.

Current assets increased 6.0 percent from a year earlier, or ¥12.06 billion, to ¥214.82 billion. Primary factors included a ¥1.97 billion increase in cash and cash equivalents, and a ¥8.92

billion increase in notes and accounts receivable due to the increase in net sales. Inventories, however, decreased ¥0.81 billion from a year earlier.

Property, plant and equipment increased 3.5 percent from a year earlier, or ¥0.92 billion, to ¥26.99 billion. Investments and other assets increased 23.2 percent from a year earlier, or ¥13.00 billion, to ¥68.97 billion, primarily because of an increase of 39.6 percent from a year earlier, or ¥15.10 billion, in other investments in securities that resulted from the increase in stock prices during the fiscal year.

Total Assets/Return on Assets



Liabilities

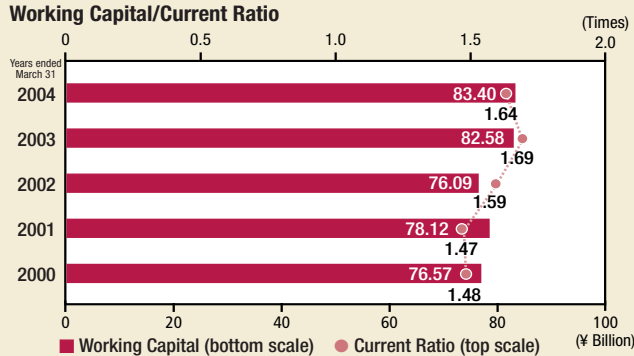
Total liabilities as of March 31, 2004 increased 7.6 percent from a year earlier, or ¥10.60 billion, to ¥150.38 billion.

Current liabilities increased 9.4 percent from a year earlier, or ¥11.25 billion, to ¥131.42 billion. Primary factors included a ¥3.06 billion increase in notes and accounts payable, and the addition of ¥7.00 billion to the current portion of long-term debt representing the pending redemption of corporate bonds formerly included in long-term debt.

Working capital increased to ¥83.40 billion from ¥82.58 billion a year earlier. The current ratio was 1.64 times, compared to 1.69 times a year earlier.

Long-term liabilities decreased 3.3 percent from a year earlier, or ¥0.64 billion, to ¥18.95 billion. Deferred income taxes increased ¥7.37 billion from a year earlier, primarily because the rise in stock prices during the year increased net unrealized holding gain on securities included in deferred income taxes. Long-term debt decreased ¥6.75 billion due to the shift of ¥7.00 billion in corporate bonds to current liabilities. Accrued retirement benefits for employees also decreased because of the shift to a defined pension benefit plan and other factors.

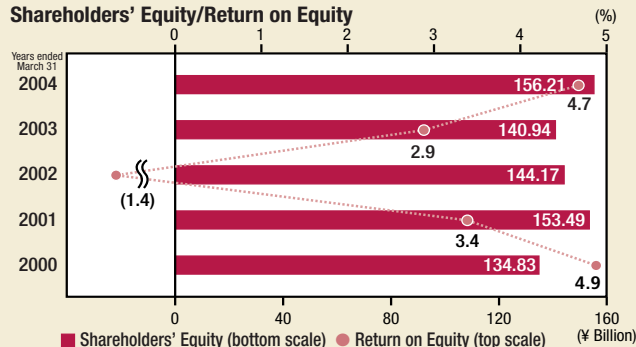
Working Capital/Current Ratio



Shareholders' Equity

Shareholders' equity increased 10.8 percent from a year earlier, or ¥15.26 billion, to ¥156.21 billion. Retained earnings increased ¥5.97 billion to ¥125.11 billion due to the increase in net income. In addition, net unrealized holding gain on securities increased ¥10.47 billion to ¥18.93 billion due to the rise in domestic stock prices during the year ended March 2004. Treasury stock, at cost was essentially unchanged from a year earlier at ¥5.97 billion. Consequently, the ratio of shareholders' equity to total assets increased to 50.3 percent from 49.5 percent a year earlier.

Shareholders' Equity/Return on Equity



Investment in Plant and Equipment

Investment in plant and equipment for the year ended March 2004 centered on production equipment in the Chemicals and Electronics segments, and totaled ¥2.70 billion.

Investment in plant and equipment in the Chemicals segment totaled ¥0.93 billion and included production equipment at manufacturing subsidiaries for industrial chemicals, pharmaceuticals and enzymes. Capital expenditures in the Plastics segment totaled ¥0.63 billion and included plastic molding and production equipment at Nagase & Co., Ltd. and manufacturing subsidiaries.

Investment in plant and equipment in the Electronics segment totaled ¥0.98 billion and included production equipment related to electronic components at Nagase & Co., Ltd. and manufacturing subsidiaries. Investment in plant and equipment in the Health Care and Other segments totaled ¥0.14 billion.

The Nagase Group used both internal and external capital resources to fund investment in plant and equipment.

* Investment in plant and equipment is capital expenditure minus intangible assets.

Pension System

The Nagase Group shifted to a new retirement benefits system with the aim of reducing excessive costs related to retirement benefits in the future. The Group has also adopted new accounting standards for retirement benefits. Unrecognized actuarial loss of ¥8.23 billion and unrecognized prior service cost of ¥4.20 billion outstanding at March 31, 2003 were fully amortized for the year ended March 31, 2004. Moreover, the Nagase Group received approval for an exemption from the obligation for benefits related to prior service cost and recorded a gain on return of the substitutional portion of Welfare Pension Fund Plans totaling ¥3.39 billion.

Operating and Other Risks

The following presents an overview of operating and other issues to which the Nagase Group is subject and that exert or could exert a significant influence on investor decisions. Forward-looking statements are Nagase Group estimates as of March 31, 2004.

(1) Impact of Fluctuations in Foreign Currency Exchange Rates

The Nagase Group undertakes import and export transactions that involve foreign currencies. Fluctuations in foreign currency exchange rates impact the value when translated into yen of transactions denominated in foreign currencies. The Nagase Group hedges these transactions using forward foreign exchange contracts in working to minimize the risks associated with fluctuations in foreign currency exchange rates. However, fluctuations in foreign currency exchange rates have the potential to exert a material impact on the Nagase 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 therefore have the potential to impact the consolidated financial statements upon translation of the accounts of these corporations into Japanese yen.

(2) Risks Involved in Operating Overseas

A significant percentage of the Nagase Group's activities involve selling and manufacturing overseas, principally in Southeast Asia, Europe, North America and China. As a matter of policy, the Nagase Group makes every effort to determine demand trends in markets overseas and respond appropriately to them. However, failure on the part of the Nagase Group to make accurate projects based on issues including the regulatory systems and customs of overseas countries would have the potential to impact the Group's performance and financial position.

(3) Impact of Changes in Stock Prices

The Nagase Group maintains a portfolio of stocks, 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 divesting unnecessary shares. However, changes in stock prices have the potential to impact the Group's performance and financial position.

(4) Risk of New Investments

The Nagase Group's businesses center primarily on low-margin 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 by undertaking efforts such as aggressively investing in new businesses and purchasing strategic commercial rights.

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 have the potential to impact the Group's performance and financial position.

(5) 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. However, issues such as defects in these technologies and products would terminate sales and require the Nagase Group to reimburse customers, which would have the potential to impact the Group's performance and financial position.

(6) Risk of Regulation of Product Shipments

Chemicals are a core business of the Nagase Group, which ships a diverse array of products for a broad range of applications. The Group is 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. The Nagase Group has therefore established the Product-Related Regulation Committee, which works to assure compliance with the above regulatory systems. Contravention of these regulatory systems would result in restrictions on business activities, and would have the potential to impact the Group's performance and financial position.

Outlook for the Year Ending March 31, 2005

For the year ending March 31, 2005, the Nagase Group projects that recovery will broaden to additional sectors of the Japanese economy, and that the recovery will remain firm despite rapid appreciation of the yen and concerns about the slow improvement in the employment situation.

