

NAGASE

Annual Report 2013

Year ended March 31, 2013

A technology- and intelligence-oriented Company
that turns wisdom into business.



NAGASE

NAGASE & CO., LTD.

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

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To Our Stakeholders



Outside Director
Iwao Nakamura

Director and Executive Officer
Mitsuro Naba

Director and Executive Officer
Hiroshi Hanamoto

Representative Director and Managing Executive Officer
Kenichi Matsuki

Representative Director, President and CEO
Hiroshi Nagase

Representative Director and Senior Managing
Executive Officer
Reiji Nagase

Representative Director and Managing
Executive Officer
Toshiro Yamaguchi

Director and Executive Officer
Osamu Morishita

Director and Executive Officer
Kenji Asakura

Outside Director
Yasuo Nishiguchi

Our management philosophy is to maintain good and fair business practices, accelerating global “*CHANGE*” as we practice the Nagase Way.

The Nagase Group has come together as one 5,897-employee entity, working under the guidance of our ***Change-S2014*** medium-term management plan to focus our expertise to create value in the most important components of our chemical value chain: Bio, Energy & Environment, and Electronics.

We started as a paint wholesaler in Kyoto back in 1832. As we began to import synthetic dyes from Basel Chemical Co, of Switzerland (modern-day BASF), we morphed into

a specialized sales agent company representing the gold standard in the chemicals business, securing exclusive contracts to sell industry-leading products from America’s Union Carbide (Dow Chemical), GE Plastics (SABIC), and others.

Today, our business model is undergoing a major change. In 2000, we began to build out our manufacturing infrastructure to make fundamental structure changes. As a result, we were able to create a new Nagase—a technology- and intelligence-oriented company that turns wisdom into business. Our next task is to accelerate the pace of this change.

That is the role played by ***Change-S2014***.

At the Nagase Group, our management philosophy is to maintain good and fair business practices, accelerating global “*CHANGE*” as we practice the Nagase Way.

July 2013

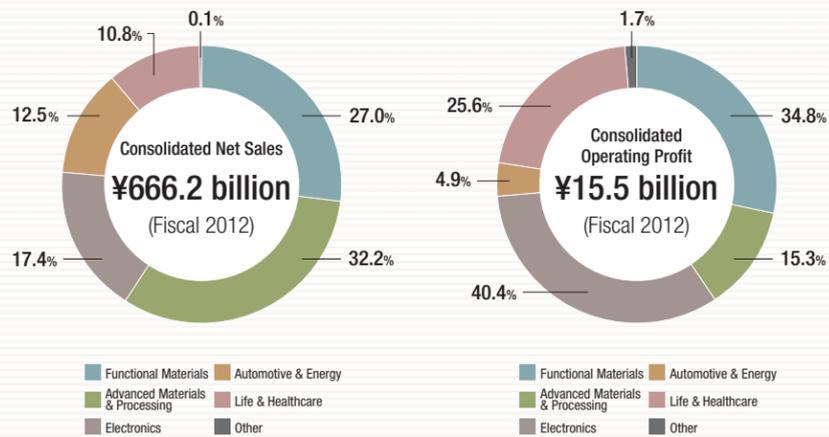
The Directors of NAGASE & CO., LTD.

The Nagase Group: A technology- and intelligence-oriented company that turns wisdom into business

In 1832, Nagase & Co., the central company of what would become the Nagase Group, was founded as a dyestuffs wholesaler in Kyoto, Japan. In 1900, the company started importing synthetic dyes from Basel Chemical Co, of Switzerland, pioneering new markets throughout the world in cooperation with its customers. Since that time, the Company has created a strong and growing foundation of technology, information, and expertise. Today, the Nagase Group boasts more than 6,000 leading corporate customers, numerous employees with advanced technical skills, a global network expanding throughout the world, strong manufacturing, research, and development functions, and a solid financial foundation.

Today, the Nagase Group combines trading company functions (in chemicals and a wide variety of fields), research and development functions, and manufacturing and processing functions organically. We are much more than a trading firm, having grown into a Group that can contribute to the growth of Japan's chemical and other industries at the highest levels, meeting the varied needs of our customers. We have secured our position as a technology- and intelligence-oriented company (trading company) leading industry into the future.

Moving forward, the Nagase Group intends to exercise all efforts to generate more opportunities for growth, creating business with our customers around the world.



*Operating profit composition ratio above does not reflect corporate eliminations.

Life & Healthcare

28

Automotive & Energy

26

Financial Foundation Supporting Business Growth

7

Functional Materials

20

Advanced Materials & Processing

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Global Network

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INAW

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Forward-Looking Statements
 Non-historic information contained in this annual report related to NAGASE & CO. and Nagase Group revenue and profit plans, strategies, presumptions, etc. are forward-looking statements that include elements of risk and uncertainty. Actual earnings may differ significantly from forecasts due to changes in these elements. Accordingly, the reader is cautioned to refrain from placing undue reliance on such future forecasts contained in this document. Elements that could impact earnings results are not necessarily limited to those explicitly noted in this document.

Our Strengths

In the more than 180 years since our founding, NAGASE & CO. has built a wealth of proprietary technologies and database of information. Today, our strengths lie in our Group-wide manufacturing and research and development functions, as well as in our unsurpassed global network. These strengths have helped us create a business that adds consistent value at every stage in the value chain—from research and development to manufacturing and processing to sales. We are creating integrated businesses that combine these strengths with our long-standing trading company functions (logistics, risk assumption (credit risk), cross-selling).

NAGASE's Strengths

Global Network

The Nagase Group has created a truly global network, expanding from Northeast and Southeast Asia to Europe and throughout the Americas, all the time adding to our worldwide presence in sales, manufacturing, and processing services.

The Value Chain

Each business in the Nagase Group focuses on creating greater value in every point along the value chain, from upstream to downstream.

Technology and Information

Nearly 60% of all Nagase Group employees hail from a technical background. This gives us an incredible advantage in developing profitable relationships with our customers based on high-level technical information. Our 6,000 customers are leaders in their fields. We work closely with our customers in research and development across a wide range of cutting-edge fields, creating new technologies, new products, and new markets.

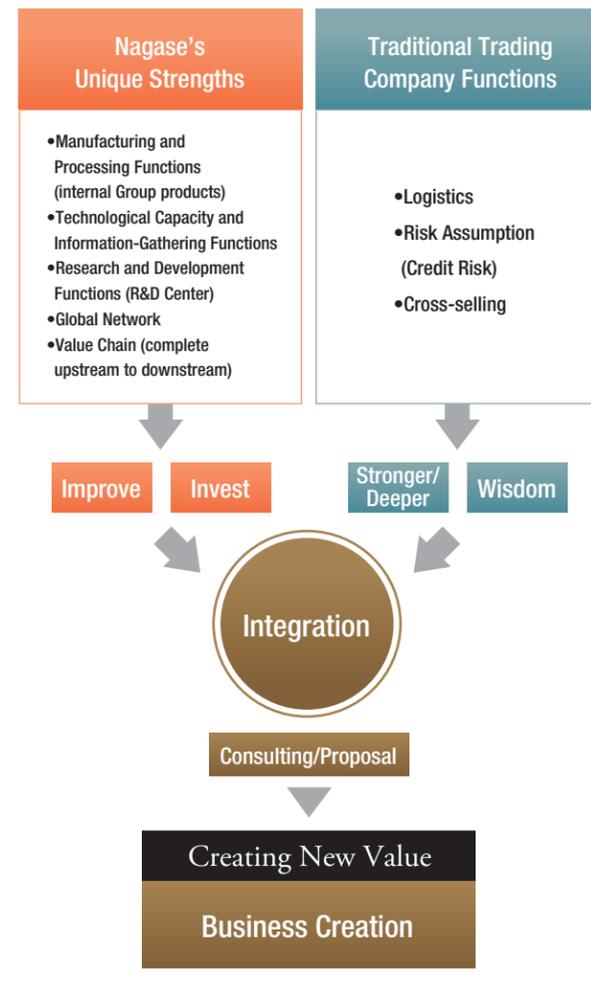
Manufacturing and Processing Functions/ Research and Development Functions

In addition to core manufacturing technologies in organic synthesis, enzymatic reaction, and blend, we are also very skilled in glass processing and other niche technologies, genetic screening, mass production and other advance technologies, using this combination of skills to engage in manufacturing and development activities that lead to high-value-added products.

Solid Financial Foundation

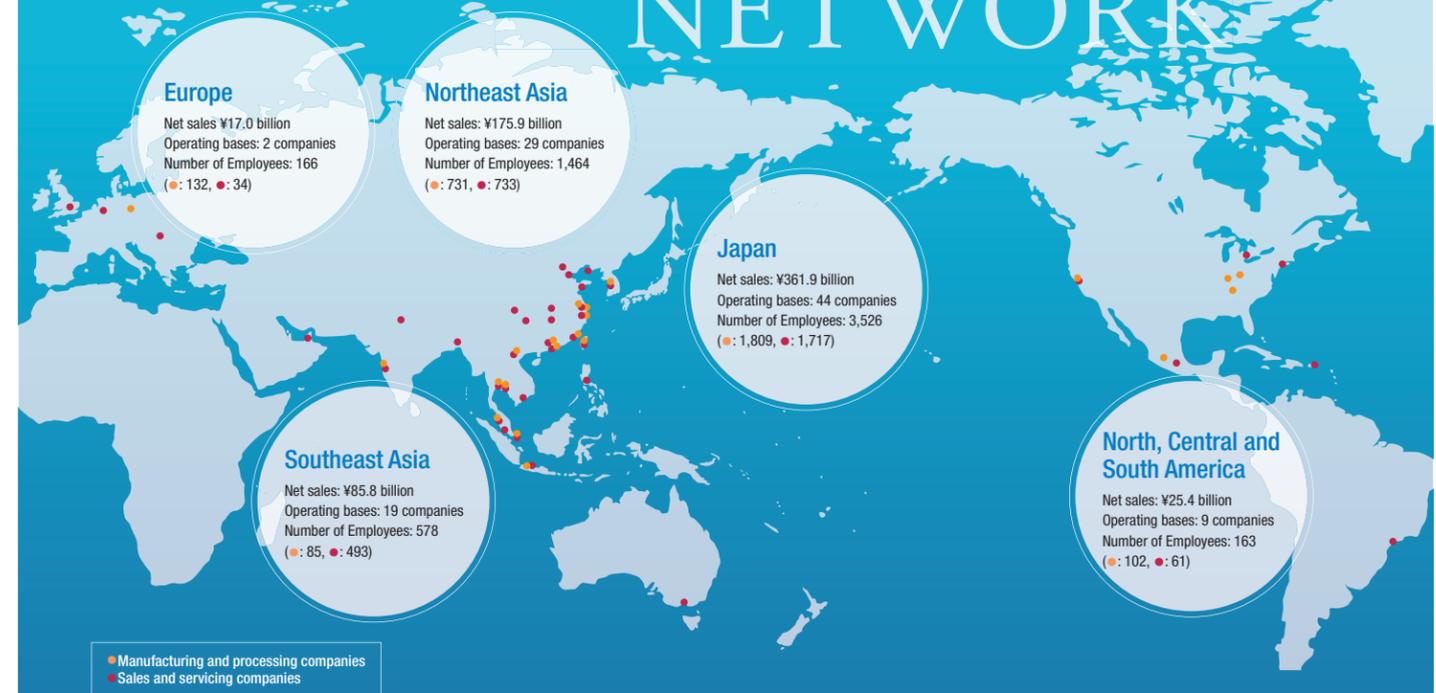
As of the last day of the fiscal year ended March 2013, our shareholders' equity ratio sat at 46.9%, reflecting the strong financial foundation of the Nagase Group. The Rating and Investment Information Inc. has given the Nagase Group an A issuer credit rating.

The Nagase Group Business Model



Global Network

GLOBAL NETWORK



The Globally Expanding Nagase Network

The Nagase Group is engaged in activities around the world that rely on the use of chemicals across a wide spectrum of products and services through our Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare segments. These products and services include dyes/pigments, coating materials/inks, surfactants, office automation (OA), electrical equipment, home electronics, automobiles, LCDs, semiconductors, pharmaceutical/medical applications, cosmetics and functional food ingredients.

We have grown to become a global technology and information network with 103 companies in 20 overseas countries and 5,897 employees (consolidated) worldwide.

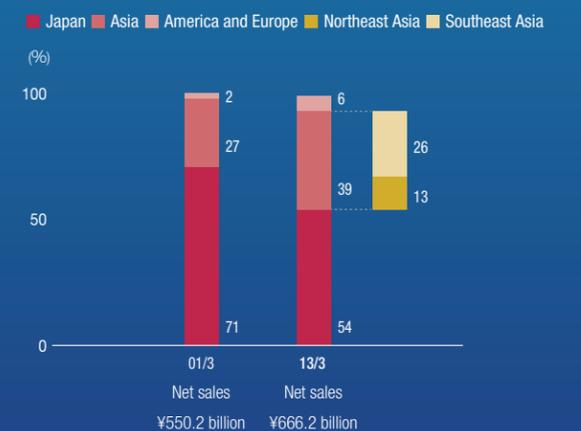
As a result, overseas sales accounted for 45.7% of consolidated net sales. We will continue to pursue a course of stronger marketing in all regions, leveraging investment in growth markets and interregional projects to create new overseas businesses.

During Fiscal 2012, the Nagase Group established its first business in Brazil for the purpose of monitoring the bio business and other developing businesses in South America.

Training Global Business Leaders [See page 52](#) Human Resources Development

We count our employees and their understanding of advanced technical information as one of our strengths. By fostering a culture of training and through a mentoring system, we are creating the next generation of global business leaders.

Comparison of Net Sales by Region



PRODUCTION/ R&D FUNCTIONS

While the Nagase Group has worked from day one to expand our business as an almost exclusive importer and agent for foreign companies, changes in the market structure of Japan have meant that our competitive advantage in this country has declined gradually. In response to this trend, we defined a new business model for the Nagase Group in the year 2000, strengthening our manufacturing functions to add greater value and improve our business offerings as a technology- and intelligence-oriented company that turns wisdom into business. Today, the Nagase Group counts 50 manufacturing and processing companies in our family. As a Group, we deal in pharmaceutical, functional polymers, electronics materials, plastics, cosmetics, and functional food ingredients production and processing, creating our own value-added products in addition to intermediary business. In addition, the Nagase Group's R&D Center works closely with Group manufacturing companies in all fields, engaging in research and development activities. As a result, our manufacturing businesses account for more than 37% of operating profit, and have led to a notable improvement in our gross profit ratio as well.

During fiscal 2012, Hayashibara Co., Ltd. decided to move the Okayama No. 1 Plant (responsible for manufacturing functional saccharides) and improve its manufacturing capabilities. The goals of this initiative were to improve manufacturing efficiencies, to ensure the stable supply of existing products, to add production capacity, and to deal with the production of new products. The Group has likewise made the decision to establish a new Nagase ChemteX (Wuxi) Corp. research and development facility to enhance the company's ability to develop customized products that meet the needs of the local customers in the electronics industry.

- See page 32 Nagase ChemteX Corporation
- See page 34 Hayashibara Co., Ltd.
- See page 36 Nagase R&D Center
- See page 37 Nagase Application Workshop

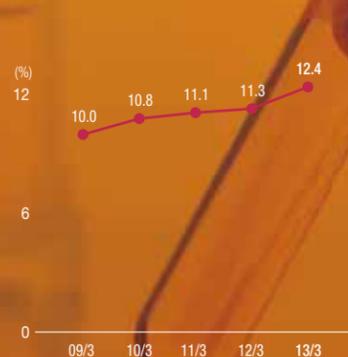
Manufacturing/
Processing
Bases

50 companies in 13 countries

Manufacturing Ratio
(Net Sales and Operating Profit)



Gross Profit Ratio



FINANCIAL FOUNDATION

Investing for Greater Corporate Value

The Nagase Group does not engage in investment or financing for purposes of speculative income generation. Through manufacturing, R&D, technology, business intelligence, and a global network—what we perceive as our competitive strengths along our Group value chain (See page 4 the Nagase Group Business Model)—we create unique and highly competitive businesses. These businesses allow us to improve our service quality and value as a corporation. Our **Change-S2104** medium-term management plan (fiscal 2012 through fiscal 2014) calls for ¥40.0 billion in investments and financing. We intend to follow these policies to continue to grow as a business.

When investing, we will always improve cash flows of the businesses, enhancing systems in order to understand efficiency and effectiveness of investment, and raising corporate value. In order to maintain stable financial strength, we have determined $D/(D+E) = 33\%$ ($D:E = 1:2$) as the maximum limit of debt to equity and will try to raise corporate value by maintaining or even improving our rating.

Liabilities and interest-bearing debt grew significantly during fiscal 2011. These funds were raised from financial institutions or through the issuance of unsecured bonds for the purpose of acquiring of Hayashibara Co., Ltd. and the conversion of that company to a Group subsidiary. Despite the increase in liabilities, the Group maintained a financially sound shareholders' equity ratio of 46.9% (as of March 31, 2013).

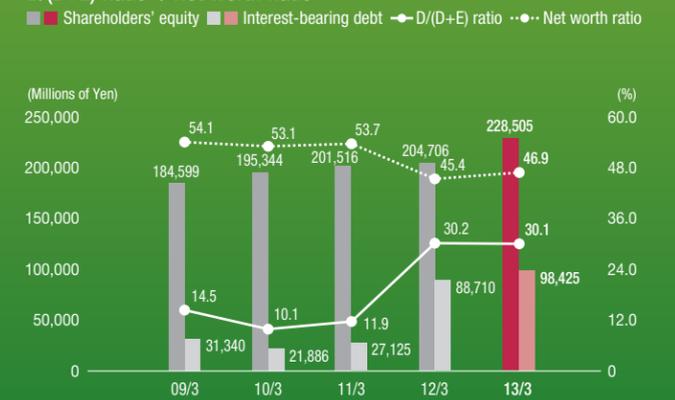
* $D/(D+E)$ Ratio: Interest-bearing debt (D)/(Interest-bearing debt (D)+Owned capital (E))

The Nagase group uses the $D/(D+E)$ ratio as an indicator for understanding the balance of financial resources. Utilization of interest-bearing debt is necessary for effective investment, but maintaining a sound financial basis is indispensable for continuous development of our business. We therefore have determined $D/(D+E)$ ratio = 33% (Interest-bearing debt: Owned capital = 1:2) as the maximum limit of debt to equity.

Cash Flows



Shareholders' Equity / Interest-bearing Debt / $D/(D+E)$ Ratio* / Net Worth Ratio



Rating		
Agency	Type	Rating
Rating and Investment Information, Inc.	Issuer credit rating	A

Basic Strategies

Speed Up	Accelerate the improving quality of our business and operations
Step up	Bring the total strength of the Nagase Group to bear throughout the value chain in our strategic markets
Sustainable growth	Expand our unique solutions globally, creating sustained growth

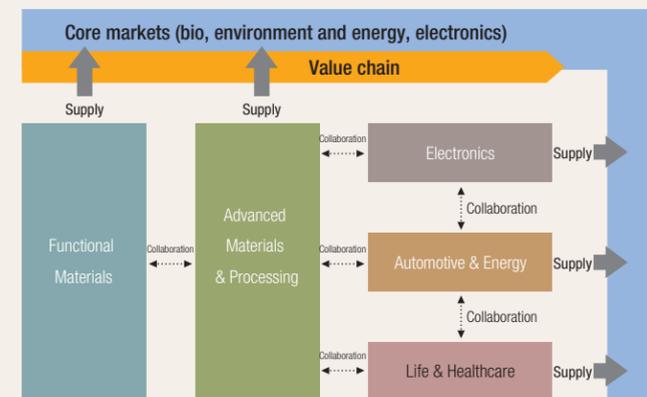
The theme of **Change-S2014** is to ACCELERATE “**CHANGE**”, pursuing a basic strategy as outlined above to achieve growth based on a value-chain strategy, focused on markets using technologies from bio, environment and energy, and electronics.