In the second year of the Medium-term Management Plan WIT21, the Group will continue to accelerate its efforts to strengthen its operations in the strategic sectors of electronics, life sciences, automotive-related fields and overseas business. The Group projects that markets and demand will expand in these four sectors and in other markets, and believes it will have the opportunity to develop its strengths.

Based on the above, the outlook for the Nagase Group's performance for the year ending March 31, 2005 is as follows. The Nagase Group projects that it will achieve the final objectives of the WIT21 three-year plan — consolidated net sales of ¥550 billion and consolidated operating income of ¥11 billion — a year ahead of schedule.

	(¥ Billion)		
	Net Sales	Operating Income	Net Income
Year ending March 31, 2005 (Projected)	568.00	12.00	9.50
Year ended March 31, 2004 (Actual)	533.30	10.24	7.01
Projected YoY increase	6.5%	17.1%	35.5%

CONSOLIDATED BALANCE SHEETS

Nagase & Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2004 and 2003

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current assets:			
Cash and cash equivalents	¥ 21,033	¥ 19,044	\$ 199,006
Time deposits (Note 6).....	603	616	5,705
Notes and accounts receivable:			
Unconsolidated subsidiaries and affiliates	7,597	6,558	71,880
Trade	151,662	144,343	1,434,970
Other	1,747	629	16,529
Less allowance for doubtful receivables.....	(2,196)	(1,664)	(20,777)
	158,810	149,886	1,502,601
Inventories	27,369	28,183	258,955
Deferred income taxes (Note 9).....	2,719	3,171	25,726
Other current assets	4,292	1,860	40,609
Total current assets.....	214,828	202,762	2,032,623
Property, plant and equipment:			
Land.....	9,429	9,432	89,213
Buildings and structures.....	26,675	25,234	252,389
Machinery and equipment.....	30,667	28,285	290,159
Construction in progress.....	170	1,096	1,608
	66,942	64,048	633,380
Less accumulated depreciation	(39,948)	(37,976)	(377,973)
Property, plant and equipment, net.....	26,994	26,072	255,407
Investments and other assets:			
Investments in securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	11,113	11,776	105,147
Other.....	53,282	38,176	504,134
	64,396	49,952	609,291
Long-term loans receivable.....	168	374	1,589
Deferred income taxes (Note 9).....	712	1,402	6,736
Other assets	3,912	4,506	37,013
Less allowance for doubtful accounts.....	(218)	(270)	(2,062)
Total investments and other assets.....	68,971	55,965	652,578
Total assets.....	¥310,793	¥284,800	\$2,940,609

See notes to consolidated financial statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Current liabilities:			
Short-term loans (Note 5)	¥ 6,336	¥ 6,545	\$ 59,948
Current portion of long-term debt (Note 5).....	8,321	1,515	78,730
Notes and accounts payable:			
Unconsolidated subsidiaries and affiliates	2,194	3,418	20,758
Trade	96,841	92,551	916,274
	99,036	95,969	937,042
Accrued income taxes (Note 9)	2,587	2,507	24,477
Deferred income taxes (Note 9).....	2	2	18
Accrued expenses	5,658	4,908	53,533
Other current liabilities.....	9,485	8,729	89,743
Total current liabilities	131,427	120,177	1,243,514
Long-term liabilities:			
Long-term debt (Note 5)	1,759	8,517	16,643
Deferred income taxes (Note 9).....	7,381	8	69,836
Accrued retirement benefits for employees (Note 8).....	8,474	10,069	80,177
Accrued retirement benefits for officers	926	981	8,761
Other liabilities	416	28	3,936
Total long-term liabilities	18,959	19,605	179,383
Minority interests	4,197	4,072	39,710
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7):			
Common stock:			
Authorized — 346,980,000 shares			
Issued — 138,408,285 shares	9,699	9,699	91,768
Capital surplus.....	9,635	9,634	91,162
Retained earnings.....	125,116	119,140	1,183,801
Net unrealized holding gain on securities.....	18,933	8,455	179,137
Translation adjustments	(1,195)	(22)	(11,306)
Less treasury stock, at cost	(5,979)	(5,963)	(56,571)
Total shareholders' equity	156,210	140,944	1,478,001
Total liabilities and shareholders' equity	¥310,793	¥284,800	\$2,940,609

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF OPERATIONS

Nagase & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Net sales (Note 14).....	¥533,301	¥503,688	\$5,045,898
Cost of sales (Note 10).....	479,807	451,789	4,539,757
Gross profit	53,494	51,899	506,140
Selling, general and administrative expenses (Note 10)	43,250	43,466	409,215
Operating income (Note 14)	10,244	8,433	96,924
Other income (expenses):			
Interest and dividend income	1,406	1,587	13,303
Interest expense	(452)	(438)	(4,276)
Equity in earnings of affiliates	437	485	4,134
Gain on sales of investments in securities	726	582	6,869
Loss on sales of investments in securities	(384)	(494)	(3,633)
Loss on devaluation of investments in securities	(215)	(3,923)	(2,034)
Gain on sales of property and equipment	585	29	5,535
Loss on sales of property and equipment	(65)	(255)	(615)
Gain on compensation for suspension of purchase transactions	—	1,560	—
Amortization of unrecognized prior service cost (Notes 3 and 8)	4,200	—	39,738
Gain on return of substitutional portion of Welfare Pension Fund Plans..	3,396	—	32,131
Amortization of unrecognized actuarial loss (Notes 3 and 8)	(8,232)	—	(77,888)
Other, net.....	73	(37)	690
Income before income taxes and minority interests	11,721	7,528	110,899
Income taxes (Note 9):			
Current.....	2,961	3,700	28,015
Deferred.....	1,380	(989)	13,057
Income before minority interests.....	7,379	4,817	69,817
Minority interests.....	368	630	3,481
Net income.....	¥ 7,010	¥ 4,186	\$ 66,326

See notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Nagase & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Translation adjustments	Treasury stock
Balance at March 31, 2002	138,408,285	¥9,699	¥9,634	¥114,870	¥11,690	¥ 963	¥(2,682)
Net income for the year	—	—	—	4,186	—	—	—
Increase in retained earnings resulting from inclusion of consolidated subsidiaries	—	—	—	670	—	—	—
Increase in affiliates accounted for by the equity method	—	—	—	490	—	—	—
Cash dividends	—	—	—	(1,065)	—	—	—
Bonuses to officers	—	—	—	(12)	—	—	—
Net unrealized holding loss on securities	—	—	—	—	(3,235)	—	—
Translation adjustments	—	—	—	—	—	(985)	—
Increase in treasury stock	—	—	—	—	—	—	(3,280)
Balance at March 31, 2003	138,408,285	¥9,699	¥9,634	¥119,140	¥ 8,455	¥ (22)	¥(5,963)
Net income for the year	—	—	—	7,010	—	—	—
Gain on sales of treasury stock	—	—	0	—	—	—	—
Decrease in retained earnings resulting from inclusion of consolidated subsidiaries	—	—	—	(222)	—	—	—
Increase in affiliates accounted for by the equity method	—	—	—	265	—	—	—
Cash dividends	—	—	—	(1,017)	—	—	—
Bonuses to officers	—	—	—	(59)	—	—	—
Net unrealized holding gain on securities	—	—	—	—	10,477	—	—
Translation adjustments	—	—	—	—	—	(1,172)	—
Increase in treasury stock	—	—	—	—	—	—	(16)
Balance at March 31, 2004	138,408,285	¥9,699	¥9,635	¥125,116	¥18,933	¥(1,195)	¥(5,979)