Change-S2014 Numerical Targets

Consolidated Net Sales	¥800.0 billion
Consolidated Operating Profit	¥30.0 billion
ROE	8.0%
Three-Year Investment	¥40.0 billion

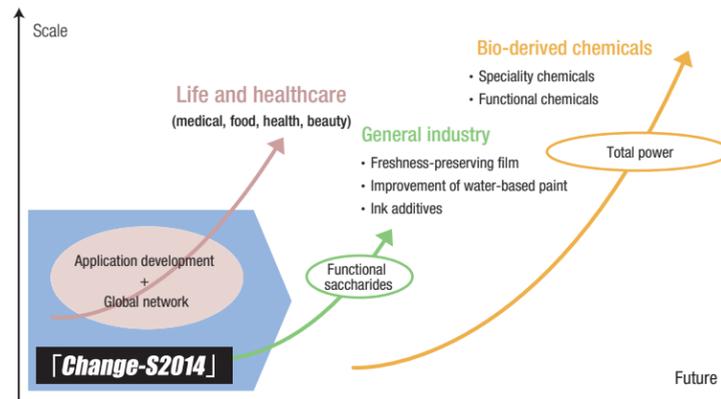
Of the five Nagase business segments, Functional Materials is located at the top of the value chain. The Advanced Materials & Processing segment is located in the next stage of the value chain, followed by the Electronics, the Automotive & Energy, and the Life & Healthcare segments functioning across all industries. These five segments are tasked with ACCELERATING “**CHANGE**”, following two key strategies: Globalization and the creating of high-added-value businesses and create new opportunities by taking advantage of the Group’s strengths in core fields related to bioscience, environment and energy, and electronics. This will be accomplished by combining the Group’s foundational technologies with the functions of each business segment.

Value Chain Strategies



Bio Initiatives

Working from the Hayashibara business, we will create a quicker feedback loop from the market through the integration of the Nagase Group research and development and sales functions. Our goal is to create highly original bio-related products, expanding sales of the same throughout the world, which will lead to a stronger competitive position and higher growth in the medical, food, health and beauty markets within our Life & Healthcare segment. We are also moving forward with initiatives to expand bio-related technologies into general commercial applications, as well as looking into the use of renewable resources over the long term.



Environment/Energy Initiatives

The Nagase Group is creating a new business model anticipating global technological innovations in green energy, bringing our entire force to bear in businesses focused on friendly manufacturing (using electricity generated from solar power, wind power, and other renewable sources),

smart grids, and energy conservation systems, as well as next-generation automobiles that make smart use of resources. We are also advancing research into reducing the environmental burden of business, such as chemical recycling and creating lighter components for automobiles.



Electronics Initiatives

The electronics field is one of rapid technological innovation and structural change. Here, our goal is to expand our business by offering highly innovative technologies, products, and services that meet the needs of

our customers. At the same time, we are moving forward in strengthening our overseas manufacturing and development functions to accelerate our growth in the global market.

Stronger Management Foundation

Where the Japanese market has slowed compared to the growing markets in emerging countries, the Nagase Group has chosen to focus on expanding business in emerging and other international markets, establishing high-value-added businesses using our manufacturing and processing functions.

Through investments in manufacturing, we have increased Group-wide manufacturing and processing bases in Japan and around the world, changing the fundamental shape of internal risk in the Group’s manufacturing businesses. To respond to these internal and external changes, we are engaged in creating a stronger consolidated management structure, building more mature risk management policies, and developing higher-caliber human resources.

• Improved Consolidated Management Structure

With respect to strengthening the consolidated management structure, we continue to build a more efficient Group management structure, encourage personnel interchange within the Group, and improve our IT infrastructure. To ensure a sound financial foundation, we are working to balance liabilities and equity at prudent levels, while keeping an eye open for any changes in our credit rating. At the same time, we are improving our ability to forecast present and future operating cash flows to balance investment (risk assets) and operating cash flows properly. From a perspective of efficient asset utilization, we are replacing older assets with newer, more profitable assets.

• Stronger Risk Management

See page 44 Risk Management and Compliance
We are in the process of putting stronger systems into place for internal controls, risk management, and transaction risk control across the Group’s companies.

• Human Resources Staff Training

See page 52 Professional Development
We are also in the process of establishing a stronger Group management foundation through hiring, training, and utilizing a talented workforce that can respond to the diverse demands of our businesses.

13-Year Financial Highlights

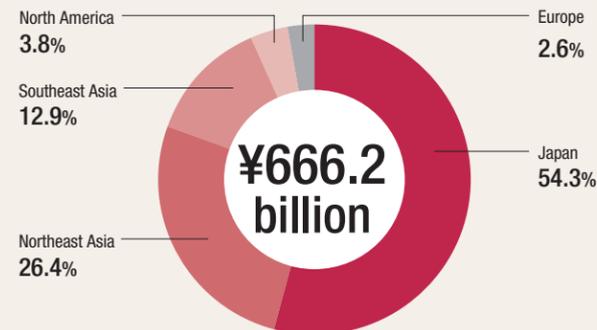
NAGASE & CO., Ltd. and Consolidated Subsidiaries (Years Ended March 31)

(Millions of Yen)							(Millions of Yen)						
	2001/3	2002/3	2003/3	2004/3	2005/3	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3
	WIT2000 (Reform)			WIT21 (Promotion)			WIT2008 (Reinforcement)			"CHANGE"11' (Improving quality of our business and operations)			Change-S2014
	Investment Amount: ¥20.2 billion			Investment Amount: ¥23.7 billion			Investment Amount: ¥27.7 billion			Investment Amount: ¥107.4 billion			Investment Amount: ¥12.0 billion
Performance (Accounting Fiscal Year)													
Net Sales	¥ 559,372	¥ 490,583	¥ 503,688	¥ 533,301	¥ 575,636	¥ 648,023	¥ 701,321	¥ 764,755	¥ 715,238	¥ 603,949	¥ 660,213	¥ 631,854	¥ 666,272
Segments													
Functional Materials (formerly Chemicals)	237,871	218,524	223,656	231,360	251,725	222,282	247,094	267,836	248,461	237,124	253,290	177,126	180,025
Advanced Materials & Processing (formerly Plastics)	205,460	175,252	165,810	170,996	188,456	229,278	244,681	274,660	253,029	192,569	222,100	217,929	214,546
Electronics	103,382	83,660	99,759	118,978	122,632	132,086	150,796	163,833	153,255	117,591	133,640	110,495	116,105
Automotive & Energy	—	—	—	—	—	—	—	—	—	—	—	76,113	83,068
Life & Healthcare (former Healthcare/Other)	12,658	13,146	14,461	11,966	12,821	56,404	53,556	56,489	58,905	55,542	50,247	49,170	71,685
Other	—	—	—	—	—	7,972	5,191	1,934	1,585	1,121	934	1,018	841
Regions													
Domestic	392,555	341,102	337,531	349,557	363,708	388,470	410,789	432,813	394,874	360,382	389,379	366,369	361,971
Overseas	166,817	149,481	166,157	183,744	211,928	259,553	290,532	331,942	320,364	243,567	270,833	265,484	304,301
Gross Profit	55,140	46,976	51,899	53,494	61,960	67,640	73,639	80,506	71,527	65,415	73,008	71,628	82,583
Operating Income	7,752	1,673	8,433	10,244	13,256	17,596	21,669	23,063	12,522	13,128	18,732	13,427	15,578
Net Income (Loss)	4,945	(2,097)	4,186	7,010	10,384	12,892	13,567	10,005	5,808	7,537	12,823	8,570	14,182
Financial Condition:													
Total Assets	¥ 353,776	¥ 300,073	¥ 284,800	¥ 310,793	¥ 335,290	¥ 396,773	¥ 422,859	¥ 419,869	¥ 340,968	¥ 368,088	¥ 375,336	¥ 450,842	¥ 486,747
Equity Capital	153,498	144,176	140,944	156,210	167,092	196,620	205,083	200,554	184,599	195,344	201,516	204,706	228,505
Interest-Bearing Debt	23,878	19,677	16,578	16,417	14,019	24,834	20,491	33,342	31,340	21,886	27,125	88,710	98,425
	(Yen)						(Yen)						
Per Share Data:													
Net Income (Basic)	¥ 35.28	¥ (15.39)	¥ 31.72	¥ 54.69	¥ 81.00	¥ 100.32	¥ 105.84	¥ 77.86	¥ 45.17	¥ 58.64	¥ 99.76	¥ 66.69	¥ 111.31
Net Assets	1,104.81	1,082.16	1,107.55	1,227.82	1,311.37	1,535.70	1,597.27	1,559.97	1,435.88	1,519.61	1,568.04	1,592.87	1,803.31
Cash Dividends	8.0	8.0	8.0	9.0	10.0	15.0	18.0	17.0	16.0	16.0	22.0	24.0	26.0
Payout Ratio (%)	22.5	—	24.3	16.3	12.3	14.9	17.0	21.8	35.4	27.3	22.1	36.0	23.4
Shareholders' Equity Dividend Rate (%)	0.77	0.72	0.71	0.77	0.79	1.06	1.15	1.08	1.07	1.08	1.42	1.52	1.53
	(%)						(%)						
Ratios:													
Overseas Sales to Net Sales	29.8	30.5	33.0	34.5	36.8	40.1	41.4	43.4	44.8	40.3	41.0	42.0	45.7
Manufacturing Ratio (Operating Income)	11.3	(9.6)	21.4	19.2	16.4	20.5	22.3	24.4	15.5	35.4	29.0	31.3	37.3
Operating Margin (Operating Income/Net Sales)	1.4	0.3	1.7	1.9	2.3	2.7	3.1	3.0	1.8	2.2	2.8	2.1	2.3
Return on Equity (ROE)	3.4	(1.4)	2.9	4.7	6.4	7.1	6.8	4.9	3.0	4.0	6.5	4.2	6.5
Net Worth Ratio	43.4	48.0	49.5	50.3	49.8	49.6	48.5	47.8	54.1	53.1	53.7	45.4	46.9
Debt Equity Ratio (Times)	0.16	0.14	0.12	0.11	0.08	0.13	0.10	0.17	0.17	0.11	0.13	0.43	0.43

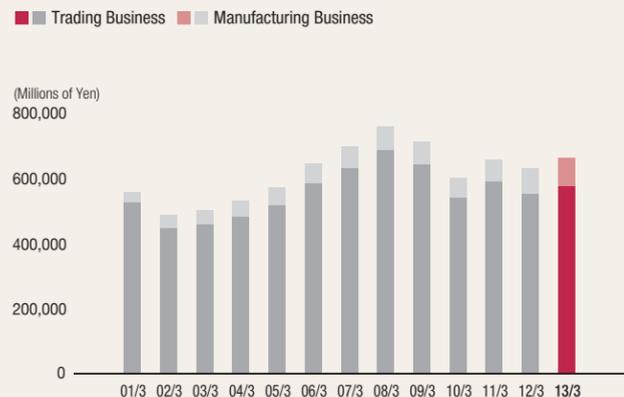
(Note 1) In the fiscal year ended March 2006, the Fine Chemicals Department (part of the Chemicals segment) was integrated with the Healthcare segment. The combined organization is now known as the Life Sciences segment.
 (Note 2) Beginning with the fiscal year ended March 2010, the Company has moved its information and functional materials businesses handling materials related to insulating materials and fluoroplastic-related materials from the Electronics segment to the Chemicals segment. Businesses handling surface detection machines for functional films and sheets have been moved under the Plastics segment.

(Note 3) During the fiscal year ended March 2013, the Nagase Group reorganized its four business segments into five business segments (Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare) to more fully reflect the respective positions of each business in the value chain. For comparative purposes, fiscal 2011 figures have been calculated using the new business segments. The Colors & Imaging Department formerly under the Chemicals segment has been moved under the Advanced Materials & Processing segment. The Automotive & Energy segment was organized out of the Automotive Solutions Department (belonging to the Plastic segment) and the Energy Business Office, which was launched as an integrated entity from the Environment & Energy Office (under Other) and the Energy Device Office.

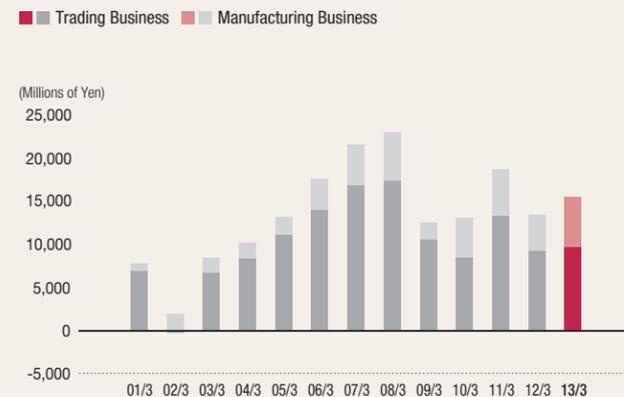
Composition Ratio of Net Sales by Region



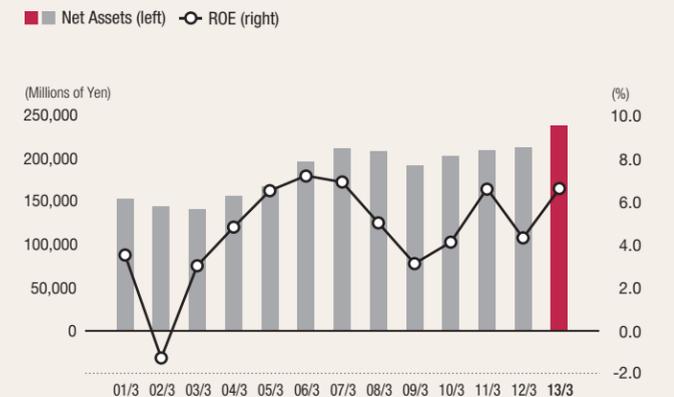
Net Sales



Operating Profit



Net Assets/ROE



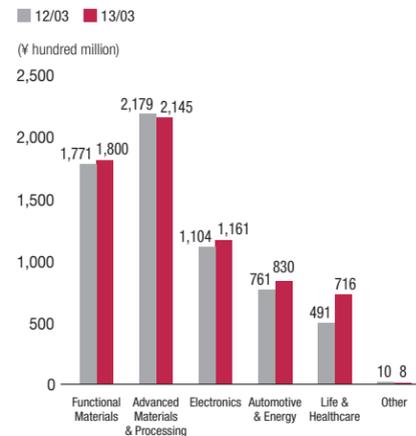
Message from the President



The Nagase Group is growing our presence in the bio, environment/energy, and electronics fields through intersegment cooperating and investment, driving strategic growth.

President
Hiroshi Nagase

Net Sales by Segment



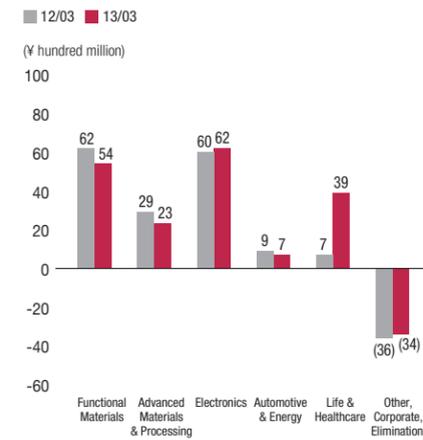
Reflection on Fiscal 2012 Earnings

For the fiscal year ended March 2013, the Nagase Group recorded higher year-on-year revenues and profits, with consolidated net sales of ¥666.272 billion (5.4% year-on-year increase), consolidated operating profit of ¥15.578 billion (16.0% increase), and net income of ¥14.182 billion (65.5% increase). Given that the final-year targets for our **Change-S2014** medium-term management plan (fiscal 2012 through fiscal 2014) are consolidated net sales of ¥800 billion and operating profit of ¥30 billion, we must admit that we are lagging behind in achieving our goals.

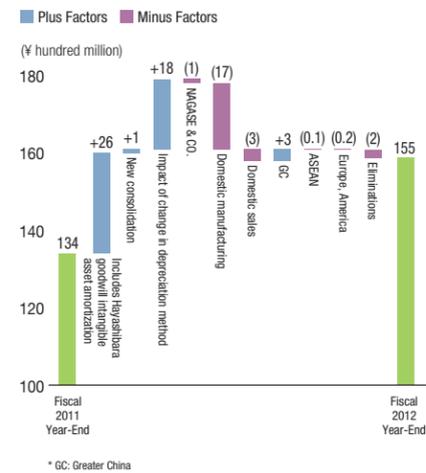
Earnings by segment are as follows: Year on year, the Functional Materials segment recorded higher revenues and lower profits, with net sales of ¥180.025 billion (1.6% year-on-year increase) and operating profit of ¥5.428 billion (13.6% year-on-year decrease) [See page 20 Functional Materials](#). The Advanced Materials & Processing segment recorded lower revenues and profits, with net sales of ¥214.546 billion (1.6% year-on-year decrease) and operating profit of ¥2.386 billion (19.9% year-on-year decrease) [See page 22 Advanced Materials & Processing](#). The Electronics segment experienced higher revenues and profits, with net sales of ¥116.105 billion (5.1% year-on-year increase) and operating profit of ¥6.297 billion (4.6% year-on-year increase) [See page 24 Electronics](#). The Automotive & Energy segment recorded higher revenues and lower profits, with segment net sales of ¥83.068 billion (9.1% year-on-year increase) and operating profit of ¥763 million (18.5% year-on-year decrease) [See page 26 Automotive & Energy](#). The Life & Healthcare segment recorded higher revenues and profits, with net sales of ¥71.685 billion (45.8% year-on-year increase) and operating profit of ¥3.986 billion (464.6% year-on-year increase) [See page 28 Life & Healthcare](#).

Conventional wisdom called for a gradual economic recovery for fiscal 2012, with higher demand for post-disaster services in the wake of the March 11 earthquake and growth driven by the smartphone and

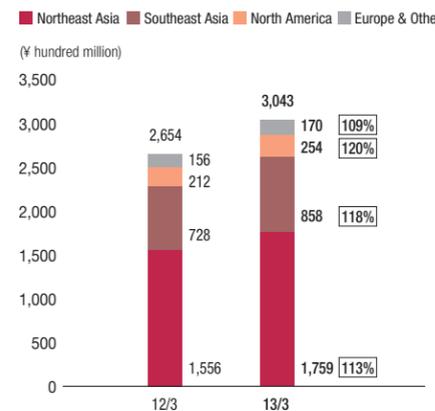
Operating Profit by Segment



Operating Profit Change Factors (PY Actual vs. CY Actual)



Overseas Sales by Region (vs. PY)



tablet markets. However, economic stagnation in Europe and the anti-Japanese sentiment in China due to the Senkaku Islands issue were two factors that placed downward pressure on growth. As a result, the Nagase Group saw slowness throughout the year in our trading business (particularly Functional Materials and Advanced Materials & Processing) and domestic manufacturing services. The main factors that worked to combat this slow activity were the consolidation of Hayashibara Co., Ltd. and an accounting change in moving from the declining balance method to the straight-line method of depreciation.

Looking at performance by region, the Group recorded net sales in overseas markets of ¥304.301 billion (14.6% year-on-year growth) representing a strong 45.7% of consolidated sales (3.7 point year-on-year increase). We saw particular growth in Northeast Asia [See page 30 Greater China](#), with net sales of ¥175.965 billion (13.0% year-on-year growth), and Southeast Asia [See page 31 ASEAN and the Middle East](#), with net sales growth of 17.8% to ¥85.881 billion.

The Group recorded ordinary income of ¥17.92 billion (14.3% year-on-year increase). While the Group recorded higher interest expense for long-term funds raised for purchasing Hayashibara Co., Ltd., we also saw higher equity method income. The Group recorded net income of ¥14.18 billion (65.5% increase). An impairment loss of ¥1.89 billion for less-profitable manufacturing facilities was offset by a gain on sale of non-current assets (replacement of business-use land) in the amount of ¥3.35 billion. We also recorded deferred tax assets of ¥1.42 billion, considering a possible recovery of deferred tax assets related to Hayashibara's loss carryforwards based on the business plan.

Change-S2014 Medium-Term Management Plan: First-Year Initiatives

Our **Change-S2014** medium-term management plan is a plan that builds upon the five goals of the **"CHANGE"II** plan: (1) Speed up the pace of reform; (2) Pursue growth in Life Sciences and Environment/Energy businesses; (3) Facilitate greater intersegment cooperation; (4) Create a stronger management matrix at the intersection of business and geographical location; and, (5) Pursue higher-added-value in our businesses. The overall theme of **Change-S2014** is ACCELERATE **"CHANGE"**, adopting value-chain strategies in our target fields; namely, bio, environment/energy, and electronics. [See page 8](#)

Intersegment cooperation lies at the core of our value-chain strategy. The Functional Materials segment is positioned to provide upstream information, while the Advanced Materials & Processing segment is positioned to function mid-way between upstream and down, and is responsible for sharing function-related information in both directions. The Electronics segment puts out information regarding electronics market needs and seeds. The Automotive & Energy segment issues information about trends in smart cities, automobiles (EV, HV), and renewable energy. Lastly, the Life & Healthcare segment generates and issues information regarding the expansion of Hayashibara products in the market. The Group has been very focused and active in information generation and sharing, as well as staffing exchange programs, the results of which have showed good progress in the first year of our new management plan.