	Thousands of U.S. dollars (Note 1)						
	Common stock	Capital surplus	Retained earnings	Net unrealized holding gain on securities	Translation adjustments	Treasury stock	
Balance at March 31, 2003	\$91,768	\$91,153	\$1,127,258	\$ 79,998	\$ (208)	\$(56,419)	
Net income for the year	—	—	66,326	—	—	—	
Gain on sales of treasury stock	—	0	—	—	—	—	
Decrease in retained earnings resulting from inclusion of consolidated subsidiaries	—	—	(2,100)	—	—	—	
Increase in affiliates accounted for by the equity method	—	—	2,507	—	—	—	
Cash dividends	—	—	(9,622)	—	—	—	
Bonuses to officers	—	—	(558)	—	—	—	
Net unrealized holding gain on securities	—	—	—	99,129	—	—	
Translation adjustments	—	—	—	—	(11,089)	—	
Increase in treasury stock	—	—	—	—	—	(151)	
Balance at March 31, 2004	\$91,768	\$91,162	\$1,183,801	\$179,137	\$(11,306)	\$(56,571)	

CONSOLIDATED STATEMENT OF CASH FLOWS

Nagase & Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2004 and 2003

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2004	2003	2004
Operating activities:			
Net income	¥ 7,010	¥ 4,186	\$ 66,326
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	3,188	3,119	30,163
(Reversal of) provision for retirement benefits, net of payments	(1,669)	545	(15,791)
(Gain) loss on sales of property and equipment	(520)	226	(4,920)
Equity in earnings of affiliates	(437)	(485)	(4,134)
Gain on sales of investments in securities	(342)	(87)	(3,235)
Loss on devaluation of investments in securities	215	3,923	2,034
Other, net	2,872	681	27,173
Changes in operating assets and liabilities:			
Notes and accounts receivable	(8,526)	1,678	(80,669)
Inventories	1,164	(2,282)	11,013
Other current assets	(1,056)	2,947	(9,991)
Notes and accounts payable	3,100	(10,516)	29,331
Accrued income taxes	79	1,903	747
Accrued expenses	750	(353)	7,096
Other current liabilities	602	(1,121)	5,695
Net cash provided by operating activities	6,431	4,392	60,847
Investing activities:			
Purchases of property and equipment	(3,052)	(3,133)	(28,876)
Proceeds from sales of property and equipment	606	304	5,733
Purchases of investments in securities	(4,970)	(1,019)	(47,024)
Proceeds from sales of investments in securities	7,628	5,022	72,173
Decrease in short-term loans receivable, net	(1,790)	—	(16,936)
Other, net	(110)	(209)	(1,040)
Net cash (used in) provided by investing activities	(1,689)	963	(15,980)
Financing activities:			
Decrease in short-term loans, net	(1,120)	(3,200)	(10,597)
Proceeds from long-term debt	500	119	4,730
Repayment of long-term debt	—	(27)	—
Cash dividends paid	(1,196)	(1,263)	(11,316)
Purchases of treasury stock	(18)	(3,269)	(170)
Other, net	2	—	18
Net cash used in financing activities	(1,832)	(7,643)	(17,333)
Effect of exchange rate changes on cash and cash equivalents	(1,004)	(811)	(9,499)
Net increase (decrease) in cash and cash equivalents	1,904	(3,098)	18,014
Cash and cash equivalents at beginning of the year	19,044	21,960	180,187
Increase in cash and cash equivalents arising from inclusion of consolidated subsidiaries	85	181	804
Cash and cash equivalents at end of the year	¥21,033	¥ 19,044	\$199,006
Supplemental information on cash flows:			
Cash paid during the year for:			
Interest	¥ 461	¥ 435	\$ 4,361
Income taxes	2,882	1,797	27,268

See notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Nagase & Co., Ltd. and Consolidated Subsidiaries
March 31, 2004

1. BASIS OF PREPARATION

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

The accompanying consolidated financial statements have been prepared for domestic reporting purposes and have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan, which is different in certain respects as to the application and disclosure requirements of International Financial Reporting standards.

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2003 to the 2004 presentation. Such reclassifications had no effect on consolidated net income or shareholders' equity.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader and, as a matter of arithmetic computation only, at ¥105.69 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2004. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

As permitted by the Securities and Exchange Law of Japan, amounts of less than one million yen for the years ended March 31, 2004 and 2003 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2004 and 2003 (both in yen and in U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

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

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

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

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

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

(b) Foreign Currency Translation

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

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

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

(c) Inventories

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

(d) Investments in Securities

In general, securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss,

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

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

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

(e) Property, Plant and Equipment and Depreciation

Property, plant and equipment are stated at cost.

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

(f) Leases

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

(g) Income Taxes

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

(h) Retirement Benefits

The Company has defined benefit pension plans and retirement benefit plans. The Company also has defined contribution pension plans.

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

On November 26, 2002, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to future employee services under the substitutional portion of the Welfare Pension Fund Plans ("WFPF") in accordance with the Defined Benefits Corporate Pension Plan Law. As a result, effective April 2003, the Company transferred certain lump-sum payment plans to defined contribution plans after receiving an exemption from the substitutional portion of the WFPF. (Refer to Note 8.)

On February 1, 2004, the Company received approval from the Minister of Health, Labor and Welfare with respect to its application for an exemption from the obligation for benefits related to prior service cost under the substitutional portion of the WFPF in accordance with the Defined Benefits Corporate Pension Plan Law. (Refer to Note 8.)

The Company has established an employees' retirement benefit trust for the payment of retirement benefits.

Actuarial gain or loss is principally credited or charged to income in the year following the year in which such gain or loss is recognized for financial reporting purposes.

Prior service cost is credited or charged to income in the year in which such cost is recognized for financial reporting purposes.

(i) Derivatives and Hedging Activities

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

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

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

(j) Research and Development Costs

Research and development costs are charged to income when incurred.

(k) Appropriation of Retained Earnings

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

3. ACCOUNTING CHANGES

Retirement Benefits

(a) Accounting for actuarial gain or loss

Through March 31, 2003, actuarial loss was amortized in the year following the year in which the loss was recognized by the straight-line method over ten years, which was within the estimated average remaining years of service of the eligible employees.

Effective April 1, 2003, the Company changed its method of accounting for actuarial gain or loss and adopted the policy of charging the entire amount of actuarial gain or loss to income in the year following the year in which the actuarial gain or loss was recognized.

The accumulated balance of unrecognized actuarial loss has increased primarily as a result of the declining stock market and the low interest rates in the market and because of the method of amortizing unrecognized actuarial loss over ten years. The resulting increase in the accumulated balance of unrecognized actuarial loss will contribute to a rise in pension cost in the future.

The Company has established a new retirement benefit scheme for the purpose of reducing future pension cost. Under this scheme, the following measures have been taken: a reduction of the retirement benefit obligation and pension assets by way of the return of the substitutional portion of the WPPF, the introduction of retirement benefits based on seniority and employees' performance, the imposition of certain limitations in selecting pension plans by employees, the transfer of a certain portion of the defined benefit pension plans to defined contribution plans, and a reduction in the level of payment of retirement benefits.

The Company has also altered its pension assets portfolio in accordance with a revision to its investment policies concerning pension plan assets. This change was made in order to reduce actuarial loss in the future.

(b) Accounting for prior service cost

Through March 31, 2003, prior service cost was amortized by the straight-line method over three years, which was within the estimated average remaining years of service of the eligible employees.

Effective April 1, 2003, the Company changed its method of accounting for prior service cost and adopted the policy of charging prior service cost to income as incurred.

The changes outlined above were made to reflect more accurately the substance of the revised retirement benefit pension and retirement benefit plans in the consolidated financial statements and to enhance the financial status of the Company.

The effect of these changes was to decrease operating income and income before income taxes and minority interests by ¥590 million (\$5,582 thousand) and ¥3,855 million (\$36,474 thousand), respectively, for the year ended March 31, 2004 from the amounts which would have been recorded if the respective methods applied in the previous year had been followed.