One example of this type of cooperation is how we have vastly improved our staffing programs and logistics functions through intersegment cooperation with respect to our work with major U.S. smartphone and tablet device makers. As a result of this work, we have expanded the types of products in which we deal. We have also established more timely communications among our locations and segments with respect to U.S. Engineered Materials Systems Inc. (converted to a Group subsidiary as of fiscal 2011) formulated epoxy business. At the same time, we established a Regional Operating Centre (virtual organization with functions to integrate businesses) in Singapore. These measures have helped us quickly ramp up our strategic projects in ASEAN (e.g. automotive field, OA field, Hayashibara and other business food products, cosmetics and perfumes, etc.). We are seeing moves to this type of cooperation in all aspects of our business, which I believe has greatly expanded our view of the long-term future.

I believe that the change in mind-set among local overseas staff and the increase in the volume of information shared locally has played a role in building the foundation of these cooperative activities. These are the results of one of our focus initiatives from **"CHANGE"II**, our prior management plan. Having promoted more local management and staff training, we have come a long way in realizing a future where local staff, rather than Japanese assignees, run local entities. [See page 53](#) At the same time, we have

been able to improve our IT infrastructure (core systems) to the point where we have eliminated information gaps among our widespread locations, allowing each employee to contribute to the entire breadth of the value chain. The result is an increase in joint projects through local channels and an acceleration in our human and information network, which is quickly turning into a mesh-shaped structure spanning all of our operations.

At the same time, creating new businesses through cooperation also brings with it a new type of latent risk. Take, for example, a case in which NAGASE & CO., a materials company and a processing company come together on development and sales of a new product. The ultimate liability for the product lies with NAGASE & CO. as the product manufacturer. Accordingly, Nagase may need to direct other entities in compliance with respect to product safety, quality, hygiene management, and perhaps even in regulatory compliance. We are working to shore up our systems to strengthen these types of functions at the segment and corporate (management center) levels. [See page 44](#)

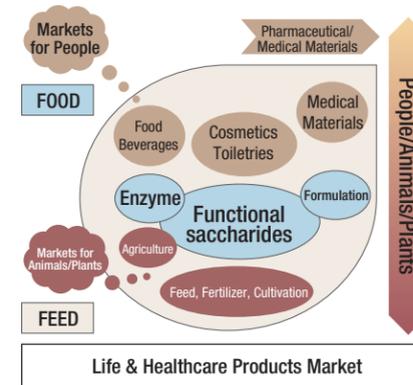
Our major initiatives for the first year of our **Change-S2014** management plan are as show in the chart below.

Fields using bio-related technologies	
(1)	The mainstay Hayashibara products in the food industry reported strong sales, as well as the development and launch of new products. We are building a stronger foundation from which to expand Hayashibara product sales overseas, and we have also revised our policies for sales agents. Group management made the decision to move and improve the functional saccharide manufacturing functions currently performed by the Okayama No. 1 Plant. These measures are designed to improve manufacturing efficiencies, ensure the stable supply of existing products, and give us flexibility to expand our manufacturing capacity. See page 34
(2)	The next-generation agri-industrial bio production project we are currently running in cooperation with Kobe University and other labs was adopted by the Ministry of Education, Culture, Sports, Science and Technology as a continuing program to run through fiscal 2018. The Nagase R&D Center leads this program in promoting biotechnology research and development.
(3)	Brazil and South America as a whole are very active in the food and agriculture industries. Here, we established our first Brazilian entity (July 2012) to monitor the bio-business and other development business markets in the region.
Fields using environment- and energy-related technologies	
(1)	Sales of photovoltaic power generation systems for industrial use have performed well due to the launch of a feed-in tariff scheme for renewable energy.
(2)	CAPTEX Co., Ltd. manufactures and sells storage battery systems designed with lithium ion rechargeable batteries. The company began mass production of these systems at its Okazaki City, Aichi Prefecture plant in April 2012. In fiscal 2013, the company plans to begin sales of compact power generation systems, and has been accelerating development for applications using their own proprietary technologies. See page 27
Fields using electronics-related technologies	
(1)	U.S. Engineered Materials Systems Inc. (acquired in January 2012) has reported strong sales of conducting materials for electronics components used in tablets and other products.
(2)	Nagase ChemteX (Wuxi) Corp. will open a new research and development facility to expand R&D functions for products tailored to the local markets. This facility is scheduled to open during fiscal 2013. See page 32
Stronger Operating Foundation	
(1)	The Group created Investment Guidelines to clarify investment standards and speed up the decision-making process. These Guidelines will also help management monitor investment performance.
(2)	To strengthen our transaction risk management as a manufacturer, we have started to implement ways to visualize and reduce risk.
(3)	The Group established a Regional Operating Centre in Singapore. This Center is one way in which the Group is moving to expand our business and strengthen our management inside and outside ASEAN. See page 31
(4)	We have increased the level of human resources exchange among our related companies, affiliates, and overseas entities, while moving forward with evolved Group-wide human resources systems. One example of this is the start of an integrated human resources system for local Greater China entities through the offices of NMC (Shanghai). See page 30

New Growth Strategies: Bio Vision (Hayashibara and Others)

To date, the Nagase Group business portfolio has been heavily weighted toward the economy-sensitive electronics and automobile sectors. This has meant that our business has been affected to a larger degree by the ups-and-downs of the economy. It goes without saying that we have made great strides in improving

Life & Healthcare's Business Domains



our portfolio by adding Hayashibara and building a stronger bio business. We have re-examined our business structure for the future of our Life & Healthcare segment, repositioning this segment to contribute to healthier, happier lifestyle in our target, food/beverages, cosmetics/toiletries, and pharmaceutical/medical materials businesses.

First in our specific growth strategies is to focus on marketing for Hayashibara functional saccharide materials and Nagase ChemteX Corp. enzymes/phospholipid materials, cultivating products in the food and cosmetics/toiletries fields. We are focusing particularly on overseas business development for Hayashibara's trehalose (TREHA™) functional saccharide materials*1 and stabilized vitamin C (AA2G™)*2 products. At the same time, we are beginning to look at possibilities for general commercial uses of these products. Meanwhile, we are developing and launching new products, including monoglucosyl hesperidin (Glucosyl Hesperidin), used in food for specified health use.

A second strategy is in the Nagase Group's pursuit of development in bio-derived chemicals. As fossil resources are depleting, the advent of shale gas has been prominent in the energy sector; however, the bio-related technologies in this field are also gaining traction around the world. There are mainly three factors within this point: (1) Development of functional products through the hybridization of organic biochemicals; (2) Existing chemical alternatives in bio-technologies; and, (3) Development of basic technologies for specialty chemicals. We are approaching these business opportunities from a manufacturer's perspective, rather than as traditional buy-sell businesses.

To accomplish these growth strategies, we are re-examining our Group R&D functions, clarifying the roles between corporate R&D and manufacturing company R&D, delving deeper into our proprietary fields. At the same time, we are working to beef up Group-wide R&D functions in coordination with all Group companies. We are reconsidering the operating structure for our corporate R&D (Nagase R&D Center) to clearly define Group-wide functions and technological areas as we build our bio-related business. In April 2013, the Nagase Group established the R&D Center Management Group. The purpose of this organization is to broadcast and share information about the Nagase R&D Center research and development operations with each division and manufacturing company in the Group.

We encourage our readers to reference the Group's **Change-S2014** medium-term management plan to understand our strategies for growth in environment and energy, electronics, and other segments.

[See pages 8](#) [See pages 20-29](#)

*1 TREHA™ is the result of the successful mass-production of historically expensive-to-produce trehalose, reducing manufacturing costs to 1/100th of the former cost. While trehalose had only been used in pharmaceuticals in the past, it has now found applications in the food industry, driving growth at Hayashibara.
*2 AA2G™ is a product that combines glucose with vitamin C (normally sensitive to heat and shock) to improve the effects of vitamin C in the body. It is also used in whitening cosmetics.

Toward Better Investment Quality and Results

Under our **Change-S2014** medium-term management plan, we intend to invest a total of ¥40.0 billion over the course of three years. More specifically, we will dedicate ¥30.0 billion in new investments in core fields, with another ¥10.0 billion scheduled for investing in existing facility upgrades. For fiscal 2012, we invested ¥12.05 billion, allocated as shown in the following table.

Major Investments
<ul style="list-style-type: none"> Established NAGASE DO BRASIL REPRESENTAÇÃO COMERCIAL LTDA. (Brazilian entity) Acquired building next to Tokyo headquarters building Established a joint-venture company in Mexico to manufacture urethane seat pads for automobiles Added to Nagase Medicals Co., Ltd. Production Center No. 2 (anti-cancer vial drug manufacturing facility) Constructed Okinawa Plant for Totaku Industries, Inc. (answering demand for bridge-related materials in Okinawa)
Major Investments Scheduled for Fiscal 2013
<ul style="list-style-type: none"> Move and function expansion for Hayashibara Plant No. 1



The Group purchased the building next to the present Tokyo headquarters building for the purpose of gaining operating efficiencies by consolidating widespread Group company locations. The Group is also constructing a research facility in Sendagaya (Tokyo). This facility will offer employee training and cooperative project conferences, as well as complement the Tokyo headquarters business continuity planning functions during times of disaster or other crisis. With respect to joint project conferences, in particular, the Group had difficulties in securing meeting space near Narita Airport, which is a convenient location for visitors from different countries. The Group expects to see even more in the way of emerging businesses and talented employees.

The Nagase Group Investment Guidelines

To extricate ourselves from a business model relying on master distributor licenses, the Nagase Group committed in the year 2000 to strengthening our own manufacturing functions, investing over a 12-year period in our manufacturing capacity, beginning with our WIT management plan (fiscal 2000 through fiscal 2008) and extending through our **“CHANGE”II** plan (fiscal 2009 through fiscal 2011). One of the main concepts in our current **Change-S2014** medium-term management plan is the creation of high-added-value businesses, under which we plan to invest in improving Group functions. Looking back over the past 12 years, we noted several unprofitable investments and investments in which we did not gain the intended synergies, calling for the need to establish clearer investment standards. Our Investment Guidelines and Investment Checklist are two tools designed to improve the quality of Nagase Group investments.

Specifically, the Group is considering qualitative information regarding market trends, competitive advantage, Group synergies, operating systems, and likely risks. Investments will be quantitatively measured for profitability using the discounted cash flow method, and only those proposed investments meeting a certain return will be executed. Once made, investments will be periodically reviewed according to internal review/abandonment standards. The Group will take necessary measures as a result of deliberations to prevent the expansion of any losses.

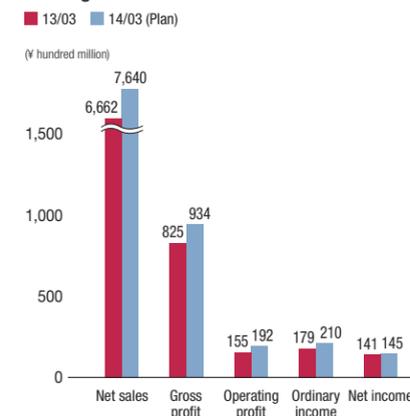
While the Group had established standards for investments, the newly revised guidelines will ensure a shared understanding of an investment Group-wide, as well as a clear checklist of requirements prior to the execution of an investment (improved investment due diligence). As a result, we believe these measures will lead to greater investment precision and more rapid decision-making.

Last year, the Group decided to withdraw from our plastic shipping tray product manufacturing business in China, our LCD optical film processing business, and our domestic semiconductor wafer plating business run under Nagase ChemteX Corp.

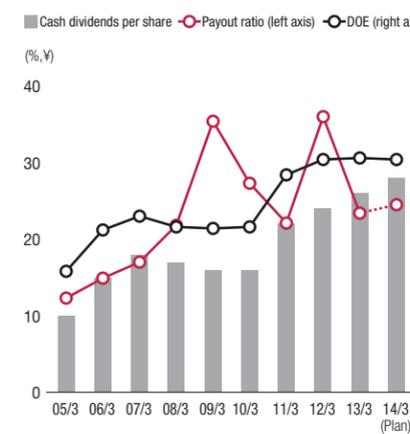
FYE March 2014 Earnings Outlook

The Nagase Group expects an improvement in the near-term export environment due to the lower valuation of the yen, as well as a recovery in consumer sentiment based on general market recoveries. At the same time, North America and ASEAN are projected to continue a strong recovery. Despite these positive factors, the long-standing financial struggles in Europe mean that the future direction of the global economy is far from clear. In this environment, the Group forecasts higher revenue, spurred by growth in the smartphone and tablet markets overseas—particularly in Greater China and ASEAN—as well as a recovery in manufactured units of office equipment, appliances, and automobiles. Meanwhile, the Group sees domestic growth in smartphones and tablets similar to foreign markets. However, lump-sum amortization of actuarial differences in the NAGASE & CO. retirement benefit obligations and the associated increase in retirement benefit expenses, combined with increased development investment costs in the Life & Healthcare business, will

Earnings Forecast



Dividends



result in slightly narrower earnings growth. As a result, the Nagase Group forecasts consolidated net sales of ¥764.0 billion (14.7% year-on-year increase), with gross profit of ¥93.4 billion (13.1% increase), operating profit of ¥19.2 billion (23.2% increase), ordinary income of ¥21.0 billion (17.1% increase), and net income of ¥14.5 billion (2.2% increase). The Group has assumed a currency exchange rate of ¥95 to one U.S. dollar for these calculations.

Corporate Governance, Dividends, Shareholders' Equity Policies

The Nagase Group believes that a strong corporate governance function is an important management issue. As such, the Group actively works to bring in outside directors who have an extensive knowledge of the petrochemical and manufacturing industries, as well as a wealth of management experience in business.

See pages 40-42

In fiscal 2012, in addition to Iwao Nakamura (from Nissan Diesel Motor Co., Ltd. [currently UD Trucks Corporation]), the Nagase Group welcomed Yasuo Nishiguchi (from KYOCERA Corporation) as a new outside director to strengthen our Board. The Board of Directors has held active discussions regarding product quality, profitability, and investment quality, stemming from differences in the traditional NAGASE & CO. trading company business and the Group's manufacturing businesses.

Dividends, Shareholders' Equity Policies

Our basic policy concerning dividends is to continue to make stable payments to our shareholders based on consolidated achievements, reflecting improving earnings capacity and corporate infrastructural integrity. Given this policy, we have committed to an end-of-year per-share dividend of ¥13 (full-year dividend of ¥26 per share, including a ¥13 per share interim dividend). This decision was based on considerations of consolidated payout ratio, consolidated debt-to-equity ratio, and a corporate goal to pay increasing dividends. With higher profits from the addition of Hayashibara as a Group subsidiary, the Group has implemented a dividend increase according to the policies noted above.

Based on the preceding policies, the Group has set a goal to improve the dividend on equity ratio (DOE) over the medium term, working to improve Group-wide business and operations quality under the guidance of our **Change-S2014** medium-term management plan, increasing dividends per share through stronger earnings.

The Group is focused on increasing profits as the basic path toward the target ROE of 8% defined in our **Change-S2014** management plan. Our emphasis on investment to create high-value-added businesses is exactly for this purpose.

The Nagase Group strives to improve overall returns to our shareholder, balancing investment for continued business growth with direct shareholder returns such as dividends and stock sales or buybacks.

July 2013

Hiroshi Nagase
President

Functional Materials Segment

Performance Chemicals Department

Main Products and Services
Plastic materials, plastics and pigments, solvents, additives for paints and inks, urethane materials, plastic additives, flame retardants, polymer filters

Customer Industry
Paint/ink, resin, synthetic fiber, urethane foam and film industries

Description of Businesses and Departments
A parent department positioned in up-stream petrochemical products, core Nagase materials, the Performance Chemicals Department provides a broad range of goods and services to the global market, from general-purpose petrochemical products to high-value-added products. The department's four mainstay businesses are coating materials, urethane, plastic materials and filters. Each business has established a reputation as a leader in their various markets.

Major Manufacturers
• Nagase Filters Co., Ltd. • Toyo Quality One Ningbo Co., Ltd. • Guangzhou Kurabo Chemicals Co., Ltd. • Toyo Quality One (Guangzhou) Co., Ltd. • P.T. Toyo Quality One Indonesia • TIMLE S.A. DE C.V. • TQ-1 de MEXICO S.A DE C.V. • Light Chemical (Changzhou) Co., Ltd.

Speciality Chemicals Department

Main Products and Services
Petrochemical products, raw materials for industrial oil solutions, surfactants and surfactant raw materials, fluorochemicals, raw materials for silicone and encapsulants, plating chemicals, electronics chemicals, microorganism pharmaceuticals, nanomaterials, inorganic materials

Customer Industry
Oil solution, surfactant, organic synthesis, electronics materials, and semiconductor industries

Description of Businesses and Departments
Building total solutions businesses based on a broad range of downstream and upstream information, the Speciality Chemicals Department supplies intermediates and materials with applications in a range of areas—including industrial oil solutions plating chemicals, water processing agents, photoresist developer, fluorochemicals and silicones. The range of activities crosses a wide field, from semiconductor and visual display in the electronics industry to environmentally-friendly business utilizing microorganisms and more. Further, we are focusing energy on new business products that make the most of the unique technological strengths of our customers and our value chain.

Major Manufacturers
• Nagase ChemteX Corp.

Advanced Materials & Processing Segment

Colors & Imaging Department

Main Products and Services
Dyes/additives, functional color pigments, functional dyes, digital print processing materials, organic transparent conductive materials, dyestuffs, fiber processing agents

Customer Industry
Dye/pigment, manufacturing/thermal papers, printing and printing materials, and fiber processing industries

Description of Businesses and Departments
Whether analog or digital, data that exists anywhere in the world functions as information only when it is made available to people. Mainly involved in the handling of essential chemicals that are the functional materials that connect information and people, the Colors & Imaging Department contributes to society in a wide range of fields. This department is working to move away from simply selling products and, toward building a network in each of its business area backed by proprietary proposals that leverage the capabilities of the Nagase Application Workshop (NAW).

Major Manufacturers
• Fukui Yamada Chemical Co., Ltd. • Sofix Corp. • Nagase ChemteX Corp. • Hayashibara Co., Ltd.

Polymer Global Account Department

Main Products and Services
Functional resins, general-purpose resins, auxiliaries, plastic products, plastic-related equipment, devices and moldings

Customer Industry
Office automation (OA) equipment, electronics and consumer electronics industries

Description of Businesses and Departments
The Polymer Global Account Department provides plastics, related auxiliaries, equipment and facilities to the domestic and international office automation (OA), electric and electronics, and consumer electronics industries. The greatest strength of this department is the sheer number of local staff who maintain networks in Asia, as well as their wealth of experience and knowledge. The department is putting focus and energy into expanding and creating new plastics businesses on the back of Group strategies and cooperative efforts.

Major Manufacturers
• Setsunan Kasei Co., Ltd. • Dainichi Color Vietnam Co., Ltd. • Majend Makcs Co., Ltd.

Polymer Products Department

Main Products and Services
Copolyester resins, functional dyes, organic transparent conductive materials, functional sheets and films, sheet and film surface detection machines, plastic molding products

Customer Industry
Cosmetics and toiletries, electric and electronics, and sheets and films industries

Description of Businesses and Departments
The Polymer Products Department mainly sells copolyester resins, functional sheets and films, and plastic molding products made by Eastman Chemical. The department works with Group companies to create a structure for developing new applications as well as original products. In particular, this department is concentrating on developing sheets that use Eastman Chemical resins.

Major Manufacturers
• Totaku Industries, Inc. • Kotobuki Kasei Corp. • Sun Delta Corporation • Nagase Precision Plastics Shanghai Co., Ltd. • Nagase ChemteX Corp.

Electronics Segment

Electronic Chemicals Department

Main Products and Services
Formulated epoxy resins and related products, chemicals for production of semi-conductors and liquid crystals, chemical management equipment for liquid crystal pre-processing and bump molding services through nonelectrolytic plating

Customer Industry
Liquid crystal, semiconductor, electronic components, heavy electric machinery, automotive, and solar battery industries

Description of Businesses and Departments
The Electronic Chemicals Department, which comprises eight manufacturing companies in Japan and overseas, manufactures and sells formulated epoxy resins and high-grade chemicals along with related supply equipment and manufacturing control systems to the semiconductor, liquid crystal, electronic component, automotive and solar battery industries. With overseas production sites in China, Taiwan, South Korea, Singapore, Malaysia, Germany and the United States, the department is aggressively expanding with the aim of creating highly profitable businesses that integrate trading company and manufacturing capabilities. Also quick to tackle environmental issues, the department proactively works on solutions that conserve resources and involve recycling.

Major Manufacturers
• Nagase ChemteX Corp. • Nagase ChemteX (Wuxi) Corp. • Engineered Materials Systems Inc. • Nagase Techno-Engineering Co., Ltd. • Pac Tech-Packaging Technologies GmbH • Nagase Finechem Singapore (Pte) Ltd.

Electronic Materials Department

Main Products and Services
Surface treatment materials for smartphones and tablet PC cases, optical films for liquid crystal displays (LCDs), materials for touch panels, glass processing, optical adhesive agents, optical sheets for backlights, electronic paper-related materials, materials for flexible displays, organic light-emitting materials, LED chip-related materials and their assembly and mounting

Customer Industry
Smartphone and tablet PC, display, touch panel, and LED industries

Description of Businesses and Departments
The Electronic Materials Department leverages its domestic and overseas network to handle sales of display device peripheral components as well as LED related materials, which are expected to see significant growth, for PC manufacturers and suppliers both of which are planning to expand smartphone and tablet business globally. The department proactively conducts trading as well as the manufacture and processing of glass and LED assembly.

Major Manufacturers
• Nagase International Electronics Ltd. • Nagase Electronics Technology Co., Ltd. • Nagase Electronics Technology (Xiamen) Co., Ltd. • Nagase International Electronics (Shenzhen) Ltd.

Automotive & Energy Segment

Automotive Solutions Department

Main Products and Services
Functional resins, general-purpose resins, automotive interior and exterior components and functional components, lightweight materials and components, electronics components, auxiliaries, plastic-related equipment, devices and moldings

Customer Industry
Automotive and automotive parts industries

Description of Businesses and Departments
In order to meet customer needs, the Automotive Solutions Department has constructed a uniform service structure in Japan and overseas capable of handling everything from sales of automotive-related raw materials, products and equipment to component production at Nagase's affiliates and joint venture companies. In addition to further global development focusing on emerging countries, which have rapidly expanded recently, the department will concentrate on expanding new businesses related to eco-friendly vehicles through development of new materials, components and technologies needed for a new automobile society with eco-friendly vehicles, such as hybrid, electric, and fuel-cell-powered automobiles.

Major Manufacturers
• Sanko Gosei Technology (Thailand) Ltd. • Automotive Mold Technology Co., Ltd. • KN Platch America Corporation • PT. TUNE Manufacturing Indonesia • Digital Wire Technology Co., Ltd.

Life & Healthcare Segment

Life & Healthcare Products Department

Main Products and Services
Functional food ingredients (functional saccharides, enzymes, health food materials, and food additives), cosmetic materials (whitening agents, moisturizing agents, activators, antibacterial agents, and nutritional supplements), pharmaceutical (active pharmaceutical ingredients [APIs], clinical trial APIs, intermediates, raw materials, formulations, additives), in vitro diagnostics, medical materials, related materials for agriculture, fisheries, and livestock (agricultural chemicals and materials, fertilizers, feed and feed additives)

Customer Industry
Food, pharmaceutical and medical, diagnostic drug, cosmetics, household, agricultural, fisheries and livestock industries

Description of Businesses and Departments
The Life & Healthcare Products Department sets its eyes on contributing to food, beauty, and health as a member of the Life & Healthcare segment. This department is developing high-value-added products that help people live better and healthier lives, leveraging the Group's comprehensive strengths in trading, R&D and manufacturing. These products span the food materials, pharmaceuticals, medical materials, cosmetic materials, household materials, agricultural, fishery and livestock fields.

Major Manufacturers
• Hayashibara Co., Ltd. • Nagase ChemteX Corp. • Nagase Medicals Co., Ltd. • Kawai Hiryo Corporation • Nihon Bio Fertilizer Co., Ltd. • Uma Yasai Farm Corporation • ZCL Chemicals Ltd.

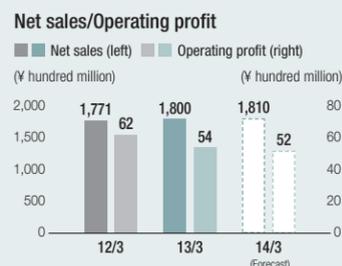
Functional Materials



Representative Director and Managing Executive Officer

Toshiro Yamaguchi

As Nagase's parent division, we have accepted the challenge of creating new value to respond to the needs of the times, contributing to the value chain in order to offer complete peace of mind to all our customers.



Segment Overview (Functions)

Our operating words in the Functional Materials Segment are safe, stable, and unique. Developing materials and applications in this business meeting these standards is our primary focus. We offer high-function materials based on fossil business to industries and Group segments across the bio, environment/energy, and electronics fields.

Segment Strengths (Businesses)

- A business model working closely with customers, offering high levels of satisfaction, tremendous sales capabilities, and the ability to collect and share technological information globally among customers and manufacturers
- Nagase ChemteX Corp., a Nagase manufacturing subsidiary
- Global procurement capacity
- A foundation and strong presence in the chemicals industry
- Enhanced management systems for chemicals-related regulations and security trade

Primary Businesses

- 1 Strategic customer business
- 2 Overseas business
- 3 Nagase ChemteX business
- 4 Filter business
- 5 Environmentally-friendly business
- 6 Inorganic materials business

Performance Chemicals Department

Major Market Trends

The difficult business environment continued throughout the fiscal year ended March 2013. Exports struggled due to the high yen valuation, the Japanese government ended its eco-car subsidy program, and Japan-China political friction resulted in pressure on Japanese corporate production and sales volumes in China. We expect the economy to reach a bottom during the first part of fiscal 2013, with recovery in exports, expansion of reconstruction demand, and proposed increase in consumption tax leading to a flurry of pre-enforcement demand. We believe these factors should combine to shift the economy toward a gradual recovery.



Executive Officer; GM, Performance Chemicals Department
Kohei Sato

Fiscal 2012 Strategies and Results

During fiscal 2012, the Company focused on (1) building strength in our customer base, (2) expanding our overseas business, (3) developing our bio-related business, and (4) improving our filters business. We are expanding customer service activities to improve customer satisfaction throughout the Group. Our focus here is to respond accurately to customer needs and offer better service as an integrated entity. Overseas, we launched a new company to manufacture resins for coating materials in China where we have started contract manufacturing services. In our urethane business, we set up and started production at a second company in Mexico to make molded urethane pads for car seats. In our filter business, we built a cleansing base and began local cleansing services in Taiwan, following our efforts in this field in Korea. In the meantime, we have seen the structural changes occurring in the petrochemical industry. In response, we have integrated the existing technological functions inside the Group (both domestic and international) in pursuit of bio-based chemicals development as our answer to the environmental technology issues of the future.

As a result, profits for fiscal 2012 underperformed the prior year. Despite revenue growth for basic chemicals in Southeast Asia and additives for Middle East, increased anti-Japanese sentiment in China and financial stagnation in the EU combined to drive performance lower for the year.

Change-S2014 and Fiscal 2013 Strategies

Fiscal 2013 represents the second year of our **Change-S2014** business plan. This plan also calls for us to strengthen our customer base to improve levels of customer satisfaction. We are making a vigorous push to take advantage of our Group value chain to allow us to anticipate future customer needs. We also continue to take measures to strengthen our overseas, bio-related, and filter businesses.

Meanwhile, we are looking to uncover new medium- and long-term business opportunities as we identify macro-environmental changes due to the shale gas revolution and changes in the fossil industry. Executing on these initiatives, we believe we can further strengthen the Nagase brand in the chemical industry, as well create new value globally.

Speciality Chemicals Department

Major Market Trends

The Nagase Group is involved in a wide array of businesses. One of our priorities is the electronics industry, where we see a growing demand in the smartphone and tablet markets for everything from new product development and functional materials. In the automobile industry, we expect the cheaper yen to increase the market share enjoyed by Japan's auto manufacturers. This will likely lead to higher demand for raw materials for industrial oil solutions and plating chemicals, as well as opportunities to introduce new materials.



GM, Speciality Chemicals Department
Gen Hirao

Fiscal 2012 Strategies and Results

The Speciality Chemicals Department focuses on developing high-function raw materials in demand by the electronics, automobile, consumer goods, industrial oil solutions, water processing agents, and other industries. The business is also creating a global-scale value chain in the rapidly changing fossil industry, sourcing production with leading domestic and international manufacturers and establishing joint ventures. During fiscal 2012 (first year of **Change-S2014**), the business began new development in the fields of inorganic materials and contributions to environmental protection. In addition to setting goals for practical development in high-function nanomaterials so necessary in the electronics industry, the business began work on research involving microorganism as a measure to gain further inroads as an environmentally-friendly business.

However, earnings for fiscal 2012 reflected lower year-on-year revenues and profits. This result was mainly due to the impact of weak performance in electronics materials for the LCD and semiconductor markets, stagnation in precision abrasive materials for the hard disk and electronics components sectors, the high yen valuation, and political friction with China and Korea.

Change-S2014 and Fiscal 2013 Strategies

Our guiding vision in this business under the **Change-S2014** plan is to build an even stronger transaction foundation, creating new value to respond to the needs of the times, and contributing to the Group value chain. Of the five Nagase business segments, Functional Materials occupies the most upstream position in the value chain. We will create an even more valuable business by collecting and assimilating information related to organic/inorganic technologies and materials—particularly new and functional materials—from a wide range of sources. By sharing this information throughout the Nagase Group, we will contribute to creating new business opportunities that meet technological needs downstream.

Beginning with fiscal 2013, the Company will move the precision abrasive materials business under the Electronics segment, and the consumer goods materials business under the Life & Healthcare segment. The company intends to make maximum use of the deep relationships of trust developed over time with leading business partners and research institutions, constructing environmentally-friendly business and inorganic materials business that includes nanoparticles.

TOPICS

The new energy fields are gaining more attention with each passing day. Here, the Company plans to expand our microorganism pharmaceuticals business in the biogas field, which we expect to fully commercialize during the fiscal year ending March 2014. In addition, sales of NOx gas removal device in the environmental field have also made a contribution to Group earnings.



Advanced Materials & Processing

Advanced Materials & Processing Segment



Director and Executive Officer
Hiroshi Hanamoto

This business segment contributes to society through the growth of the Nagase Group, as we pursue a global business model that links materials with application development, expanding our expertise and experience in plastics, dyes, and processing technologies.



Segment Overview (Functions)

The Advanced Materials & Processing Segment is positioned along the next step in the value chain of added-value creation. The goal of this segment is to propose added function, design, and functionality solutions to the Nagase Group as a whole through dispersion, filmification, molding, and other processing technologies.

Segment Strengths (Businesses)

- Offer the strength of the Nagase Group, coordinating with customers on everything from raw materials insights to application development
- Major overseas business partners: SABIC IP, BASF, Eastman Chemical
- Application development functions: NAW (Nagase Application Workshop), Shanghai Techno Center, Color Lab

Primary Businesses

- 1 Propose materials and application solutions to the business equipment industry
- 2 Expand business via strategy coordination with core suppliers
- 3 Expand overseas business
- 4 Strengthen integrated management activities with affiliates
- 5 Functional films and sheets business

Colors & Imaging Department



Executive Officer;
GM, Colors & Imaging Department
Mitsuru Kanno

Major Market Trends

We believe that the fields in which this segment works, namely, coating, ink, plastic coloring, and chemical toners for use in thermal paper, will provide very stable earnings. Accordingly, we believe earnings in the segment will outperform the prior fiscal year. We are planning the launch of new business in the Colors & Imaging Department for the fiscal year ending March 2014. We expect that the new business will be the engine of growth for the fiscal year.

Fiscal 2012 Strategies and Results

Despite weak performance in digital equipment and the Senkaku Islands disputes during fiscal 2012, the Company was still able to outperform prior-year earnings, owing to support from smartphone applications, and contributions from higher added value in quality management, as well as cost improvements related to color former for specialty dyes for use in thermal paper. In addition, we launched the environmentally-friendly digital printing system for textiles (based on proprietary technologies), and repositioned the IM-Mold transfer printing film business (via technology transfer). As such, we expect these new businesses to contribute to Group earnings for fiscal 2013.

TOPICS

Zero-Emission Digital Printing System



As a result of the preceding, earnings for fiscal 2012 reflected lower revenues and higher profits. This result was mainly due to our execution of strategic initiatives and reorganization of operations of dyestuffs and fiber processing agents for fiber processing industry into equity method affiliates.

Change-S2014 and Fiscal 2013 Strategies

This department deals mainly in functional raw materials for the maturing Japanese market and the growing overseas markets. As such, we plan to create new business and work more closely with our existing customer base in Japan, leading to stronger technical sales capabilities. To create new business we intend to expand our product range, as well as conceive products that are recognized by global markets as new and innovative—product that could result in new companies. To strengthen our technical sales capabilities, we will make even better use of Nagase Application Workshop, establishing stronger technical product capacity, information collection capabilities, and customer relationships to create deeper relationships of trust with our business partners.

Meanwhile, we expect to see growth in overseas markets. Here, we have identified two major priorities, namely, the Chinese market, which we expect to continue to grow significantly, and the Asian, North American, and European markets, which are tied together by Japan. The Company intends to engage in mergers and acquisitions and joint ventures, as well as improving our quality management functions and production capacity, with the goal of being recognized as a main player in the global chemical industry.

Polymer Global Account Department



Executive Officer;
GM, Polymer Global Account Department;
CEO, ASEAN/India
Ichiro Wakabayashi

Fiscal 2012 Strategies and Results

During fiscal 2012 our major management policies called for cultivating more non-Japanese clients in terms of customer strategy. In terms of regional strategy, we focused on strengthening our Chinese inland operating bases, committing more management resources to emerging countries in ASEAN, and developing more applications and elemental technologies in growth sectors.

As a means to cultivating more non-Japanese clients, we set up an organization within our Asia network to deal with major EMS companies, while also investing time and energy into presenting our unique functional products. With respect to China's inland regions, we are currently researching the potential for establishing new bases of operations following the launch of the Shanghai Hua Chang Trading Co., Ltd. inland entity/Chengdu Branch Office. And, as part of our investment of management resources in the ASEAN emerging countries, we have increased the number of local staff (including expatriates) in all locations related to this business. In pursuit of

TOPICS

Global Conference

This is a large business unit consisting of over 700 employees in domestic and international locations. Periodically, we hold a global conference to help ensure good communications across our wide-ranging operations. The fiscal 2012 conference was held in Japan, attended by 60 employees from Japan and around the world. The conference featured healthy debate, discussion, and information sharing.

Major Market Trends

More than 60% of the consolidated net sales generated by the Polymer Products Account Department are in overseas markets. In China and the inland regions, we have noted growth in the number of production centers operated by our clients. In ASEAN, new investment from Japan and the shift of production centers from China have been particularly notable. We believe that both of these factors will lead to growth markets and new business opportunities in emerging countries.

developing applications and elemental technologies in growth fields, we committed resources to creating more business in non-plastics in the OA sector. In the LED sector, we focused on proposing areas of development reflecting market trends.

As a result, earnings for fiscal 2012 reflected higher revenues and lower profits. While the Group experienced favorable performance overseas (particularly Asia), weak domestic manufacturing pushed revenues and profits lower.

Change-S2014 and Fiscal 2013 Strategies

Our primary focus for fiscal 2013 will be on expanding existing businesses and driving results in new businesses. In terms of expanding existing businesses, we intend to (1) capture new demand in emerging regions and countries, (2) establish new bases of operations in inland China, and (3) capitalize on and invest more management resources in our Dainichi Color Vietnam Co., Ltd. joint venture with Dainichiseika Color & Chemicals Mfg. Co., Ltd. in ASEAN.

To drive results in new businesses, we intend to leverage new application and elemental technology development activities into specific products in the office automation, LED, optical, and environmental fields. Further, we will be active in creating new business opportunities by developing unique technologies and proprietary products made possible through the best use of the Nagase Group management resources.

We also plan on expanding our business operations by further improving communications among our companies and affiliates in Japan, greater China, and ASEAN.

Polymer Products Department



Executive Officer;
GM, Polymer Products Department
Kenji Nagafusa

Major Market Trends

The electronics industry is one significant focus of this department. Here, the strong yen, intensified competition, and the shift of manufacturing overseas have made for a continued challenging environment. As a result, sales for surface detection machines and flame retardant insulation sheets for TV have been subject to a particularly negative impact. For fiscal 2013, our goal is to strengthen our core businesses in the cosmetics, toiletries, food, and medical industries where we can expect stable demand in Japan. At the same time, we will actively search for new business opportunities in functional sheets and other processed products, hoping this also will contribute to stable growth.

Fiscal 2012 Strategies and Results

Although sales of Eastman Chemical's plastics in the high-priority cosmetics and toiletries fields grew by a wide margin during fiscal 2012, the Eastman Chemical's plastic business on the whole experienced a slight year-on-year decrease due to the emergence of competitors in general-purpose products. We were, however, able to deliver solid results in the development of Denaito Ace™ sheets and films based on the Eastman Chemical copolyester. We will focus more energy resources in this area during fiscal 2013, as we have discovered new needs in the market.

Intense competition in the TV market led to weak performance of the mainstay SunMorfee™V product, driving down year-on-year sales for the Sun Delta Corporation business. Similarly, sales of the SCANTEC™, our own surface detection system, for the electronics industry closed out the year on a low note.

As a result of the preceding, we experienced lower revenues and profits in this department.

Investors and stakeholders should note that overseas business should benefit from the new joint venture between Fukui Chemical Industry Co., Ltd. and Dong Nai Province of Vietnam, scheduled to come online during fiscal 2013.

TOPICS

Eastman Chemical Copolyester CN-015

CN-015 is a PCTA resin, and the clearest polymer ever produced by Eastman Chemical. The product is gaining traction in the market under the catch phrase, "looks like glass, feels like glass." We are marketing this product particularly to customers in the cosmetics industry.



Change-S2014 and Fiscal 2013 Strategies

Under **Change-S2014**, the strategies in this department call for developing original products, strengthening our core businesses, and creating synergies with other group companies.

One initiative in original product creation is developing added functionality for Denaito Ace™ and derivatives. Denaito Ace™ films and sheets are based on the Eastman Chemical copolyester. We are executing on policies from Eastman Chemical to expand sales in the cosmetics and toiletries markets for products that represent our core business. Eastman Chemical has also identified the medical industry as a primary market. Here also, we will focus our energies to expand sales. Our plan with respect to Sun Delta Corporation is to market and sell new product lines in close coordination with other business divisions, while the same time growing sales of our core products. To improve the profitability of our SCANTEC™ business, we intend to create an organization that more rationally aligns with the market and market conditions.

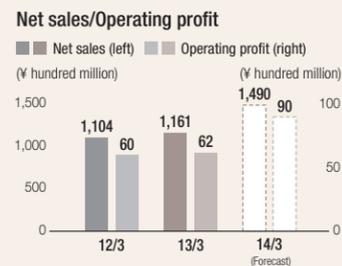
To create more synergies among Group companies, we are actively pursuing greater cooperation in terms of manufacturing, processing, and sales together with Totaku Industries, Inc., Kotobuki Kasei Corp., Setsunan Kasei Co., Ltd., and Nagase Plastics Co., Ltd.

Starting fiscal 2013, the Functional Film Division, which deals in functional additives for the functional sheets and films industry, will join this department from the Colors & Imaging Department, leading to more opportunities to pitch new businesses to our customers.



Director and Executive Officer
Kenji Asakura

We offer electronics industry worldwide solutions through a leading business model that predicts and understands technological and service needs in the market, utilizing the Nagase Group and partner resources. We believe this business model will lead to sustained growth in our segment.



Segment Overview (Functions)

The Electronics Segment offers original products and services, anticipating big demand in the electronics, while at the same time offering information from downstream sources to other Group segments.