4. INVESTMENTS IN SECURITIES

(a) Marketable securities classified as other securities at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen			
	2004			
	Other securities			
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Stock	¥17,621	¥32,047	¥(88)	¥49,579
Government bonds.....	14	0	(0)	14
Total.....	¥17,635	¥32,047	¥(89)	¥49,593

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

	Thousands of U.S. dollars			
	2004			
	Other securities			
Cost	Gross unrealized gain	Gross unrealized loss	Book value (estimated fair value)	
Market value determinable:				
Stock	\$166,723	\$303,216	\$(832)	\$469,098
Government bonds.....	132	0	(0)	132
Total.....	\$166,855	\$303,216	\$(842)	\$469,230

(b) Securities whose market value was not determinable were classified as other securities at March 31, 2004 and 2003 and are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Carrying value		Carrying value
Market value not determinable:			
Equity securities	¥3,651	¥3,760	\$34,544
Bonds and debentures	37	2,037	350
	¥3,688	¥5,797	\$34,894

(c) Sales of securities classified as other securities for the years ended March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Proceeds from sales	¥4,216	¥4,778	\$39,890
Gain on sales	659	582	6,235
Loss on sales	63	439	596

5. SHORT-TERM LOANS AND LONG-TERM DEBT

Short-term loans at March 31, 2004 and 2003 principally represented notes and loans in the form of deeds at average annual interest rates of 1.59% and 1.87% per annum, respectively.

Long-term debt at March 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Secured loans from banks, payable in yen, due through 2004 at rates from 1.87% to 1.94%	¥ —	¥ 17	\$ —
Unsecured loans from banks and insurance companies, payable in yen, due through 2011 at rates from 0.62% to 4.60%	3,080	3,015	29,141
1.53% unsecured bonds payable in yen, due 2004	7,000	7,000	66,231
	10,080	10,032	95,373
Less current portion	(8,321)	(1,515)	(78,730)
	¥ 1,759	¥ 8,517	\$ 16,643

The aggregate annual maturities of long-term debt subsequent to March 31, 2004 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005.....	¥ 8,321	\$78,730
2006.....	455	4,305
2007.....	440	4,163
2008.....	58	548
2009.....	558	5,279
2010 and thereafter	246	2,327
	¥10,080	\$95,373

6. PLEDGED ASSETS

At March 31, 2004, assets pledged as collateral to guarantee all transactions with certain customers were as follows:

	Millions of yen	Thousands of U.S. dollars
Time deposits	¥ 600	\$ 5,676
Investments in securities	2,489	23,550
	¥3,089	\$29,226

7. SHAREHOLDERS' EQUITY

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

Retained earnings include the legal reserve provided in accordance with the Commercial Code. The Code provides that neither additional paid-in capital nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. The legal reserve of the Company included in retained earnings at March 31, 2004 and 2003 amounted to ¥2,424 million (\$2,934 thousand).

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

In accordance with the Code, a stock option plan for directors, auditors, certain key employees of the Company and directors (and the equivalent officers) of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 27, 2003. Under the terms of this plan, 764,000 shares of common stock have been reserved for issuance at an exercise price of ¥657 per share, subject to adjustment for certain events including stock splits. The eligible participants may exercise the options if the closing market price of the Company's shares on the Tokyo Stock Exchange as of the trading date preceding the date of the exercise of the options exceeds 1.2 times the exercise price. The options become exercisable on August 1, 2005 and are scheduled to expire on July 31, 2008.

8. RETIREMENT BENEFITS

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension plans and lump-sum payment plans. The Company transferred certain defined benefit plans to a defined contribution plan. Certain overseas consolidated subsidiaries also have defined benefit plans.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the consolidated balance sheets at March 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Retirement benefit obligation	¥(28,580)	¥(32,097)	\$(270,413)
Plan assets at fair value	20,774	18,590	196,555
Unfunded retirement benefit obligation	(7,805)	(13,506)	(73,848)
Unrecognized prior service cost	—	(4,200)	—
Unrecognized actuarial (gain) loss	(668)	7,977	(6,320)
Accrued retirement benefits recognized in the consolidated balance sheets	¥ (8,474)	¥ (9,729)	\$ (80,177)

The total pension liabilities to be transferred over four years to the defined contribution plan system amounted to ¥626 million (\$5,922 thousand). The amount to be transferred subsequent to March 31, 2004 contribution plans amounted to ¥467 million (\$4,418 thousand), which was included under "Other current liabilities" and "Other liabilities."

The components of retirement benefit expenses of the Company and the consolidated subsidiaries for the years ended March 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Service cost	¥1,060	¥1,351	\$10,029
Interest cost	692	917	6,547
Expected return on plan assets	(7)	(8)	(66)
Amortization of prior service cost	—	(310)	—
Amortization of actuarial (gain) loss	(41)	447	(387)
Contributions to defined contribution plans	44	—	416
Retirement benefit expenses	¥1,750	¥2,396	\$16,557

In addition to the above pension expense, unrecognized actuarial loss of ¥8,232 million (\$77,888 thousand), and unrecognized prior service cost of ¥4,200 million (\$39,738 thousand) outstanding at March 31, 2003 were fully amortized for the year ended March 31, 2004 and recognized in the consolidated statements of income.

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2004 and 2003 were as follows:

	2004	2003
Discount rate.....	2.5%	2.5%
Expected rate of return on plan assets.....	Mainly 0.0%	Mainly 0.0%

9. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprises taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 42.1% for the years ended March 31, 2004 and 2003.

The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2004 and 2003 differs from the statutory tax rate for the following reasons:

	2004	2003
Statutory tax rate.....	42.1%	42.1%
Effect of:		
Expenses not deductible for income tax purposes.....	3.1	4.6
Dividends and other income deductible for income tax purposes.....	(3.3)	(5.6)
Different tax rates applied to income of overseas subsidiaries.....	(2.6)	(6.9)
Adjustment to deferred tax assets due to change in tax rate	—	4.0
Tax credit.....	(3.8)	—
Other, net.....	1.5	(2.2)
Effective tax rates.....	37.0%	36.0%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the deferred assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2004 and 2003 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
Deferred tax assets:			
Unrealized gain on inventories.....	¥ 347	¥ 282	\$ 3,283
Allowance for doubtful receivables	573	429	5,421
Investments in securities	2,865	4,024	27,107
Accrued bonuses	1,057	799	10,000
Retirement benefits for employees	3,612	3,924	34,175
Retirement benefits for officers.....	509	536	4,815
Other	1,876	2,924	17,750
Gross deferred tax assets	10,842	12,921	102,583
Valuation allowance	(730)	(1,013)	(6,906)
Total deferred tax assets.....	10,112	11,907	95,676
Deferred tax liabilities:			
Revaluation of land	(371)	(384)	(3,510)
Deferred capital gain on property	(579)	(504)	(5,478)
Deferred revenue on sales of property	(106)	—	(1,002)
Special reserve for depreciation	(44)	(53)	(416)
Net unrealized holding gain on securities	(12,915)	(6,349)	(122,196)
Other	(47)	(53)	(444)
Total deferred tax liabilities	(14,064)	(7,345)	(133,068)
Net deferred tax (liabilities) assets	¥ (3,952)	¥ 4,562	\$ (37,392)

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2004 and 2003 totaled ¥2,435 million (\$23,039 thousand) and ¥1,635 million, respectively.

11. LEASES

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased property at March 31, 2004 and 2003, which would have been reflected in the balance sheets if the finance leases other than those which transfer the ownership of the leased property of the Companies (which are currently accounted for as operating leases) were capitalized:

	Millions of yen					
	2004			2003		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	¥ 53	¥ 13	¥ 40	¥ 53	¥ 10	¥ 42
Machinery and equipment ..	1,014	715	299	1,531	919	612
Furniture and fixtures	1,537	805	731	1,684	805	879
	¥2,604	¥1,534	¥1,070	¥3,269	¥1,734	¥1,534

	Thousands of U.S. dollars		
	2004		
	Acquisition costs	Accumulated depreciation	Net book value
Buildings and structures	\$ 501	\$ 123	\$ 378
Machinery and equipment ..	9,594	6,765	2,829
Furniture and fixtures	14,542	7,616	6,916
	\$24,638	\$14,514	\$10,123

The related lease payments and depreciation for the years ended March 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	2004
	Lease payments	¥684	¥1,083
Depreciation expense	626	881	5,922
Interest expense	50	91	473

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

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2004 under finance leases other than those which transfer the ownership of the leased property to the Companies are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 466	\$ 4,409
2006 and thereafter	674	6,377
	¥1,141	\$10,795

12. CONTINGENT LIABILITIES

At March 31, 2004, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of unconsolidated subsidiaries and other in the aggregate amount of ¥3,114 million (\$29,463 thousand) and as guarantors of housing loans of employees in the aggregate amount of ¥200 million (\$1,892 thousand).

In addition, at March 31, 2004, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted by banks and notes endorsed and delivered for payment to vendors in the total amount of ¥412 million (\$3,898 thousand).

13. AMOUNTS PER SHARE

	Yen		U.S. dollars
	2004	2003	2004
Net income:			
Basic	¥ 54.69	¥ 31.72	\$ 0.517
Net assets	1,227.82	1,107.54	11.617
Cash dividends applicable to the year	9.00	8.00	0.085

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

14. SEGMENT INFORMATION

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

The business and geographical segments of the Company and the consolidated subsidiaries for the years ended March 31, 2004 and 2003 are outlined as follows:

Business Segments

Year ended March 31, 2004	Millions of yen						Consolidated sales
	Chemicals	Plastics	Electronics	Health Care and others	Total	Eliminations or corporate	
Sales to customers.....	¥231,360	¥170,996	¥118,978	¥11,966	¥533,301	¥ —	¥533,301
Intersegment sales	13	37	16	4,139	4,208	(4,208)	—
Total sales.....	231,374	171,034	118,995	16,105	537,509	(4,208)	533,301
Operating expenses	227,159	168,006	116,583	15,760	527,510	(4,452)	523,057
Operating income	¥ 4,214	¥ 3,027	¥ 2,412	¥ 345	¥ 9,999	¥ 244	¥ 10,244
Assets.....	¥122,844	¥ 80,415	¥ 58,903	¥10,903	¥273,066	¥37,727	¥310,793
Depreciation and amortization	1,217	752	1,069	148	3,188	—	3,188
Capital expenditures	958	634	1,004	181	2,778	—	2,778

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

Year ended March 31, 2004	Thousands of U.S. dollars						Consolidated sales
	Chemicals	Plastics	Electronics	Health Care and others	Total	Eliminations or corporate	
Sales to customers.....	\$2,189,043	\$1,617,901	\$1,125,726	\$113,217	\$5,045,898	\$ —	\$5,045,898
Intersegment sales	123	350	151	39,161	39,814	(39,814)	—
Total sales.....	2,189,175	1,618,260	1,125,887	152,379	5,085,712	(39,814)	5,045,898
Operating expenses	2,149,295	1,589,611	1,103,065	149,115	4,991,106	(42,123)	4,948,973
Operating income	\$ 39,871	\$ 28,640	\$ 22,821	\$ 3,264	\$ 94,606	\$ 2,308	\$ 96,924
Assets.....	\$1,162,304	\$ 760,857	\$ 557,318	\$103,160	\$2,583,650	\$356,959	\$2,940,609
Depreciation and amortization	11,514	7,115	10,114	1,400	30,163	—	30,163
Capital expenditures	9,064	5,998	9,499	1,712	26,284	—	26,284

As mentioned in Note 3, the Company has changed its methods of accounting for the amortization of actuarial gain or loss and prior service cost. The effect of these changes was to decrease operating income in the chemicals segment, plastics segment, electronics segment and health care and other segment by ¥244 million (\$2,308 thousand), ¥149 million (\$1,409 thousand), ¥131 million (\$1,239 thousand) and ¥65 million (\$615 thousand), respectively, from the amounts which would have been recognized if the methods applied in the previous year had been followed.

Geographical Segments

Year ended March 31, 2004	Millions of yen					Eliminations or corporate	Consolidated sales
	Japan	Asia	North America	Others	Total		
Sales to customers.....	¥424,855	¥85,356	¥13,879	¥ 9,210	¥533,301	¥ —	¥533,301
Intersegment sales.....	56,170	5,010	2,339	1,044	64,565	(64,565)	—
Total sales.....	481,025	90,367	16,218	10,254	597,866	(64,565)	533,301
Operating expenses.....	474,192	87,658	15,898	10,098	587,848	(64,791)	523,057
Operating income	¥ 6,833	¥ 2,708	¥ 320	¥ 156	¥ 10,018	¥ 225	¥ 10,244
Assets.....	¥246,337	¥30,663	¥ 4,829	¥ 2,744	¥284,574	¥ 26,219	¥310,793

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

Year ended March 31, 2004	Thousands of U.S. dollars					Eliminations or corporate	Consolidated sales
	Japan	Asia	North America	Others	Total		
Sales to customers	\$4,109,822	\$807,607	\$131,318	\$87,141	\$5,045,898	\$ —	\$5,045,898
Intersegment sales	531,459	47,402	22,130	9,877	610,890	(610,890)	—
Total sales	4,551,282	855,019	153,448	97,019	5,656,788	(610,890)	5,045,898
Operating expenses	4,486,630	829,387	150,421	95,543	5,562,002	(613,028)	4,948,973
Operating income	\$ 64,651	\$ 25,622	\$ 3,027	\$ 1,476	\$ 94,786	\$ 2,128	\$ 96,924
Assets	\$2,330,750	\$290,122	\$ 45,690	\$25,962	\$2,692,534	\$ 248,074	\$2,940,609

As mentioned in Note 3, the Company has changed its methods of accounting for the amortization of actuarial gain or loss and prior service cost. The effect of these changes was to decrease operating income in the Japan segment by ¥590 million (\$5,582 thousand) from the amount which would have been recognized if the methods applied in the previous year had been followed.

Sales to Overseas Customers

Year ended March 31, 2004	Millions of yen			Total
	Asia	North America	Others	
Overseas sales	¥153,751	¥15,397	¥14,594	¥183,744
Consolidated net sales				¥533,301
Overseas sales as a percentage of consolidated net sales.....	28.8%	2.9%	2.8%	34.5%

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

Year ended March 31, 2004	Thousands of U.S. dollars			Total
	Asia	North America	Others	
Overseas sales	\$1,454,735	\$145,680	\$138,083	\$1,738,518
Consolidated net sales				\$5,045,898

15. SUBSEQUENT EVENTS

- (a) In accordance with the Commercial Code of Japan, an additional stock option plan for directors, auditors and certain key employees of the Company and directors (and the equivalent officers) of certain subsidiaries was approved at the annual general meeting of the shareholders held on June 29, 2004. Under the terms of this plan, 800,000 shares of common stock have been reserved for issuance at a certain exercise price per share. The stock option plan provides that the purchase price will be 1.05 times the average amount of the closing market price of the Company's shares on the Tokyo Stock Exchange for all trading days for the month immediately preceding the month of the date of issuance of the stock options. However, if the amount calculated by the above formula is less than the closing market price of the shares on the Tokyo Stock Exchange on the day on which the stock option is issued, the purchase price is to be the closing market price. Eligible participants may exercise their stock options if the closing market price of the Company's shares on the Tokyo Stock Exchange as of the trading date preceding the date of the exercise of the options exceeds 1.2 times the purchase price. The options become exercisable on August 1, 2006 and are scheduled to expire on July 31, 2009.
- (b) The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2004, were approved at a meeting of the shareholders held on June 29, 2004:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥9.00 = U.S. \$0.08 per share).....	¥1,145	\$10,833

REPORT OF INDEPENDENT AUDITORS



The Board of Directors
Nagase & Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nagase & Co., Ltd. and consolidated subsidiaries as of March 31, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nagase Co., Ltd. and consolidated subsidiaries at March 31, 2004 and 2003, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As discussed in Note 3, effective April 1, 2003, the Company has changed its methods of accounting for the amortization of actuarial gain or loss and for prior service cost.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2004 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.