Segment Strengths (Businesses)

- Domestic and international manufacturing/processing functions in the electronics industry
- Greater product and development capacity, concentrating on Nagase ChemteX Corp. products
- In-channel information collection, marketing functions
- Solutions proposal (business planning, creation) function

Primary Businesses

- 1 Smartphone and tablet businesses
- 2 Next-generation display business
- 3 Epoxy business
- 4 Semiconductor postprocessing
- 5 Environment and energy business

Electronic Chemicals Department

Major Market Trends

Revenues further declined as the domestic semiconductor and LCD markets suffered from a reduced capacity to compete on cost due to the strong yen and stagnant demand for consumer products in the United States, Europe, and China. As a result the Company engaged in a program of consolidating or abandoning business units. Meanwhile, the scope of mass production in Korea, Taiwan, and China grew, leading the Company to expand our local production and supply structures. Similarly, we noted growth in local production of electronics components and automobiles in the Chinese and Southeast Asian regions. This trend demands that the Company respond with stronger local support.



Executive Officer;
GM, Electronic Chemicals Department
Kenichi Horie

Fiscal 2012 Strategies and Results

During fiscal 2012, we saw an increase in orders for the Company's newly developed magnetic powder resins in our formulated epoxy business. However, orders fell for thermal conductive sheets for power devices and sheets for surface acoustic wave (SAW) devices.

In contrast, the Company saw wide gains in sales of formulated epoxy resin manufactured by Company subsidiary Engineered Materials Systems Inc. (U.S.) for use in the tablet PC market. Increased production of tablet PCs and recovering demand for large-format TV panels led to significant growth in the Company's chemicals business under the LCD business.

Meanwhile, sales continue to be slow in Japan for bump molding services through nonelectrolytic metal plating. However, orders increased for both laser soldering equipment for hard disk drives (Subsidiary Pac Tech-Packaging Technologies GmbH, Germany) and bumping services in the United States.

TOPICS

New Development in Epoxy Resin containing Magnetic Powder

Epoxy resin containing magnetic powder is a type of plastic developed through dense-pack filler technologies that exhibit high dispersibility and printability, based on years of cumulative epoxy resin modification technology. Closely packing ferrite and metallic magnetic filler resulted in producing a high magnetic permeability in the epoxy resin itself. This technology has made a significant contribution in the miniaturization and specialization of components, particularly for inductors and other coil electronic components.



As a result of the circumstances, we experienced lower revenues and higher profits for fiscal 2012.

Change-S2014 and Fiscal 2013 Strategies

The major goals for this department under **Change-S2014** to approve the development and manufacturing systems at our bases of operations in Japan, the United States, Europe and Asia, utilizing Nagase ChemteX elemental technologies (epoxy, photosensitive materials and related solutions, specialty coatings) to operate a locally autonomous business model, establishing a robust foundation for our display, electronic devices, semiconductor manufacturing processes and environmental businesses.

During fiscal 2013, we will send staff on long-term assignments to Korea, China, and Taiwan, where mass production of semiconductors, large-format LCD panels, and organic EL are most concentrated. This policy will bolster our epoxy resin products mass production and sales structure, taking advantage of development and production bases in Japan, America, and Asia.

We have plans to grow sales of our Total Chemical Management (TCM) business in Korea, China, and Taiwan. At the same time, we intend to produce solid results in sales of our electronics solvent recycling system, a new product in this segment. We are also revising our product development roadmap for 3D semiconductor mountings, consolidating our current technologies of Nagase ChemteX, Pac Tech-Packaging Technologies GmbH (Germany), and Alchimier S.A. (France) in response to the realistic demands of our target customers.

Electronic Materials Department

Major Market Trends

We expect the smartphone and tablet PC markets to continue to grow, as the introduction of Windows 8 helps to drive growth in Ultrabook sales as well. As it seems market growth in this sector tends to result in lower prices, we foresee much greater cost competition in the future. And, while we see continued growth in the LED lighting market, we also predict a similarly challenging cost-based competition.



Executive Officer;
GM, Electronic Materials Department
Masatoshi Kamada

Fiscal 2012 Strategies and Results

Fiscal 2012 saw a major shift in the smartphone and tablet PC markets. Where Apple Inc. and Samsung Electronics Co., Ltd. have enjoyed an overwhelming market share, a large number of new players have emerged out of the United States, Europe, and Asia, all carving out a growing market share in the industry. Also, driven by growth in the industry as a whole, demand for touch panels grew dramatically.

In response to these changes in the environment, this department set three strategic policies to execute: (1) Launch an end-user-focused program to further strengthen marketing and sales to the world's smartphone and tablet PC manufacturers; train and improve sales staff skills both in Japan and at overseas entities; (2) dedicate more staff to uncovering new products based on market needs and future products seeds; and (3) expand our sales and processing capacity for the challenging panel industry.

As a result, we successfully grew our existing end-user business, while capturing new end-users at the same time, leading to significant growth in revenues

TOPICS

Significant Growth in Surface Treatment Materials for Smartphone and Tablet PC Cases

As a result of making significant improvements to our employee structure and logistics functions, we experienced an increase in inquiries and product transactions, which contributed to higher profits in our business targeting major U.S. smartphone and tablet PC manufacturers.



among local entities overseas. Accordingly, we experienced higher revenues for the fiscal year ended March 2013, with an approximate 20% growth in profits.

Change-S2014 and Fiscal 2013 Strategies

Under **Change-S2014**, the goal of this department is to learn directly from smartphone and tablet brand owners their true needs, putting ourselves in a position to pursue joint development projects. We believe this will lead to the continued creation of high-value-added business.

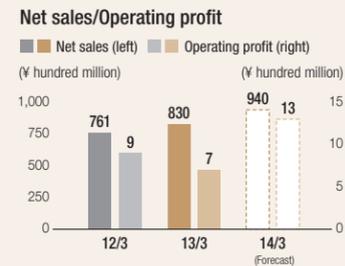
Guided by this goal, we will build on prior-year efforts to improve our global cooperative business structure and human resources training at local sales and manufacturing entities in Japan, Europe, the United States, China and other Asian regions, South Korea, and ASEAN regions. In addition, as a business located near downstream products, we believe that one of the most important things we can do is to promote cooperative business ventures with other Group segments.

We continue to develop new clients in our LED lighting business as we shape our domestic sales organization to respond to market growth. This market has seen gains in the wake of the March 11 earthquake as consumers have become much more highly aware of the need for energy conservation and eco-consciousness.



Director and Executive Officer
Kenji Asakura

Our goal is to capture growing demand in emerging countries, as we contribute to the advancement of new car societies through the expansion of our plastics and other foundation businesses. We are also looking to grow in energy management-related businesses, focusing on the application of our proprietary technologies in the rechargeable battery business.



Automotive Solutions Department



GM, Automotive Solutions Department
Masaya Ikemoto

Major Market Trends

During the first half of fiscal 2012, the Japanese domestic automotive industry benefited from the disaster recovery and government eco-car subsidies. However, the second half of the year saw stagnation in the Chinese market and the end of Japanese government subsidies, resulting in weaker sales and only slight gains in the domestic market. Meanwhile, the market in ASEAN and North America grew, in contrast to weaker performance in China due to worsening anti-Japanese sentiment. We forecast higher revenues and profits for fiscal 2013, driven by recovery in China, strength in the North American market, and continued growth in ASEAN.

Fiscal 2012 Strategies and Results

Fiscal 2012 marked the first year of **Change-S2014**. During this time, we engaged in initiatives guided by the concept of results and consistency to improve profitability and make greater inroads in our resins related and car electronics businesses. We also established a new plastic components painting joint venture in Indonesia during the year. In India, we saw our joint blow-formed component manufacturing company begin full operations. Our global initiatives gained momentum, and we improved the coordination among our overseas branches, international joint ventures, related companies, and affiliates. We also made progress in developing new technologies, new manufacturing methods, and new products in our businesses related to eco-friendly vehicles, working closely with related companies, affiliates, and joint ventures.

Despite negative factors during the second half of fiscal 2012, including challenges in the Chinese market due to anti-Japanese sentiment and lower manufacturing numbers in response to the end of the Japanese government eco-car subsidies, new business in Vietnam and Korea, together with a rapid recovery from the flooding in the Thailand market and strong performance in the North

TOPICS

Global Growth in Interior Decorations

The Company launched the business working with Japanese auto manufacturers in North America, thanks to closer coordination with overseas automobile interior and exterior component manufacturers. Not only has the Company enjoyed greater activity with local overseas entities, but we also expect higher levels of engagement with Japanese auto manufacturers in North America.



American market led to higher revenues and higher profits.

Change-S2014 and Fiscal 2013 Strategies

In this department, our task under **Change-S2014** is to provide technologies and products necessary for the new environmentally-friendly car society, contributing to global society while the same time creating a business model supporting the next-generation of products and services in the auto industry through our Automotive & Energy Segment. We plan to integrate our automobile business and environment/energy business. At the same time, the resins business in which we established our reputation in the market has shifted towards using fewer raw materials. Here, we will offer even higher value by transitioning metal components to resins, and developing our own light-weight materials and technologies.

In the car electronics field, we are working towards creating a global procurement and supply for battery motor power module components and materials—products in which Japan has particular strengths. In pursuit of this goal, we will be working even more closely with Group operating bases around the world. We also intend to develop functional products that match the needs of the market by creating stronger cooperative ventures inside our own Group and with joint development partners, as well as equity investments and manufacturing joint ventures.

In addition to engaging more actively in China where future growth is anticipated, we will also be more active in Indonesia, India, Mexico, Turkey and other emerging countries.

Segment Overview (Functions)

In our Automotive & Energy Segment, we are pursuing original technological innovation in plastic components and storage battery systems in the automobile and other environmentally-friendly energy business sectors. In doing so, we believe we will be up to create new business models.

Segment Strengths (Businesses)

- Marketing capabilities that uncover the needs and provide new products to the automobile industry
- Close coordination between overseas networks and Group departments
- Relationships of trust with customers build on our understanding industry and expert knowledge
- CAPTEX Co., Ltd. (batteries), other partner company expertise and manufacturing development functions

Primary Businesses

- 1 Resins related business
- 2 Car electronics business
- 3 Energy storage business
- 4 Energy creation/energy conservation business

Energy Business Office



GM, Energy Business Office
Kiyoshi Sato

Major Market Trends

In the two years that have passed since the March 11 earthquake, the restart of certain nuclear power facilities and other factors have reduced concerns about energy supplies and rolling blackouts. However, an increase in the number of public works projects and the start of the full purchase system for industrial photovoltaic power means that demand for lithium ion battery systems and photovoltaic systems will remain high. While we project price declines in lithium-ion battery and photovoltaic systems, we also expect that the market will expand as a whole.

Fiscal 2012 Strategies and Results

During fiscal 2012, the nation of Japan gradually began to emerge from the effects of the March 11 earthquake. The introduction of the whole purchase system for industrial photovoltaic power led to the Company's sales of photovoltaic systems outperforming the prior period by a wide margin. However, sales of battery materials for electric vehicles did not perform as we had expected, owing to a significant decline in year-on-year performance among auto manufacturers. As such the Company underperformed the fiscal 2012 plan in this area. The Natural Eco 371 is a greenhouse heater that the Company developed for the purpose of reducing fuel oil usage in horticulture facility and other greenhouse heating applications. Since this product successfully results in a 30% reduction in fuel oil usage, with expected significant sales gains for the period. However, the lack of related government subsidies resulted in our performance significantly underperforming plan. Accordingly, the Company has reconsidered its participation in businesses such as this that are affected by government subsidies. As of the end of fiscal 2012, the Company decided to withdraw from this business.

During the March 11 earthquake, power outages and resulting system crashes meant that cars parked in coin-operated parking lots could not be removed by their owners. In response to customers in this field and similarly affected fields,

TOPICS

Completion of the CAPTEX Okazaki Plant

On April 11, 2012 we held a ceremony to celebrate the completion of the new CAPTEX plant at the Tobu Industrial Park in Okazaki City, Aichi Prefecture. With the completion of this plant, CAPTEX is now able to offer one-stop services for mass-produced storage battery systems.



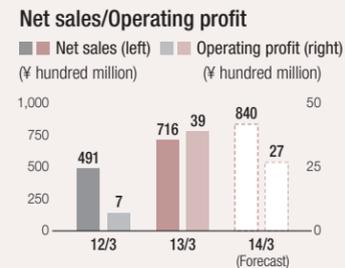
we began development of compact power systems for emergency use and independent power generation systems incorporating photovoltaics. We began production of compact power generation systems at our subsidiary, CAPTEX Co., Ltd. and the systems are slated to launch in fiscal 2013.

Change-S2014 and Fiscal 2013 Strategies

Under **Change-S2014**, the goal of this office is to build an integrated foundation for our businesses and to create synergistic business opportunities working in cooperation with other Group organizations. In the past, our business domains were organized under headings such as Battery Materials, Battery Systems, and Green Energy. Beginning fiscal 2013, we have reorganized these domains under regional headings, such as Tokyo, Nagoya, and Osaka. By placing these business domains under project managers, we are able to operate more effectively across regions. This represents a step forward from the business unit teambuilding we have engaged in since the start of this office. The objective of this new system is to allow us to work more closely with our customers, as well as to create and offer total business solutions that combine our core lithium-ion battery and photovoltaic systems in one.

Under the umbrella of lithium-ion battery and photovoltaic component sales, we plan to adopt a consultative sales model which will allow us to take the initiative in total energy management and business continuity planning markets, focusing on lithium-ion battery systems and photovoltaic systems as our main business, while establishing a stable foundation for business going forward.

Our philosophy is to contribute to a healthier and richer lifestyle. We have identified our primary markets as the food products/beverages, cosmetics/toiletries, and pharmaceuticals/medical materials fields, with the goal of maximizing business value by effectively utilizing group resources and technologies (saccharide, enzyme, formulation, and compound) in the global market.



Director and Executive Officer
Osamu Morishita

Segment Overview (Functions)

In the Life & Healthcare Segment, we are committed to information collection, technological advancement, and manufacturing activities that contribute to a richer and healthier lifestyle for our customers. By creating new value in this area, we work together with our customers and other Group companies to contribute to a better society, becoming a corporate group with a more visible and respected presence. In addition, we are advancing in developing new functional materials, cultivating the progress in the biotechnology area in anticipation of future society needs.

Segment Strengths (Businesses)

- Group's unique R&D and manufacturing functions related to saccharides, enzymes, formulations, and compounds
- Global network extending from Asia to Europe and North America
- A successful history in business related to pharmaceutical administration system, serving as a business foundation
- A domestic door-to-door sales network serving as the foundation of our beauty care products business

Primary Businesses

- 1 Deploy saccharide and enzyme businesses to food products and beverages
- 2 Grow the cosmetics and toiletries business
- 3 Expand the pharmaceuticals and medical materials business globally
- 4 Grow the agricultural, fisheries and livestock business
- 5 Door-to-door sales of beauty care products

Life & Healthcare Products Department

Major Market Trends

In the current business environment, we see increased needs for safe and reliable food materials, as well as cheap, high functioning cosmetics, pharmaceuticals, and pharmaceutical raw materials. This reflects our understanding of the global increase in the world's population. Through our global marketing activities, we are able to understand worldwide market trends, allowing us to foster businesses that meet these rising needs.



Director and Executive Officer;
GM, Life & Healthcare Products Department
Osamu Morishita

Fiscal 2012 Strategies and Results

Bringing Hayashibara into the Group during fiscal 2012, we made the decision to significantly change our target business fields. In the past, our focus has been on growing our business mainly in pharmaceuticals/medical materials and enzyme business. However, we have pivoted to focus on functional saccharides, to which we will add food materials and cosmetics raw materials as our growth business lines of choice. In addition, we have completed the construction of a new manufacturing building for Nagase Medicals. Here, the Group will dedicate resources to manufacturing generic anticancer drugs. Furthermore, we have completed the construction of a new production facility in Kyoto (Fukuchiyama) for Nagase ChemteX to more thoroughly research and produce an enzyme derived from actinomycetes. We have also decided to create a cooperative sales organization between Hayashibara and Nagase. We will construct a new manufacturing facility in Okayama, which will enhance our functional saccharides production capabilities.

While the global economy continues to struggle, we have welcomed Hayashibara to the Group and executed a plan of aggressive advance investment

TOPICS

The following discusses our progress in major development initiatives.

- (1) Decision to construct a new manufacturing facility to bolster Hayashibara technology and manufacturing of functional saccharides
- (2) Extension of global applications for an enzyme derived from actinomycetes developed by Nagase ChemteX
- (3) Completion of new facilities utilizing the pharmaceutical manufacturing expertise of Nagase Chemicals.



and business development for the future of the Group. As a result, net sales and operating profit have both enjoyed significant improvements.

Change-S2014 and Fiscal 2013 Strategies

Fiscal 2013 represents the second year of our **Change-S2014** business plan. Here in this department, we plan to advance and expand business through integration of trading company and manufacturing functions targeting food products, beverages, cosmetics, toiletries, and pharmaceuticals/medical materials markets. We believe these plans will result in an organization capable of creating more high-value-added businesses.

We intend to establish a new organization for the agricultural, fisheries, and livestock fields, as we engage more actively in targeted programs. We intend to make effective use of the Group's technological, intellectual, human, and organizational assets, engaging in activities that range far beyond those of a trading company. We will execute marketing activities reflecting the new global nature of markets, and build our capacity to plan and develop for success over the medium- and long-term. While the world has become more globalized, the population has become much older, with fewer children born, and skyrocketing medical costs. In response to these trends, we will focus on activities that allow us to contribute to a richer and healthier lifestyle. We will pursue business development that contributes to our manufacturing base for food materials, cosmetics, pharmaceuticals, and medical materials – growth markets that call for safe and reliable practices.

Beauty Care Products Department

Major Market Trends

While the cosmetics market remains flat, we see greater demand for drinks in the health foods market, driving slight growth overall. In the door-to-door cosmetics sales market, we see growth in the small local salon business, which is finding new ways to interact with customers. Meanwhile, traditional door-to-door type businesses are struggling.



Executive Officer;
GM, Beauty Care Products Department
Takaaki Hirai

Fiscal 2012 Strategies and Results

Under **Change-S2014**, one of our major initiatives is to continue the growth of our door-to-door sales business. To accomplish this, we will increase Nagase brand recognition in the market with advertising and promotional videos, speed up the pace of sales agent training through a revised sales system, extend the effectiveness of our human resources through the adoption of the Nagase Brush-Up System training and human resources development program, engage in research based on the theory of herb sciences and technology, clarify the direction of our product research, and work to extend our reach into new regions through development teams directed from our headquarters.

This department is working towards sustained growth in the door-to-door sales business under the guidance of **Change-S2014**. To accomplish this, we have adopted five strategies: (1) Improving Nagase brand recognition in the market with advertising and promotional videos; (2) speeding up the pace of sales

agent training through a revised sales system; (3) extending the effectiveness of our human resources through the adoption of the Nagase Brush-Up System training and human resources development program; (4) engaging in research based on the theory of herb sciences and technology and clarifying the direction of our product research; and, (5) working to extend our reach into new regions through development teams directed from our headquarters. In addition, we have opened NALPHAS Okayama, the third outlet directly managed by our headquarters, following Nihonbashi and Kobe outlets.

Meanwhile, we conducted new product test marketing in the rapidly growing Chinese market; however, we have been winding down business development in China after the decision was made to focus on domestic businesses.

Despite the positive impact of new products, we encountered difficulties extending the sales of existing products, leading to lower revenues and lower profits in the segment for fiscal 2012.

Change-S2014 and Fiscal 2013 Strategies

To establish sustainable growth in the door-to-door sales market for fiscal 2013, the department will pursue a six-point plan. (1) Improving Nagase brand recognition in the markets through advertising and public relations activities; (2) generating more activities and new sales in existing regions, including a review of offices nationwide; (3) speeding up the pace of sales agent training through a revised sales system; (4) expanding the number of Nagase partners by actively teaching and using the new Nagase Brush-Up System (new technique training, staff education program); (5) promoting research and product development according to the theory of herb sciences and technology; and (6) moving into new areas via business development teams under new headquarters projects.

TOPICS

Introducing Nagase Trianne, a beauty routine food that creates true beauty from the inside out using the power of flowers-in purity, luster and brightness.

Nagase Trianne is a beauty food focused on generating inner beauty for those who aspire to a more beautiful life from the inside out. This product features three different floral extracts. The gardenia extract offers a wonderful translucence, the cherry blossom extract targets saccharization, and the safflower extract supports a smooth flow in day-to-day life. It is this triple approach that gives women a healthy inner beauty, supporting a full and healthful glow.



■ Nagase Trianne
27g (900mg x 30 sachets)
¥7,700 (including tax)

Greater China



Executive Officer
CEO, Greater China
Katsuhisa Yamaguchi

The Nagase Group has more than 40 locations throughout Greater China (Mainland China, Hong Kong, Taiwan), including sales companies, manufacturing companies, branches, and offices. We forecast fiscal 2013 net sales for the region at approximately ¥190 billion (108% vs. prior year). Here, we are engaged in business activities tied closely with customers and markets, while at the same time creating a business model that maximizes the comprehensive power of the Nagase Group.

Major Market Trends

GDP growth in China for fiscal 2012 was a strong 7.8%, but marked the first time that the economy fell below 8% in 13 years. Factors impacting the Chinese economy included lower exports due to the global economic slowdown stemming from credit concerns in Europe, as well as related inventory adjustments among domestic manufacturers.

In September, Japan-China relations reached a low point, with declining sales of Japanese brand automobiles, home appliances, and other goods. Fiscal 2012 was certainly a year of challenges for Nagase and other Japanese companies.

The Chinese government had set a GDP growth target of 7.5% for 2013, maintaining aggressive financial and healthy banking policies, looking to keep the economy on a steady course of growth. While government infrastructure-related investment comprised a large part of economic growth, the country has struggled with a number of problems, including smog and other environmental issues, income disparity, national territory issues, and a real estate bubble. However, the country does boast a strong and sustainable growth engine backed by an enormous consumer market. As the United States and other economies recover, China will enjoy greater external demand, as it remains a region of outstanding growth among other regions around the globe.

TOPICS

A New Thin Glass for Displays Processing Facility in Xiamen

In July 2012 the Group completed construction of a plant for Nagase Electronics Technology (Xiamen) Co., Ltd. in Xiamen, Fujian Province, China. Nagase Electronics Technology (Xiamen) Co., Ltd. is a wholly owned entity of Nagase Electronics Technology Co., Ltd. (Taiwan). The plant is in the final stages of preparation towards full operations beginning fiscal 2013.



Fiscal 2012 Strategies and Results

Delays in inventory adjustments among domestic industries and a deceleration in the overall Chinese economy due to lower exports led to a temporary yet significant decline in sales of products for the automotive industry located in Guangzhou and Tianjin Districts during the second half of fiscal 2012. However, the Group experienced growing sales of new products for smartphones and tablets in the electronics market, resulting in overall net sales of ¥175.96 billion, representing a 13.0% year-on-year increase.

The Group worked to expand sales of Hayashibara products for the food, cosmetics, and other life & healthcare businesses. We selected employees from our local staff to create a special cross-regional Hayashibara Team sales group, collecting information on market needs and sources of demand, expanding sales throughout the China, and developing new applications for our products.

Change-S2014 and Fiscal 2013 Strategies

Under the guidance of **Change-S2014**, we will promote our Greater China (including mainland China, Hong Kong, Taiwan) business by raising the level of the business as a whole and taking steps for transformation. Our mission is to create our own value and expand through regionally focused business. Our goal is to create conditions fostering intercompany and interregional synergies for the increasingly active southern, midwestern, eastern, northern regions, Taiwan and for Greater China as a whole. With an eye toward continued high growth rates in the Chinese market, we have identified the environment/energy, electronics, automobiles, and life & healthcare businesses as top priorities. We will invest management resources in these promising areas, while at the same time optimizing balance across our five business segments: functional materials, advanced materials & processing, automotive & energy, electronics, and life & healthcare segments.

Our fundamental businesses are electronics, processing materials, and automobile businesses. In these fields, we intend to build out our product offerings through global-scale coordination, targeting Japanese companies, local Chinese companies, and other foreign companies invested in China to drive sales. In our functional materials business, we will continue to open new markets for Chinese raw materials where we enjoy high cost competitiveness, making use of our Group sales network to extend our presence throughout Southeast Asia.

Our Hayashibara Team, launched in 2012, will take the lead in strengthening our specialization, working closely with the Hayashibara home office to build our life & healthcare business. At the same time, we will expand our marketing efforts, extend our sales network, and further cultivate new application development. In addition, we plan to grow our business targeting the LIB, PV, and LED markets in the environment/energy fields.

While we extend our marketing and sales functions, we will also strengthen our manufacturing and development functions in China, advancing our abilities to support product expansion and sources of demand that match the Chinese market needs. This spring, our joint venture in Changzhou with Light Chemical Co., Ltd. will begin contract manufacturing operations for resin/fine chemicals related products, while the Nagase Electronics Technology Xiamen plant will enter full operations during the year. The Wuxi R&D Center (mainly epoxy resins) is scheduled to begin work this fall.

Nagase Business Management and Planning (Shanghai) Co., Ltd. will be the central player in advancing our operations and management in terms of employee strategy, stronger governance, and IT infrastructure adoption, maintenance, and operations, leading to stronger regional management and support functions, which will support our growing business in China.

ASEAN and the Middle East



Executive Officer;
CEO, ASEAN/India;
GM, Polymer Global Account
Department
Ichiro Wakabayashi

Traditionally, the ASEAN region has been known for cheap labor and manufacturing, but with the growth of economies and per-capita GDP, these regions are gaining more attention as a consumer market and for China Plus One strategy. Our ASEAN businesses now encompass India, the Middle East and Oceania (eight sales companies, eight branch offices and nine manufacturing companies). We will focus on establishing a locally directed business model built on our wide-ranging Group network.

Major Market Trends

While the economic future of Japan and other advanced nations remains cloudy, we project that active investment by foreign companies and an expanding middle class will drive strong economic growth in ASEAN.

Fiscal 2012 Strategies and Results

During fiscal 2012, growth in the Thailand automobile business, progress in the packaging materials business, growth in the chemicals business in the Middle East, and more transactions in the office automation market resulted in net sales of ¥85.88 billion, which was a 17.8% year-on-year gain.

Operationally, we added personnel and opened new offices in a number of different regions, making advance investment toward sustainable growth. We also took other steps toward more stable corporate operations by adopting a shared core IT system and improving our regional management functions.

Change-S2014 and Fiscal 2013 Strategies

The goal for the remaining two years under **Change-S2014** for this segment is to grow our resin-related business, while at the same time accelerating the pace of growth in other fields (electronics, chemicals, life sciences) as we balance our businesses and the geographical regions in which we operate.

During fiscal 2013, we intend to increase coordination between Japan and China in our core functional and processing materials businesses, continuing to add suppliers and strengthen our engagement with OA manufacturers to drive growth in the region. Meanwhile, we will be working on new development to (1) grow our packaging materials business; (2) extend our automotive/energy business in Thailand and outlying areas; (3) continue with important development projects in our electronics business in Malaysia and Singapore; and, (4) improve the sales process at Hayashibara. At the same time, we intend to strengthen our presence in the growing VIP countries (Vietnam, Indonesia, Philippines), and accelerate our regional expansion in Bangladesh and the three countries along the Mekong Delta (Myanmar, Cambodia, Laos), aiming for sustainable growth in these areas. In terms of management issues, we intend to continue our programs to strengthen regional management functions for rapid business growth and more mature risk management.

TOPICS

Establishment of a Regional Operating Center

We established a Regional Operating Center for improved regional management functions. The goal of this new Center is to improve both sales (coordinating information sharing between Japan and China regionally, as an integrated cross-border business, and locally) and management (improving risk management associated with entering new regions and business domains) in the region.

Operating Strategies

(1) Hayashibara Business Project

Objective: Stable rollout of Hayashibara businesses and creation of a well-managed sales structure

(2) Packaging Business Project

Objective: Grow packaging business

(3) Resin Purchasing Business Project

Objective: Strengthen buying capacity; improve intra-regional coordination

(4) Chemical Business Project

Objective: Lateral business model extension; propose new investments

(5) Automobile Business Project

Objective: Improve intra-regional coordination related to the automobile industry

(6) Electronics Business Project

Objective: Expand electronics business, mainly driven by Nagase FineChem Singapore (Pte) Ltd.

(7) New Business Project

Objective: Promote business investment regionally, generate new intra-regional business

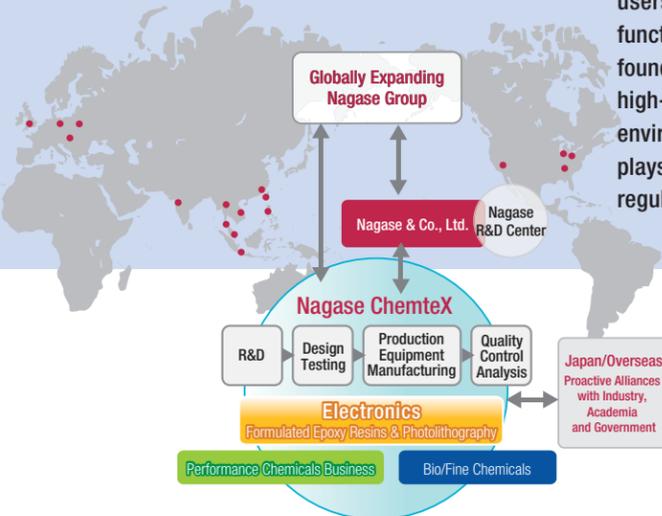


Nagase ChemteX Corporation



Nagase ChemteX Corporation
Representative Director, President
Kazuo Mitsuhashi

Nagase ChemteX Corp. occupies the central role in Group manufacturing. Leveraging our long-accumulated, proprietary technologies of synthesis, compounding, biotechnology and evaluation—this company is a chemicals manufacturer offering a unique line of products posting high market share in niche categories. By creating deeper expertise and integrating these core technologies, we are able to offer highly technical services supporting new development and small-run production capabilities to meet the needs of our users. As we improve our various foundational technologies, adding high functionality and differentiation in various niche markets, we will build on the foundation of trust with Nagase Group customers, developing high-function, high-value-added products and services for our end users and biotechnology, environment, energy, and electronics applications. In addition, this company plays a lead role in safety, environmental compliance, quality assurance, and regulatory compliance for Group manufacturing and processing.



Production System

The Harima Plant manufactures a wide variety of electronics and functional chemicals products. Here, we completed a new production line for microelectronics-related products, beginning full production. The Fukuchiyama Plant, which produces enzymes, fermentation products, and other life sciences-related products, completed construction for a new enzyme production plant, starting manufacturing work on enzymes for export overseas. In addition, every plant has engaged in energy conservation activities. Both the Harima and Fukuchiyama Plants have made progress in electrical power usage reductions in response to summer power shortages. The Harima Plant received OHSAS18001 certification, reflecting its commitment to creating a safe and secure work environment.

Overseas, at Nagase ChemteX (Wuxi) Corp., in addition to our manufacturing facility for formulated epoxy resin products, we have started preparation to open an R&D center to expand research and development functions.



Harima Plant: Microelectronics New Production Line and Equipment



Fukuchiyama Plant: New Enzyme Production Building



China: Nagase ChemteX (Wuxi) Corp. R&D Center (artist's rendering)

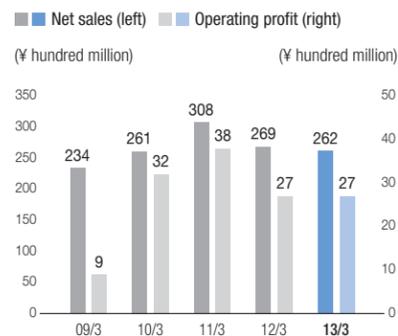
Major Market Trends

Despite higher demand in the smartphone and tablet growth markets, the slowdown in the world economy and negative consumer sentiment in Japan have combined to cloud the future direction of the markets.

Fiscal 2012 Results

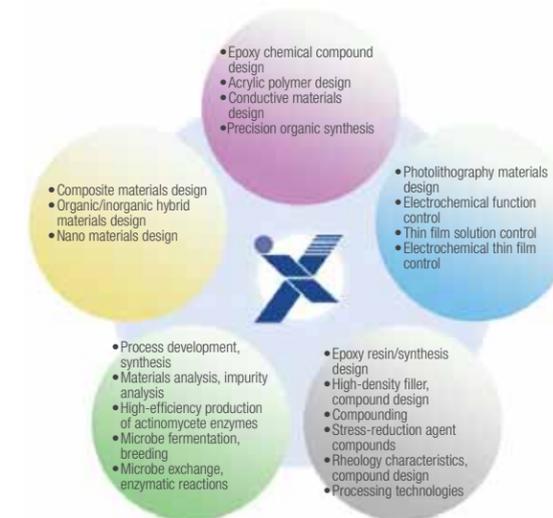
Net sales for the fiscal year ended March 2013 amounted to ¥26.23 billion (2.7% year-on-year decrease), while operating profit was level with the prior year at ¥2.74 billion (0.3% year-on-year decrease). While sales of our formulated epoxy resin products were strong in the heavy electrical, light electrical, and mobile phone sectors, declining sales for semiconductors and LCD panel materials drove performance down overall. In terms of profits, declining sales prices and sluggish sales of high-value-added electronic materials products pushed earning lower.

Net sales/Operating profit



Research and Development System

Nagase ChemteX's R&D structure, which employs a total of 140 staff members, comprises product development teams within divisions as well as an R&D Division working companywide. In the electronics field, we were active in developing conductive, transparent, nano-sized, battery and environmentally-friendly materials. With respect to development of organic and inorganic hybrid polymers (a type of clear material) in particular, we have made progress in developing high-function coating and lens applications, successfully expanding the scope of uses in this product line. In the life sciences field, we promoted the development of pharmaceutical intermediates and new enzymes in collaboration with the Nagase R&D Center. One of our strengths is our ability to select periods for development based on our understanding of Group-wide needs, creating synergies between R&D and trading company functions.



Nagase ChemteX Corp. Component technologies

Fiscal 2012 Operations

Electronics Business

In this business, we perform a product development and production based on advanced formulated epoxy technologies. In the electronics business, we saw growth in organic EL adhesives, as well as new adoptions of high-function epoxy resins for smartphones. However, sales of liquid sealants for semiconductors and power IC applications underperformed prior-year levels. With the second-half recovery in large-format panels in the liquid crystal-related business, we were able to deliver results in line with plan. In our environment and energy business, we began mass production of adhesives for (H)EV vehicles; however, the market for solar cell and wind power generation applications remains weak. Sales of coating materials at Engineered Materials Systems Inc. (added to the Group last fiscal year) enjoyed significant gains in coating materials, and we began producing products for the U.S. markets locally.



Performance Chemicals Business

In our Performance Chemicals Business, we were able to expand our offerings of functional materials based on unique organic synthesis and polymer synthesis technologies. With respect to epichlorohydrin conductors, we were able to improve our inspection technologies for the purpose of expanding our already-successful tire cord business. We introduced this technology in the Chinese and Indian markets, where we expect to see significant growth, finding gains in adoption. We have also made progress in developing new epoxy materials that meet needs for transparency, light resistance, and heat resistance. In our special acrylic rubber business, we made progress in pioneering new applications for target markets in Korea, Taiwan, and China, as well as Japan, beginning sales during the period. We actively pursued developing in highly conductive type of transparent conductive polymer Denatron, working new and well-received applications for electronics materials in uses other than our current mainstay anti-static display-related products.

Bio/Fine Chemicals Business

In our enzymes business, we have focused on developing applications of our own products. We have been proactive in proposing solutions to our clients, which has led to steady increase in sales. With respect to phospholipid products, which use our own phospholipid converting enzymes, we have produced a more complete application data set, engaging in sales building activities both in Japan and overseas, successfully growing our sales results. With respect to our pharmaceutical raw materials and intermediates business, we have made progress in the further evolution of our unnatural amino acid-based technologies in pursuit of new biocompatible materials in order to expand into the medical materials field.



Change-S2014 and Fiscal 2013 Strategies

Following the basic policies outlined in the **Change-S2014** plan, we will make further improvements in our foundational management practices.

In research and development projects, we intend to create new business and new products based on our unique development capabilities built on numerous elemental technologies in order to meet the diverse range of needs in the markets. At the same time, we will focus on research and future growth areas, leveraging domestic and international network of the Nagase Group and the wealth of information available, aiming to solidify our core businesses, elemental technologies, and core materials over the medium and long term. Further, we intend to improve productivity and strengthening our production foundation as a manufacturer, exemplifying operational safety, production technologies, and quality assurance, and playing a central role in the R&D and manufacturing functions of the Nagase Group, looking to improve the quality of our technology management.



Hayashibara Co., Ltd.
Representative Director, President
Reiji Nagase

We can largely categorize our business into functional saccharides and functional dyes. We manufacture and sell functional saccharides, including TREHA™ and Glucosyl Hesperidin (used as food materials), AA2G™ (stabilized vitamin C used in cosmetics materials), and Maltose for infusion (used in pharmaceuticals). Our functional dyes business consists of a large dye library based on organic synthetic technologies. We rely on this library of dyes to provide products to the industrial fields (photography, printing plate sensitizer, etc.) and the life sciences field (the drug LUMIN™A and in vitro diagnostics).

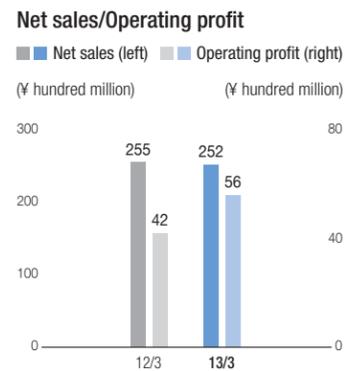
Moving forward, we will shift a part of our sales functions to NAGASE & CO. to allow the Nagase Group to leverage Group-wide resources on promoting global expansion. At the same time, we will focus more management resources on our own research and development to speed development of new products, while promoting global standards in food safety and quality management through greater improvements in our production functions, showing that our commitment extends beyond just ensuring a stable supply of product. During fiscal 2012, we became certified under the FSSC22000 global food safety standards at the plant manufacturing our TREHA™ functional saccharide.

Major Market Trends

Our products receive high marks not only for their physical properties, but also for their functionality. We have extended our product line from the food and cosmetics markets to the medical and industrial fields. In particular, recent consumer interest in health and the demographic shift toward an aging population lead us to project much higher demand in functional raw materials for the health, nutrition, and beauty sectors. Here, we believe our superior products will meet the needs of these markets.

Fiscal 2012 Results

Net sales for fiscal 2012 amounted to ¥25.22 billion, representing a slight 1.2% year-on-year decrease. The major factor behind this result was our re-examination of unprofitable products. Our domestic food business accounts for 60% of net sales. Here, our mainstay TREHA™ and Glucosyl Hesperidin, and other products all outperformed prior-year results. Meanwhile, the ongoing shift to digital photography among consumers led to weak performance in our functional dyes business.



Production System

The functional saccharide factory that produces TREHA™ received FSSC22000 certification (food safety) during fiscal 2012. In addition, we are working towards kosher and halal certification overseas to increase opportunities for sales. Looking to even higher levels of quality, we plan to acquire ISO9001 certification during fiscal 2013, and we are presently engaged in corporate wide initiatives, including programs related to the functional dyes business.

While we are updating equipment according to schedule in all of our manufacturing plants, equipment in the Okayama Plant 1 has particularly aged. Accordingly, we are planning to complete construction on a new plant to take over the old plant's operations in March 2015. This new plant will not only ensure the stable supply of existing products, but it will also function as a pilot plant for new product development. The plant features an efficient and energy-saving design that offers flexibility in manufacturing a number of different types of products.



Functional saccharide plant



Research laboratories



Trehalose (powder)



Trehalose (crystal)

Research and Development Structure

Microorganism screening and other new technologies derived from years of expertise have put us on the course to developing new saccharides that utilize new enzymes that we have researched. Our goal is to use these saccharides in food, cosmetics, medical, and industrial applications as a result of our pursuit of unique technologies and materials, as well as the Nagase Group marketing capabilities in response to market needs. Our efforts focus on research and development that we can quickly and efficiently leverage to launch new products in the market. We continue to make strategic use of these intellectual assets that result

Fiscal 2012 Operations

Functional Saccharides Business

Our functional saccharides business makes use of the functions at the Tokyo Laboratory, L'Plaza where we develop recipes that maximize the functionality of our saccharide products. Our goal is to expand the applications of the saccharides beyond confectionary to cooked rice, bread, noodles and other staple foods, as well as prepared foods, beverages, and processed foods. We remodeled and reopened the Tokyo Laboratory, L'Plaza in the Nagase Sangyo Tokyo Honsha East Building for the purpose of incorporating greater functions into these products. Thanks in part to the launch of new foods for specialized health uses utilizing the blood lipid neutralizing effects of our Glucosyl Hesperidin product, we saw significant year-on-year growth in sales.