A handwritten signature in cursive script that reads "Shin Nihon & Co." is positioned in the lower right area of the page.

Osaka, Japan
June 29, 2004

Osaka Kokusai Building
3-13, Azuchimachi 2chome,
Chuo-ku, Osaka 541-0052, Japan
Tel. 06-4964-6655 Fax. 06-6263-0710

COMPANY INFORMATION

(As of March 31, 2004)

■ About Nagase & Co., Ltd.

Company Name: Nagase & Co., Ltd.

Founded: June 18, 1832

Established: December 9, 1917

Paid-in Capital: ¥9,699,714,135

Number of Employees: 807 (Consolidated: 2,884)

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

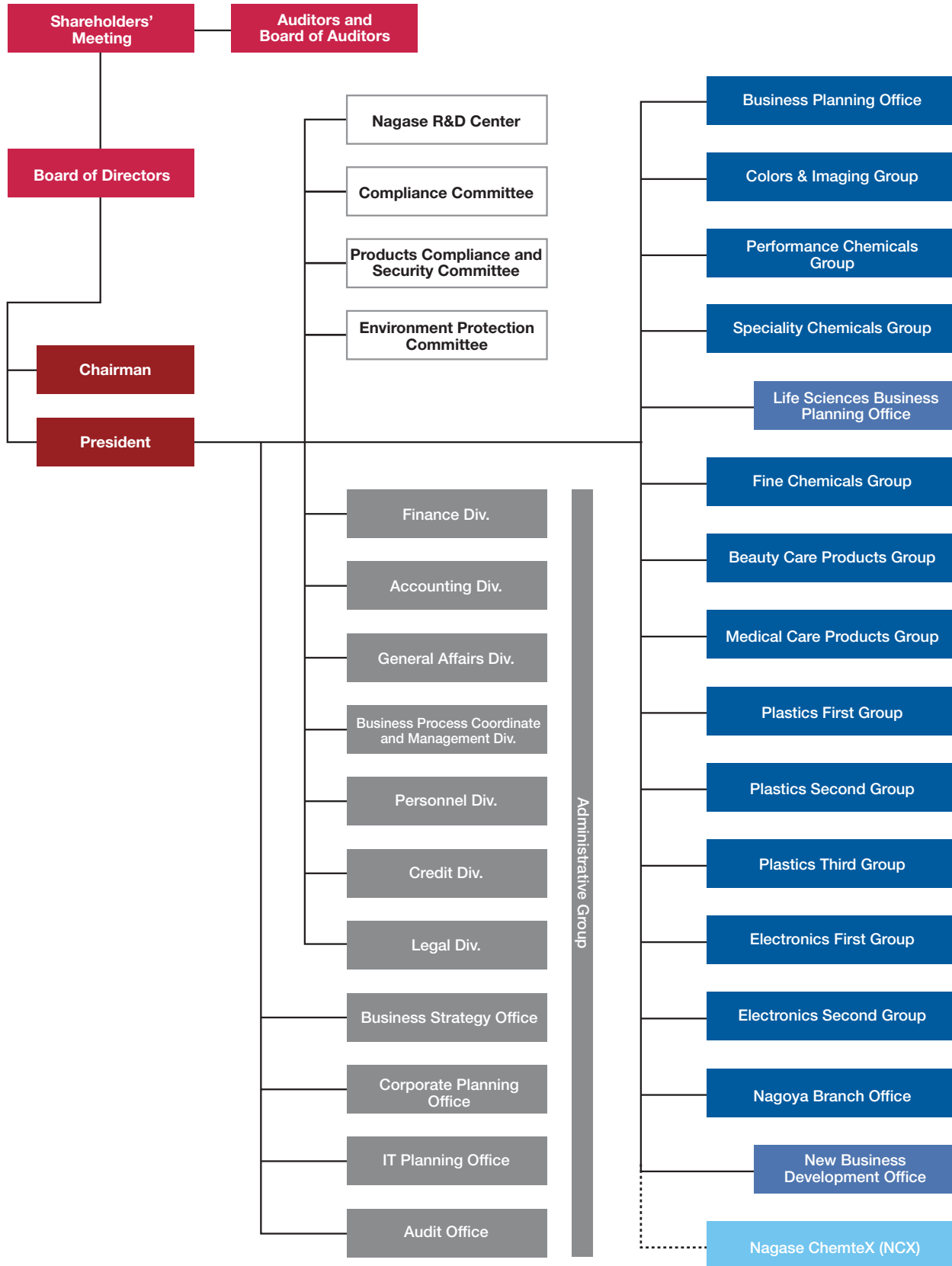
Main Offices: Osaka Head Office: 1-1-17, Shinmachi, Nishi-ku, Osaka City, Osaka, 550-8668 Tel: (81) 6-6535-2114
Tokyo Head Office: 5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo, 103-8355 Tel: (81) 3-3665-3021
Nagoya Branch Office: 3-14-18, Marunouchi, Naka-ku, Nagoya City, 460-8560 Tel: (81) 52-963-5615
Nagase R&D Center: Kobe High Tech Park, 2-2-3, Murotani, Nishi-ku, Kobe City, 651-2241 Tel: (81) 78-992-3162

■ History

- 1832** ● Nagase founded in Kyoto as a dyestuffs trading concern
 - Sales of dyestuffs, starches and funori seaweed
- 1893** ● Established Osaka branch office
- 1898** ● Head office switched to Osaka, branch office to Kyoto
- 1900** ● Established business ties with Basel Chemical Co., of Switzerland (now Ciba Specialty Chemicals Ltd.)
- 1911** ● Established Tokyo branch office
- 1917** ● Inaugurated as Nagase Shoten Company with capital of ¥3 million
- 1923** ● Established business ties with Eastman Kodak Co., of the United States
- 1930** ● Concluded exclusive distributorship agreements with Union Carbide and Carbon Corp., of the United States
- 1940** ● Established Nagoya branch office
- 1943** ● Company name changed to Nagase & Co., Ltd.
- 1964** ● Listed Company shares on the Osaka Securities Exchange
- 1968** ● Concluded an exclusive distributorship agreement with General Electric Co., of the United States
- 1970** ● Established Nagase-CIBA Ltd. (now Nagase ChemteX Corp.) jointly with Ciba-Geigy Ltd.
 - Listed Company shares on the Tokyo Stock Exchange
- 1971** ● Established Nagase (Hong Kong) Ltd. and Nagase America Corp. (now Nagase America Holdings Inc.)
 - Established Engineering Plastics, Ltd. (now GE Plastics Japan Ltd.), jointly with General Electric Co.
- 1974** ● Established Nagase Landauer Ltd. jointly with Technical Operations, Inc., of the United States
- 1975** ● Established Nagase Singapore (Pte) Ltd.
- 1980** ● Established Nagase (Europa) GmbH and Chang Fong Overseas Enterprises (Pte) Ltd.
- 1982** ● Established Nagase (Malaysia) Sdn. Bhd.
- 1985** ● Established Nagase & Co., Ltd., Seoul branch office
- 1988** ● Established Nagase California Corp. and Nagase (Taiwan) Co., Ltd.
- 1989** ● Established Canada Mold Technology Inc.
 - Established Nagase (Thailand) Co., Ltd.
 - Established Nagase Science and Technology Foundation
 - Tokyo branch office became head office; adoption of Osaka/Tokyo two head office system
- 1990** ● Established Sofix Corp.
 - Set up the Nagase R&D Center in Kobe
 - Established joint venture Nagase Wahlee Plastics Corp. (Taiwan)
- 1992** ● Established London branch office
- 1997** ● Established Nagase Philippines Corp. and Shanghai Nagase Trading Co., Ltd.
- 1998** ● Established P.T. Nagase Impor-Ekspor Indonesia
- 2001** ● Closed the Seoul branch office, and established Nagase Korea Corp.
 - Merged four production companies, and established Nagase ChemteX Corp.
 - Established Nagase Finechem Singapore (Pte) Ltd.
- 2002** ● Established Nagase America Corp. and Nagase Plastics America Corp.
 - Established a representative office in Hungary