Presentation room, Tokyo Laboratory, L'Plaza



Application development room, Tokyo Laboratory, L'Plaza



Glucosyl Hesperidin

Functional Dyes Business

In our functional dyes business, we have successfully extended applications of the dyes we manufacture beyond photography and printing plate commercial sectors into test agents and other life science fields. As we work on dyes business projects in cooperation with other Nagase Group affiliates, we also find ways to meet client needs through the development of new materials and potential applications. We continue to see a steady increase in customers of our LUMIN™A dyes formulation who faithfully use the product as a drug.



LUMIN™A

from our research.

Our latest research has resulted in Highly Branched Glucan, which can be expected to alleviate the effects of metabolic syndrome, a disease resulting from the modern lifestyle. Glucosyl Adenosine is another discovery that we believe will have anti-aging effects. We announced both of these breakthroughs at the Japan Society for Bioscience, Biotechnology, and Agrochemistry in March 2013.



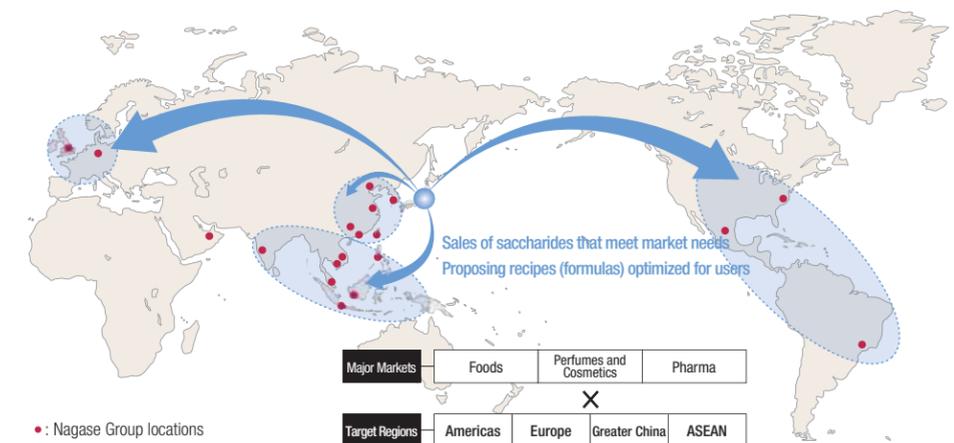
Highly Branched Glucan

Change-S2014 and Fiscal 2013 Strategies

We have started operations of several new systems related to company management (management planning, management accounting, information systems, human resources, etc.). These systems will form management foundation supporting future growth for the Company. In addition, with respect to our manufacturing systems, we are conducting reviews of our production facilities to ensure a stable system of supply, as well as improvements in safety, quality, and technology. For this purpose we are engaging in proactive capital investment, including construction of a new plant called for in our current plans. Furthermore, we intend to make the investments necessary to adopt new technologies that support forward-looking research and development activities.

To bring the entire Nagase Group resources to bear on sales functions, we will move overseas sales functions for the food sector and both overseas and domestic management functions for the cosmetics/medical sector of the saccharides business to NAGASE & CO. during fiscal 2013. After the move, we will be responsible for domestic food sector sales functions, quality assurance and other manufacturing functions, and research and development functions. Sales functions for the functional dyes business have also been transferred under NAGASE & CO.

We believe that strengthening our business overseas, where we believe the markets will grow, is a particularly important link in improving our earnings. As such, we will be taking advantage of the Nagase Group overseas network to push overseas sales to 30% of our total business over the medium term.



Nagase R&D Center



The mission of the Nagase R&D Center is to develop a biotechnology platform that backs up the Nagase Group's future business and to utilize biotechnology for product and service development, guided by concepts of uniqueness, self-direction, and invention. We consider the R&D Center to be the main group responsible for driving the creation of high-value-added businesses leading to further growth and originality in combining manufacturing, processing, research and development functions, marketing, and trading functions under the umbrella of Nagase, a technical information company. Through close coordination with business divisions and front-line sales, the R&D Center will continue to provide customer and market solutions from a technological perspective.

The R&D Center will push on with research and development to advance our Life & Healthcare segment, introducing new cosmetics, health foods, and medical diagnostic drug products.

Biotechnology (microorganisms) and Topics

- (1) Physical production technologies using original actinomycete microorganisms
- (2) Research in new genetic material synthesis utilizing bioinformatics
- (3) Development of recombinant microorganisms to improve chemical and protein production capacity
- (4) Practical production technology research in non-petroleum dependent and biochemicals
- (5) Bio-themed research related to ecological and resource conservation

Intellectual Property Administration and Usage

To administer and use intellectual property from R&D through activities, the Nagase R&D Center strategically engages in the acquisition of intellectual property rights for research results jointly with the Intellectual Property Office as well as the establishment of new companies based on projects undertaken by business departments and affiliated companies.

	Fiscal 2012		Cumulative Total (to Fiscal 2012)	
	In Japan	Overseas ²	In Japan	Overseas ²
Patent applications ¹	28	7	849	406
Patents ¹	9	12	190	204

¹ The number of patent in the name of the Nagase R&D Center. Licenses and other intellectual property rights are not included.

² Figures include applications for international patents.

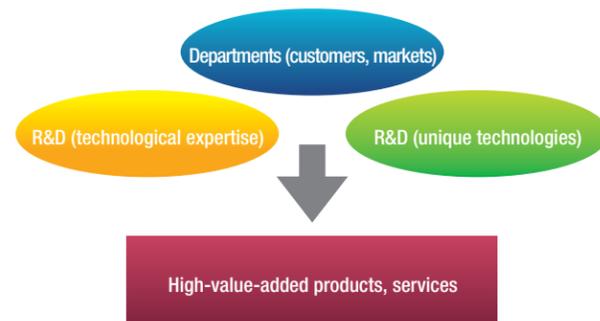
Achievements in Fiscal 2012

- ### Technological Results
- (1) Genetic tools to increase microorganism's physical production capabilities (patent pending)
 - (2) Create microorganisms optimized for target physical production (genome modification)
 - (3) Conclusive proof of special biochemical production concepts via recombinant microorganisms
 - (4) Discovery of new biochemicals and related synthesized genes (preparing patent application)
 - (5) Compounds protecting biopolymers from denaturalization due to freezing and thawing (patent pending)



Strategies for Fiscal 2013

Beginning with fiscal 2013, we will narrow the focus of the R&D Center to bio-related technologies, delving into original featured technologies and developing technological applications. Specifically, the R&D Center will further expand its strengths in genetic engineering and bioinformatics technologies for the purpose of rapid commercialization of effective non-petroleum-dependent chemical compound production related to unique actinomycete technologies researched to date. In particular, the R&D Center will work closely with university and other external research institutions related to metabolic engineering, making the most of the research resources owned by such institutions. At the same time, we will strengthen our adoption of leading-edge technologies. Meanwhile, the R&D Center will also actively share information with Group sales divisions, working with them to create more new business opportunities in environmental detoxification and other projects where we can highlight our expertise with respect to biotechnologies to an extent even greater than before.

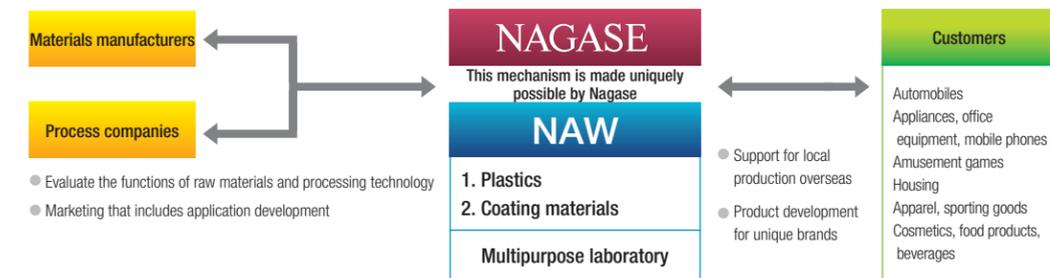


Nagase Application Workshop



The Nagase Application Workshop (NAW) facility is where, jointly with customers, we engage in activities that range from function and application development of raw materials related to plastics and coating materials to the formulation development of finished products that use such raw materials. NAW was born of necessity in the course of adding R&D, manufacturing and processing functions to our conventional base as a trading company. Accordingly, NAW is an important tool for advancing a switch from our previous sales model that focused on materials exploration to one that is driven by application proposals and joint development. In offering such technological support, NAW is providing unparalleled functions that only Nagase is capable of providing.

Further, to accelerate development among departments, related companies, and affiliates along unique and independent topics, we opened the multipurpose laboratory in fiscal 2012. Departments, related companies, and affiliates can bring their own ideas compatible with NAW facilities, technological staff knowledge, and expertise, using the NAW as a space for development activities using the support of the NAW staff.



Throughout fiscal 2012, we worked closely with our customers, materials makers and processors on a number of different solutions and requests. We received visitors from almost 100 different firms, and turned a total of more than 50 new solutions into practical operations.

Plastics	<ul style="list-style-type: none"> Development of plastic materials for molding with automotive industry parts makers (Tier 1, Tier 2); Weight savings, high-grade treatment (under discussion), improvement in scratch resistance, etc. Development of additive masterbatches that expand degrees of freedom for plastic materials procurement by parts makers overseas Development of the original plastic grades that make use of recycled materials from OA manufacturers Development of artificial marble coloring technologies allowing the use of styrene resins
Coatings	<ul style="list-style-type: none"> Sales of coating raw materials in overseas markets, particularly effective technical support of proposals for functional materials contributed quicker development and greater sales; Coordination with the coating lab established in India (Mumbai), providing technological support for pioneering raw materials locally. Continue to develop functional coating materials with external partners; Anti-fog coatings (patent pending), special coatings using silver nanoparticles, etc. Begin new-product development in cooperation with raw materials manufacturers; Radiant materials, pigment dispersant, etc.

Fiscal 2013 Policies

The NAW is solidifying its reputation as an outlet for unique, original Nagase functions, fully providing continuing development functions and technical customer/user support befitting a development partner of choice as a plastic and coating applied technology development center. Having identified industries and technologies on which to focus, Nagase will take the lead in implementing activities that create seeds of new high-value-added businesses. We have set our sights on the automotive and OA fields as target industries, working in coordination with other departments to create new business approaches that only a firm like Nagase could produce. During fiscal 2013, we will concentrate on surface treatment technologies, working mainly to commercialize composite technologies such as plastics, coatings, and printing.

Our goal is to uncover new elemental technologies more quickly than any other company in the world, working every day to offer the right decisions and NAW that we can propose to customers.

Principal Functions

- | 1. Plastics | 2. Coating Materials | 3. Multipurpose Laboratory |
|--|--|---|
| <p>Formula design function carried out by expert technicians, test production of compounds centered on a twin-screw extruder, properties assessed using all types of assessment equipment</p> <p>Equipment</p> <ul style="list-style-type: none"> Twin-screw extruders (15mm L/D=45 and 26mm L/D=64) Henschel mixers Injection molding machines (80t and 110t) Analytical equipment (thermal analysis equipment, FT-IR, etc.) Physical property measurement equipment (tensile strength, bending, shock testing equipment, HDT testers, etc.) CCM (computer color matching system) | <p>Coating and ink composition design function carried out by expert technicians, test production of coatings and inks using all types of assessment equipment, properties assessed using all types of assessment equipment</p> <p>Equipment</p> <ul style="list-style-type: none"> Painting booths Disperser (paint conditioner, horizontal, vertical bead mill) UV curing system Drying oven Age testing equipment (xenon WOM, SUV weathering test equipment, constant temperature/humidity oven, etc.) | <p>By assigning technical staff from departments, related companies, and affiliates to the NAW multipurpose laboratory to work with respect to themes related to plastic, coating, ink, and other compounding technologies, dyes/additives, filler, and other materials technologies; color, surface treatment, and printing technologies within various themes developed within the Nagase Group, NAW facilities and NAW staff-provided technical support are effectively used, leading to faster development speed.</p> <p>Current Major Themes</p> <ul style="list-style-type: none"> Development of digital printing technologies Development of coating agent formulation for thermal paper Development of in-mold transfer foils manufacturing technologies Development of LED UV lamp-compatible UV-cured ink/paint materials Applied development of silicon materials in medical uses Development of LED lighting module components |

Management Philosophy

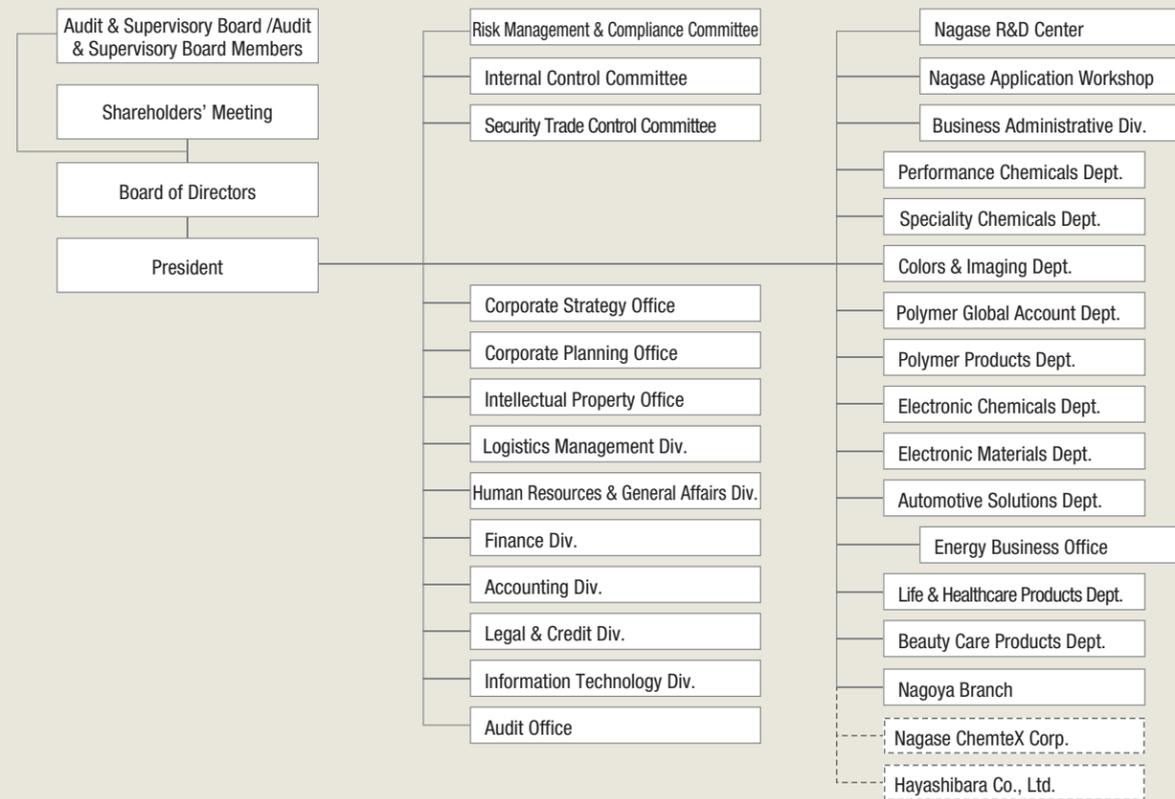
“Maintain Good and Fair Business Practices”

The Nagase Group is a member of 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 it needs while improving the welfare of our employees.

“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.

Organization (as of April 1, 2013)



Basic Concept of CSR

The Nagase Group is a member of 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. Nagase concentrates not only on business growth but also on CSR-oriented operations with active contributions to society in the areas of environmental preservation, responsibilities as a good corporate citizen and development of scientific technology.

Directors



Hiroshi Nagase

Representative Director, President and CEO



Reiji Nagase

Representative Director and Senior Managing Executive Officer
Hayashibara Co., Ltd.



Kenichi Matsuki

Representative Director and Managing Executive Officer
Human Resources & General Affairs Div., Legal & Credit Div., Logistics Management Div., GM Intellectual Property Office, Audit Office



Toshiro Yamaguchi

Representative Director and Managing Executive Officer
Functional Materials Segment, Greater China/ASEAN/India



Hiroshi Hanamoto

Director and Executive Officer
Advanced Materials & Processing Segment, Nagase Application Workshop



Osamu Morishita

Director and Executive Officer
Life & Healthcare Segment, R&D Center, Osaka Region, GM, Life & Healthcare Products Dept.



Mitsuro Naba

Director and Executive Officer
Business Administrative Div., Finance Div., Accounting Div., Corporate Planning Office, Information Technology Div.



Kenji Asakura

Director and Executive Officer
Electronics Segment, Automotive & Energy Segment, America, Europe, South Korea Nagoya Branch

Outside Directors



Iwao Nakamura

Outside Director
1966 Joined Nissan Motor Co., Ltd.
1995 Director, Nissan Motor Co., Ltd.
2000 Managing Director, Nissan Motor Co., Ltd.
2002 Representative Director and President, Nissan Diesel Motor Co., Ltd. (currently UD Trucks Corporation)
2007 Consultant, Nissan Diesel Motor Co., Ltd.
2009 Retired from Nissan Diesel Motor Co., Ltd.
2009 Current position



Yasuo Nishiguchi

Outside Director
1975 Joined Kyoto Ceramic Co., Ltd. (currently KYOCERA Corporation)
1987 Director, KYOCERA Corporation
1992 Representative Director, Managing Director, KYOCERA Corporation
1997 Representative Director, Vice President, KYOCERA Corporation
1999 Representative Director, President, KYOCERA Corporation
2003 Representative Director, President and Executive Officer, KYOCERA Corporation
2005 Representative Director, Chairman and CEO, KYOCERA Corporation
2006 Director, Consultant, KYOCERA Corporation
2007 Consultant, KYOCERA Corporation
2009 Retired from KYOCERA Corporation
2012 Current position

Audit & Supervisory Board Members



Hideo Yamashita

External Audit & Supervisory Board Member
1972 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
2000 Head Office Senior Management Staff and, General Manager, Kanda Corporate Banking Dept at The Sumitomo Bank Limited
2004 Retired from the Sumitomo Mitsui Banking Corporation
2004 Current position



Masao Hidaka

Audit & Supervisory Board Member
1973 Joined NAGASE & CO., LTD.
2011 Current position



Masahiko Hamaguchi

Audit & Supervisory Board Member
1982 Joined NAGASE & CO., LTD.
2013 Current position



Toshio Takano

External Audit & Supervisory Board Member (part-time)
1987 Deputy General Manager of the Special Investigation Department of the Tokyo District Public Prosecutors Office
2001 Superintendent Public Prosecutor of the Sendai High Public Prosecutors Office
2004 Superintendent Public Prosecutor of the Nagoya High Public Prosecutors Office
2006 Takano Law Firm
2008 Current position

Executive Officers

Mitsukuni Mori
Managing Executive Officer
Hayashibara Co., Ltd.

Kazuo Mitsuhashi
Managing Executive Officer
Nagase ChemteX Corp.

Ichiro Wakabayashi
Executive Officer
GM, Polymer Global Account Dept.
CEO, ASEAN/India

Takaaki Hirai
Executive Officer
GM, Beauty Care Products Dept.

Kohei Sato
Executive Officer
GM, Performance Chemicals Dept.

Kenji Nagafusa
Executive Officer
GM, Polymer Products Dept.

Katsuhisa Yamaguchi
Executive Officer
CEO, Greater China

Mitsuru Kanno
Executive Officer
GM, Colors and Imaging Dept.

Kenichi Horie
Executive Officer
GM, Electronic Chemicals Dept.

Shinji Nakamura
Executive Officer
GM, Business Administrative Div.

Masatoshi Kamada
Executive Officer
GM, Electronic Materials Dept.

Masanori Furukawa
Executive Officer
Finance Div. GM, Accounting Div.