ORGANIZATION

(As of April 15, 2004)



Company name

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

Address Tel/Fax

● Consolidated subsidiary ● Company accounted for under the equity method ● Affiliate ● Overseas office of Nagase Co., Ltd. ● Office of consolidated subsidiary

EUROPE

● **Nagase & Co., Ltd., London Branch**
4F Crown House, 143 Regent Street, London W1R 7LB, U.K.
Tel: 44-(20)72873368 Fax: 44-(20)72873588

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

● **Nagase (Europa) GmbH**
①Import/export, trade agency, market development, information collection ②€700 ③1980
④100.0%
Immermannstrasse 65c 40210 Dusseldorf, Germany
Tel: 49-(211)866200 Fax: 49-(211)3237068

ASIA

● **Shanghai Nagase Trading Co., Ltd.**
①International trade and trade consulting
②RMB1,656 ③1997 ④100.0%
18F, Raffles City, No.268 Xizang Road Central, Shanghai, P.R. China 200001
Tel: 86-(21)63403300 Fax: 86-(21)63403883

● **Shanghai Hua Chang Trading Co., Ltd.**
①Sale of resins and related products
②RMB4,966 ③1998 ④5.0%
Room 605, Aviation Center, 1600 Nanjing Road West, Shanghai, P.R. China 200040
Tel: 86-(21)62481133 Fax: 86-(21)62486533

● **Nagase ChemteX (Wuxi) Corp.**
①Manufacture and sale of high-tech chemical products for adhesives and electronics, technology service ②RMB28,970 ③2002 ④50.0%
B-B, Machinery & Electronics Industry Park, Wuxi National Hi-tech Industrial Development Zone, Jiangsu Province, P.R. China 21400
Tel: 86-(510)5200052 Fax: 86-(510)5200209

● **Tianjin Nagase International Trading Co., Ltd.**
①Import/export and marketing
②RMB2,482 ③2003 ④0.0%*
Room 1005, 10/F., The Exchange Office Tower 189 Nanjing Road, Heping District, Tianjin, P.R. China 300050
Tel: 86-(22)83191231 Fax: 86-(22)83191122

● **Nagase Precision Plastics Shanghai Co., Ltd.**
①Plastic tray molding
②RMB16,512 ③2001 ④94.0%
B-Block, 1F, 173 Meisheng Road, Wai Gao Qiao Free Trade Zone, Pudong, Shanghai 200131, P.R. China
Tel: 86-(21)58681661 Fax: 86-(21)58681667

● **Nagase Plastics Design and Die (Tianjin) Co., Ltd.**
①Design of automotive components and plastic products
②RMB2,483 ③2003 ④50.0%
Room 1005, 10/F The Exchange Office Tower, 189 Nanjing Road, Heping District, Tianjin, P.R. China 300050
Tel: 86-(22)83191234 Fax: 86-(22)83191122

● **Guangzhou Nagase Trading Ltd.**
①Import/export and marketing ②RMB1,655 ③2002 ④0.0%*
Room 2317, CITIC Plaza Office Tower, 233 Tian He Bei Road, Guangzhou, P.R. China 510613
Tel: 86-(20)38911101 Fax: 86-(20)38911103

● **NCC Shanghai Techno Center Co., Ltd.**
①Experimental operations for paints and finishing processes ②RMB2,445 ③2002 ④0.0%*
6F, No.75 Bldg. No.1066 Qinzhou North Road Caohejing Hi-Tech Park, Shanghai, P.R. China 200233
Tel: 86-(21)5426-1812 Fax: 86-(21)5426-1811

● **Nagase (Hong Kong) Ltd.**
①Import/export, trade agency, market development, information collection ②HK\$3,120 ③1971
④100.0%
Suite 2001-6, Tower 1, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, S.A.R., P.R. China
Tel: 852-23750000 Fax: 852-23772728

● **Nagase (Hong Kong) Ltd., Dalian Representative Office**
21F, Senmao Bldg., No. 147 Zhongshan Road, Xigang District, Dalian, P.R. China 116011
Tel: 86-(411)83704270 Fax: 86-(411)83704272

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

● **Nagase (Hong Kong) Ltd., Tianjin Representative Office**
Room 1005, 10/F., The Exchange Office Tower 189 Nanjing Road, Heping District, Tianjin P.R. China 300050
Tel: 86-(22)83191231 Fax: 86-(22)83191122

● **Nagase (Hong Kong) Ltd., Shenzhen Representative Office**
Suite 1223 & 24, Kerry Centre, Renminnan Road, Shenzhen, P.R. China 518001
Tel: 86-(755)25180683 Fax: 86-(755)82317089

● **Nagase International Electronics Ltd.**
①Management of electronics-related manufacturing businesses in Japan and overseas
②HK\$10,000 ③2004 ④80.0%
Suite 1104, Tower 6, China Hong Kong City, 33 Canton Road, Tsim Sha Tsui, Kowloon, Hong Kong, S.A.R., P.R. China
Tel: 852-23762088 Fax: 852-23761666

● **Nagase (Taiwan) Co., Ltd.**
①Import/export, trade agency, market development, information collection ②NT\$45,000 ③1988
④100.0%
4F-1, 248, Sec.3, Nanking E. Rd. Taipei, Taiwan, R.O.C.
Tel: 886-(2)27733668 Fax: 886-(2)27737288

● **Nagase Wahlee Plastics Corp.**
①Trade ②NT\$52,000 ③1990 ④55.0%
9F Chuan Ta Bldg., No. 37, Sec. 3, Min Chuan East Road, Taipei, Taiwan, R.O.C
Tel: 886-(2)25062400 Fax: 886-(2)25062401

● **Nagase Engineering Service Korea Co., Ltd.**
①Equipment maintenance service and engineering
②WON150,000 ③1997 ④100.0%
3F, Seowon Bldg., Togok-Dong 544-3, Kangnam-ku, Seoul, Korea
Tel: 82-(2)5720881 Fax: 82-(2)5720884

● **Nagase Korea Corp.**
①Retail sales ②WON700,000 ③2001
④100.0%
The Seoul Shinmun Daily & Press Center Bldg. 10F #25, 1-Ga, Taepyeong-ro, Chung-ku, Seoul, Korea
Tel: 82-(2)7348745 Fax: 82-(2)7348747

● **Nagase (Thailand) Co., Ltd.**
①Import/export, trade agency, market development, information collection ②BAHT87,000 ③1989
④97.8%
14F, Ramaland Bldg., 952 Rama IV Road, Khwaeng Suriyawongse, Khet Bangrak, Bangkok 10500, Thailand
Tel: 66-(2)6327000 Fax: 66-(2)6327111

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

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

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

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

● **Nagase (Malaysia) Sdn. Bhd., Johor Bahru Office**
Suite 6.5A Level 6, Menara Pelangi, Taman Pelangi, Jalan Kuning, 80400, Johor Bahru, Malaysia
Tel: 60-(7)3336088 Fax: 60-(7)3339088

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

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

● **Nagase Finechem Singapore (Pte) Ltd.**
①Manufacture and recycling of chemical agents for liquid crystals ②S\$8,000 ③2001 ④60.0%
9 Tuas Vane Lane, Singapore 637569
Tel: 65-68989289 Fax: 65-68985313

● **Chang Fong Overseas Enterprises (Pte) Ltd.**
①Sale of chemical products ②S\$1,000
③1980 ④85.0%
31 Gul Circle, Jurong Industrial Estate, Singapore 629569
Tel: 65-68623801 Fax: 65-68622655

● **Nagase & Co., Ltd., Hanoi Representative Office**
Unit 807, Hanoi Tung Shing Square 2 Ngo Quyen Hoan Kiem Dist., Hanoi, Vietnam
Tel: 84-(4)9350110 Fax: 84-(4)9350108

● **Nagase Singapore (Pte) Ltd., Vietnam Representative Office**
Room 1809, Sun Wah Tower, 115 Nguyen Hue Boulevard, Dist. 1, HCMC, Vietnam
Tel: 84-(8)8219166 Fax: 84-(8)8219139

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

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

● **Nagase & Co., Ltd., Mumbai Liaison Office**
34, 3F, Maker Chamber III, Nariman Point, Mumbai 400021, India
Tel:91-(22)22844415 Fax: 91-(22)22045419

NORTH AMERICA

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

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

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

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

● **Sofix Corp.**
①Manufacture and sale of color formers
②US\$20,000 ③1990 ④49.0%
2800 Riverport Road, Chattanooga, TN 37406-1721, U.S.A.
Tel: 1-(423)6243500 Fax: 1-(423)6243587

● **Design and Die USA Inc.**
①Design of automotive components and plastic products/die sales ②US\$200 ③2002 ④25.0%
Crystal Glen Office Centre, Suite 356, 39555 Orchard Hills Place, Novi, MI 48375, U.S.A.
Tel: 1-(248)3740490 Fax: 1-(248)3740497

● **Canada Mold Technology Inc.**
①Manufacture, sale and maintenance of metal molds
②C\$5,000 ③1989 ④53.0%
1075 Ridgeway Road, Woodstock, Ontario, Canada N4V 1E3
Tel: 1-(519)4210711 Fax: 1-(519)4210706

INVESTOR INFORMATION

(As of March 31, 2004)

● Stock Listings: First Sections of the Tokyo Stock Exchange and the Osaka Securities Exchange

● Ticker Code: 8012

● Authorized Number of Shares: 346,980,000
 Issued Number of Shares: 138,408,285

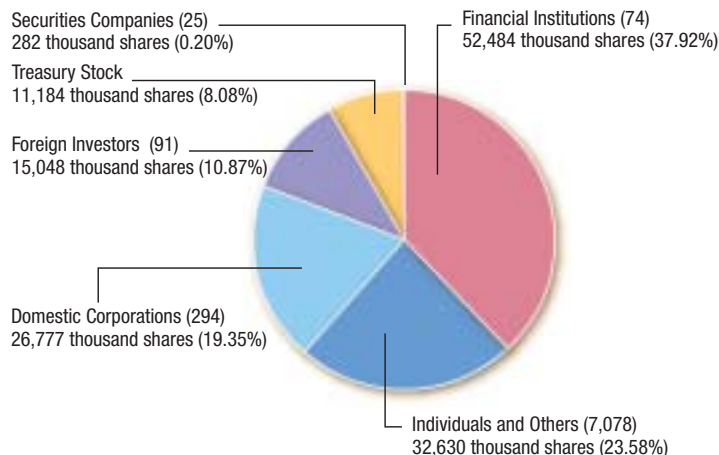
● Number of Shareholders: 7,563

● Principal Shareholders

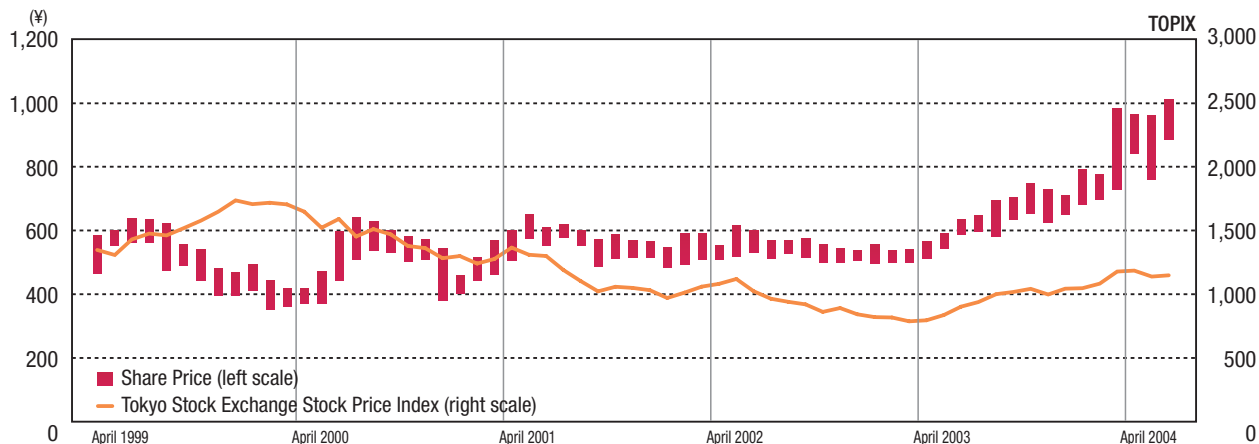
Name	Number of Shares Held (Thousands)	Percentage of Total Shares Outstanding
The Master Trust Bank of Japan, Ltd.	9,865	7.13
Japan Trustee Services Bank, Ltd.	7,413	5.36
The Sumitomo Trust & Banking Co., Ltd.	6,173	4.46
Sumitomo Mitsui Banking Corporation	4,668	3.37
Hiroshi Nagase	4,141	2.99
Nippon Life Insurance Company	4,068	2.94
Reiko Nagase	3,522	2.54
Mitsui Sumitomo Insurance Co., Ltd.	2,951	2.13
The Bank of Tokyo-Mitsubishi, Ltd.	2,825	2.04
Nagase Shunzo Co., Ltd.	2,749	1.99

Note: In addition to the above, the Company holds 11,184 thousand shares of treasury stock without voting rights.

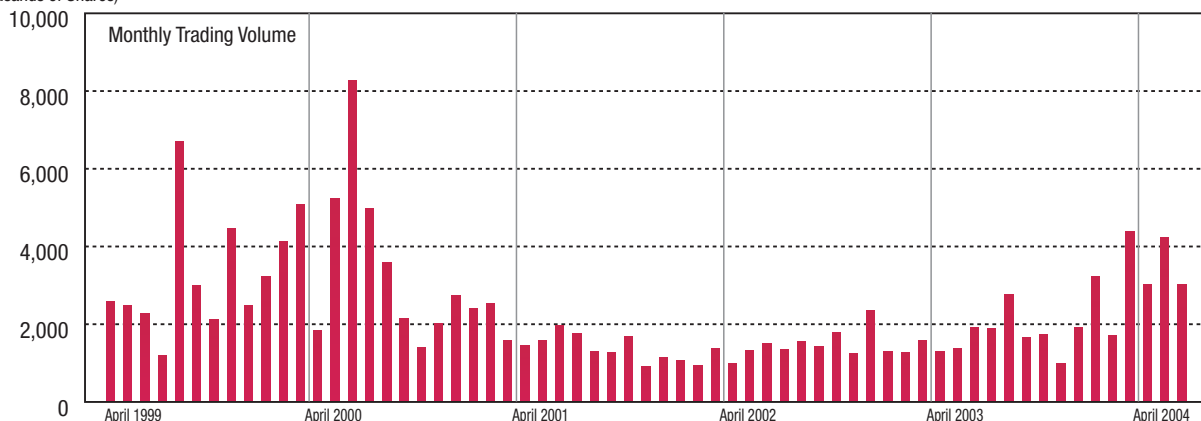
● Composition of Shareholders



● Monthly Share Price Range of Nagase



(Thousands of Shares)



NAGASE & CO., LTD.

Osaka Head Office:

1-1-17, Shinmachi, Nishi-ku, Osaka City, Osaka, 550-8668

Tel: (81) 6-6535-2114

Tokyo Head Office:

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

Tel: (81) 3-3665-3021

Nagoya Branch Office:

3-14-18, Marunouchi, Naka-ku, Nagoya City, 460-8560

Tel: (81) 52-963-5615

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



Printed in Japan with soy ink on recycled paper.