Takanori Yamauchi
Executive Officer
Corporate Planning Office GM, Information Technology Div.

Corporate Governance

The Nagase Group is a member of 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 it needs while improving the welfare of our employees. To implement this philosophy and continue raising corporate value, we believe that quick decision-making and action, as well as active, transparent management, are vital. In addition, with the advance of globalization, Nagase is aggressively working to strengthen corporate governance as a key management issue.

Executive Officers

Under a corporate system that adopts an Audit & Supervisory Board, Nagase introduced the executive officer system in June 2001. The Company's current management framework consists of ten directors (including two outside directors), 21 executive officers (eight of whom concurrently serve as directors), and four audit & supervisory board members (including two external audit & supervisory board members). The Board of Directors is clearly positioned as the body in charge of making decisions on management policies and strategies, and it supervises the execution of operations. Holding a regular monthly meeting, the Board of Directors reviews and formulates measures regarding important decisions and tracks business performance.

In accordance with audit policy and standards for responsible work set at the Audit & Supervisory Board's meetings, corporate auditors attend important meetings, such as Board of Directors' meetings, and conduct audits of the execution of duties of directors and executive officers based on reports solicited from subsidiaries on an as-needed basis.

Executive officers determine specific measures for sales-related administrative matters by attending divisional general managers' meetings and supervisors' meetings and discussing each division's status report. In light of the importance of securing objective supervision of and guidance on its management, Nagase set up an

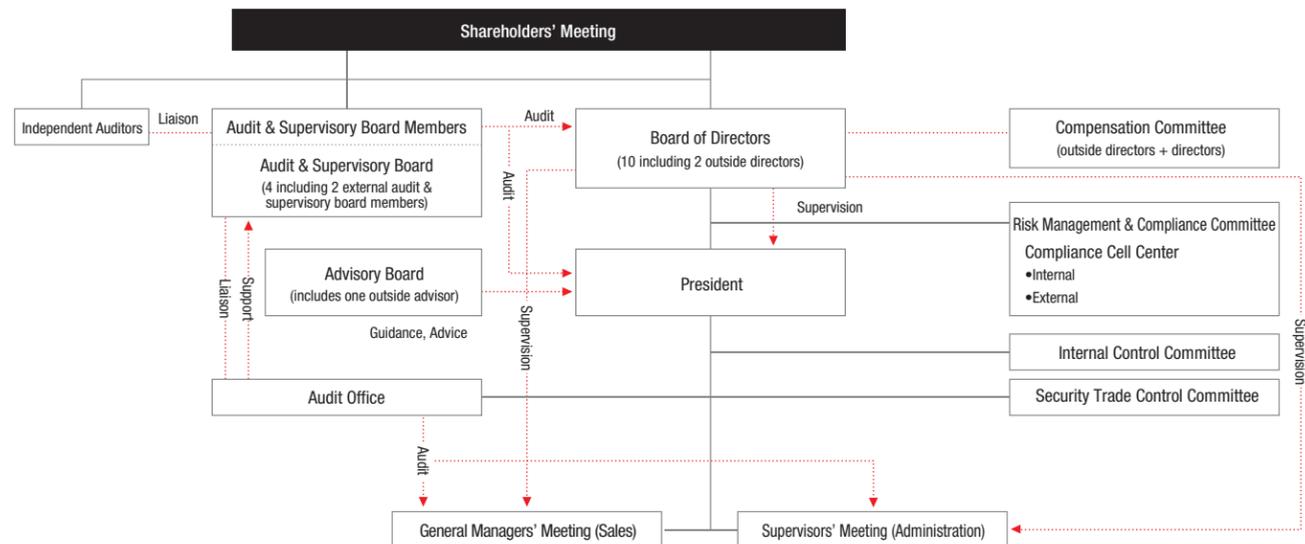
Advisory Board to secure advisors from outside the Company.

Furthermore, Nagase established the following committees to reinforce its corporate governance function.

With the majority of its members made up of outside directors, the Compensation Committee ensures the objectivity and transparency of the Company's directors and executive officers in the decision-making process regarding compensation by screening the appropriateness of every compensation level and the compensation system to report and make recommendations to the Board of Directors. As a consultative body for the Board of Directors, the Risk Management & Compliance Committee establishes and strengthens risk management and compliance systems that cover not only legal compliance but also corporate ethics. The Committee also maintains ISO environmental management standards and promotes energy conservation initiatives.

The Internal Control Committee documents the companywide internal control conditions and financial statement preparation process to further enhance its financial reporting credibility, while maintaining and strengthening a structure to carry out evaluation and improvements. The Security Trade Control Committee thoroughly complies with export related laws and regulations in relation to foreign currency exchange and foreign trade for its trading of cargos and technologies covered by such laws and regulations.

Nagase's Corporate Governance System



Under the executive officer system, Nagase's corporate governance system collaborates with the abovementioned committees to appoint outside directors and members to the Audit & Supervisory Board as well as to reinforce its corporate governance system. Having secured supervision and auditing functions that operate from diversified perspectives, including from outside the Company, Nagase believes the current corporate governance system is more rational than ever. We will increase our efforts to further reinforce our corporate governance system to secure stakeholders' trust.

Director Compensation

Director compensation (excluding outside directors and audit & supervisory board members) consists of basic salary and performance incentives (bonuses). The Company calculates compensation based on director compensation rules, contingent on approval by the Board of Directors. Performance incentive (bonus) amounts are determined according to a basic payment amount based on Company earnings for the period in question. The Company considers individual performance based on the Goal Management System when determining basic salary and director bonuses.

The Compensation Committee assesses the validity of compensation standards and systems, reporting to and advising the Board of Directors. This ensures improved objectivity and transparency in the director compensation decision-making process.

Total Director Compensation by Title, Total Compensation by Type, Number of Eligible Directors (Millions of Yen)

Title	Total Compensation	Total Compensation by Type		Number of Eligible Directors
		Basic Compensation	Basic Compensation	
Directors (excluding Outside Directors)	265	173	91	10
Audit & Supervisory Board Members (excluding External Audit & Supervisory Board Members)	44	44	—	2
Outside Officers	42	42	—	4

Important Matters regarding Employee Bonuses for Employees Also Serving as Directors (Millions of Yen)

Total	Number of Eligible Directors	Comments
50	5	Paid in an amount equivalent to employee bonus

Internal Audit System

The Audit Office is in charge of internal audits, including audits to assess the appropriateness and efficiency of the Company's business activities. The Audit Office is staffed by twelve employees, including certified public accountants, certified internal auditors (CIA), qualified internal auditors (QIA) and other individuals who possess specialized knowledge in internal audits. The Audit & Supervisory Board consists of four audit & supervisory board members (including two external audit & supervisory board members) who have a considerable amount of knowl-

edge about finance, accounting, general corporate management, compliance and governance.

The Company established the Audit Office to also ensure audit & supervisory board members' auditing effectiveness, supplying staff upon request to support the audit & supervisory board members' work. The Audit Office and the Audit & Supervisory Board regularly exchange information regarding internal audits and audits of domestic and overseas subsidiaries, while holding meetings twice a year with affiliate companies' auditors. In addition, they perform wide-ranging liaison activities, including receiving regular reports from Ernst & Young ShinNihon LLC, Nagase's independent auditors, regarding accounting matters and associated internal controls; maintaining a presence during accounting audits; and cooperating as needed with audits conducted at affiliated companies, including those located overseas. In addition to discussing individual matters with audit & supervisory board members on a daily basis, independent auditors also hold meetings twice a year with the Audit & Supervisory Board.

Nagase established the Internal Control Committee and the Committee Affairs Bureau in its internal control section, and the Audit Office serves as the Company's independent internal auditor.

The Audit Office reports results of its internal operational audits to the Internal Controls Committee. The Internal Controls Committee regularly reports on the status of internal controls to the Audit & Supervisory Board and the Company's external auditor.

Audits by certified public accounts are performed in a fair and unbiased manner by a staff of 30, which includes the following specified limited-liability partners and accountant trainees.

Certified Public Accountants	Auditing Firm
Specified limited-liability partners	Ernst & Young ShinNihon LLC
Managing partners	

Independent Directors and Independent Audit & Supervisory Board Members

Nagase appointed all of its outside officers, namely, the two outside directors, Messrs. Iwao Nakamura and Yasuo Nishiguchi, and two external audit & supervisory board members, Messrs. Hideo Yamashita and Toshio Takano, and registered them as Nagase's independent directors and independent audit & supervisory board members with the Tokyo Stock Exchange.

Risk Management and Compliance

The Nagase Group, being aware that risk management and compliance are bound together within one system, establishes, maintains, improves and promotes across the entire Group structures for compliance and risk management that reflect not only legal compliance but also corporate ethics. This Risk Management and Compliance section aims to introduce specific measures being taken with regard to Product Quality Risk and Risks of Handling Various Chemicals, against the backdrop of known risks as the Nagase Group conducts global business development.

Comprehensive Identification, Understanding and Control of Risks

The Company established the Risk Management & Compliance Committee to put in place a comprehensive structure for risk management as well as to monitor risk management and compliance as an advisory body to the Board of Directors. This Committee determines committee member functions and authority, creating a structure of clearly defined roles and responsibilities. Under the committee's leadership, department managers address risks in their particular areas by formulating rules and implementing training. The Company also works through the Risk Management & Compliance Committee to develop systems and departments responsible for additional risks that materialize and strives to lower the risks that could impact the Company's business.

In addition, the Risk Management & Compliance Committee formulates the basic compliance policy to develop and maintain the Company's compliance system and uses regular workshops and other initiatives to ensure that corporate activities are strictly in line with the Nagase Group Code of Conduct. Should employees of Nagase or its Group companies become aware of legal or other compliance issues, they report to the Risk Management & Compliance Committee, which immediately reports to the Audit & Supervisory Board. In addition, the Company has introduced an internal reporting system wherein employees and others can report or discuss issues directly. The Company revised the Nagase Group Code of Conduct in November 2012, distributing the document to all employees throughout the entire domestic and international Nagase organization.

Basic Compliance Policy

As a member of world society, the Nagase Group must 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 its employees. Nagase has developed and carries out the following basic compliance policy. Based on this corporate philosophy, Nagase has adopted and will implement the following Basic Compliance Policy.

This policy defines the behavior standards that Nagase and its officers and employees will observe as it carries out its various business activities.

1 Compliance with laws, regulations and internal rules and regulations

- Corporate activities will be conducted fairly and in good faith, in accordance with laws and rules, and without any deviation from social standards.
- Business activities will be conducted in accordance with the rules of the international community to ensure the continuing growth and development of Nagase as a global enterprise.

2 Elimination of anti-social elements

Anti-social elements that threaten public order and safety will be met with firmness and resolutely eliminated.

3 Provision of goods and services that are useful to society

Nagase will contribute to society by supplying goods and services that are useful to society.

Officers and employees of Nagase must behave in accordance with these behavior standards and endeavor to disseminate them to those within the corporate organization, especially those with whom they work. If circumstances arise in which there is a risk that these behavior standards may be compromised, officers and employees must work to resolve problems without delay and improve operations by identifying the causes of problems and taking steps to prevent recurrences.

4 Respect for the qualities and individuality of employees

- Nagase will respect the autonomy and creativity of every employee and foster a corporate culture in which those qualities can be applied to corporate activities.
- Nagase will protect its employees' health, respect their human rights, treat them fairly and without discrimination, and secure and provide safe and enriching work environments.

5 Disclosure of information to stakeholders

Nagase will strive to ensure transparency by fairly and actively disclosing corporate information to stakeholders, including customers, suppliers, employees and shareholders.

6 Preserving the global environment

Nagase recognizes its responsibility to maintain the global environment in a better condition and will act in accordance with that responsibility.

1 Specific Measures Taken for Individual Risks:

Product Safety and Quality Control

As the Nagase Group accelerates business globalization, the volume of off-shore transactions it engages in as well as exports to and imports from China and other rapidly growing countries is increasing. The Company's principal suppliers to date have been major chemical manufacturers in Europe and the United States, which differ from new suppliers in emerging countries in that transactions with the latter require that initiatives be put in place to prevent the occurrence of quality management and other issues due to legal and regulatory differences between Japan and the countries in question. Therefore, Nagase recognizes the increasing importance of encouraging overseas suppliers to conduct sound quality management.

We have also worked on test programs to strengthen and expand Group-wide research, development, and manufacturing functions, recognizing the impor-

tance of continuing quality improvement for the Group as a whole.

Accordingly, pursuant to the Nagase Group Product Safety Principles, formulated in October 2008, the Company is promoting the formulation of Group-wide rules regarding quality management and product quality assurance while providing its employees with educational programs. Through these activities, we are working to ensure the safety of the products handled throughout the Group.

In tandem with its growth as a business engaged in manufacturing, Nagase will increasingly be called upon to assume responsibility for quality assurance. To assist in this area, the Company established the Quality Assurance Support Team within the Intellectual Property Office in December 2010. Quality Assurance Support manages vendors and contract manufacturers, supporting Group manufacturing companies, as well as providing internal education and other services for sales divisions.

2 Specific Measures Taken for Individual Risks:

Security Trade Controls

As a trading company specializing in chemicals and which also carries out export business activities, mainly of chemical products and plastics, Nagase has set up its own Security Trade Control Regulations and established the Security Trade Control Committee to appropriately implement security trade control. Furthermore, the Company has established a department-level Security Trade Control Office within the Logistics Management Division to specialize in export controls and act as the Security Trade Control Committee's secretariat.

The Security Trade Control Committee meets once quarterly, while the

Export Management Council meets on a monthly basis. At these meetings, the Security Trade Control Committee works to understand the export control situation, the latest revisions to the Foreign Exchange and Foreign Trade Control Law and to ascertain a detailed picture of export controls across the entire Group while formulating related Group policies. The Export Management Council is in charge of directing and educating each business division and Group company in the matters and statute updates determined by the Security Trade Control Committee. It is the responsibility of the Export Management Council to protect the Company and affiliates against the risk of illegal acts with respect to export controls.

Specific Management Framework

At Nagase, with regard to all products for export, the Compliance Program Procedural Administration System (CP-PAS) for goods and technology is employed to record data on export products and overseas customers. Furthermore, these activities are regulated by the Foreign Exchange and Foreign Trade Control Law and the United States' Export Administration Regulations (EAR), while the Sales Division and export control officers confirm whether or not permission to export is required. This system is designed to ensure that only those products approved by the Security Trade Control Office are available for export.

Moreover, going one step beyond mere adherence to the law, we define policies of the entire Nagase Group associated with security export controls that prohibit trade in products that are military-related items or that have military applications. We also make the Nagase Group fully aware of Group policies to prevent any exposure to security export control risks.

Efforts to Promote Personnel Development

Every year, the practical business of security trade controls becomes ever more complex. To keep pace with developments, the Nagase Group encourages its employees—primarily those involved in export operations—to become Security Trade Control (STC) Associates by taking the exam offered by the Center for Information on Security Trade Controls (CISTEC). As of March 2013, the Company had 530 qualified STC Associates in 21 companies, with several STC Experts at Company headquarters. We continue to strive to foster personnel with a high level of knowledge and expertise.

Aiming to Raise Awareness of Security Trade Controls

At Nagase, internal security trade control training is provided to all employees, and the Human Resources & General Affairs Division offers various training opportunities such as orientation for new employees, personnel training according to level, and the implementation of other activities that educate and instill knowledge. In addition, we hold lectures for domestic subsidiaries and affiliates as well as overseas-based subsidiaries, with the entire Group participating. During fiscal 2012, a total of 969 individuals participated in training lectures through e-learning courses.

**3 Specific Measures Taken for Individual Risks:
Regulatory Compliance in Products**

Because of a rising awareness of safety and security in the international community, and against the backdrop of increasing concern with regard to chemical substances, including those that are used in finished products, Nagase

Framework for Compliance with Chemical Laws and Regulations

Every time Nagase begins handling a new chemical, it conducts stringent investigations into the materials involved in the chemical's manufacture and related laws and regulations, while efficiently managing data compiled through such investigations using the above mentioned CP-PAS system. In this way, we are able to swiftly confirm which products contain regulated materials and ingredients and provide our customers with the information they require to confirm compliance with revised laws in Japan and abroad. To meet our own and customers' green procurement requirements, we rebranded our Green Procurement Guidelines (established in February 2007) as Green Procurement Management Regulations in November 2011, providing for the procurement/supply of appropriate goods after verification.

In addition, because we distribute information on the chemical substances contained in products along the supply chain, we endeavor to pass on accurate information by participating in the Joint Article Management Promotion-consortium (JAMP) and by using specialized tools for products containing chemical substances, such as MSDS Plus and AIS.

Strategic Approach to International Chemical Management (SAICM)

The action plan adopted at the 2002 World Summit on Sustainable Development—also known as the Johannesburg Summit—is aimed at ensuring that, by the year 2020, chemicals are produced and used in ways

continues in efforts to improve chemicals and product management, as well as to centralize information management. This strengthens the Company's internal logistics management systems for handling chemicals and managing products in compliance with relevant laws and regulations.

that minimize significant adverse impacts on the environment and human health. In accordance with this policy, the entire world is accelerating the tightening and standardization of regulations concerning chemical management. Consequently, each nation is witnessing dynamic changes in applicable laws and regulations.

Also, the Registration, Evaluation, Assessment of Chemicals (REACH) regulations took effect in Europe in 2007. Following this, in 2009, China, South Korea, Taiwan and other countries bolstered their respective regulatory systems relating to chemical management. In such an environment, as a company promoting business worldwide, Nagase is providing support to its overseas subsidiaries in responding to these legal and regulatory developments.

These legal and regulatory developments naturally affect the finished products in which Nagase products are used. Therefore, it is important for the Nagase Group to offer its customers relevant information, and the Company works to ensure an accurate understanding of worldwide legal and regulatory trends with regard to chemical management. At the same time, with the aim of establishing a system to facilitate the global management of information related to the chemical products and chemical substances used in our products, we are providing product management education and guidance to our overseas counterparts.

Business Continuity Plan (BCP)

During fiscal 2008, the Company created a business continuity plan for a model department assuming a major-scale earthquake and its effects on a typical business division. The plan was approved by the Risk Management & Compliance Committee, as based on government guidelines requiring continuity planning (all major corporations and at least 50% of mid-sized firms required to have plans in place by 2016 as recommended by the Cabinet Office's Central Disaster Prevention Council). This plan was rolled out through

Fiscal 2012 Results

During the fiscal year ended March 2013, the Group conducted a disaster recovery drill simulating an earthquake occurring in the Nankai Trough. Our scenario had the Osaka headquarters and Nagoya Branch Office experiencing damage, and the Group used the Tokyo headquarters as an alternate to provide backup, with each location taking part and responding appropriately in the drill. The locations directly affected by the disaster confirmed the safety of local employees, while the alternate location collected data regarding the safety of all locations, gathered information, and confirmed the operation of our BCP measures, and both extracted other issues according to business function. We will continue to improve the quality of our drills in the future.



the Company's divisions starting in fiscal 2009. By the end of fiscal 2011, all divisions were working to adopt the plan, which is now in a continuous review and improvement stage.

In August 2009, the Company presented the outlines of the business continuity plan to all domestic Nagase Group companies. We hold regular discussions with central Group manufacturing firm Nagase ChemteX Corp., and we are working together with that firm to develop specific stand-alone plans.

Fiscal 2013 Initiatives

At present, all divisions within the Group are adopting business continuity plans. During fiscal 2013 we intend to have relevant departments and individuals read and verify plans, while we create different scenarios with each related Group company to protect value chain integrity, continuing to train in uninterrupted service delivery.



Environmental Management

Nagase Group Environmental Management Structure

Nagase began building an environmental management structure in May 1999 by establishing an Environmental Protection Committee, a role currently assumed by the Risk Management & Compliance Committee. Relatively earlier than other trading companies in Japan, Nagase obtained ISO 14001 certification for its environmental management system in April 2000 in response to societal demands. Since then, the Environmental Protection Committee has offered affiliated companies advice and support for obtaining ISO certifications and thereby expanded the scope of certification. During December 2012, Nagase Elex Co., Ltd. joined Nagase as a certified business establishment. In total, six sales companies (including NAGASE-OG COLORS & CHEMICALS CO., LTD., Nagase Chemical Co., Ltd., Nagase Plastics Co., Ltd., Nagase Abrasive Materials Co., Ltd., Nishinohon Nagase Co., Ltd.) conduct activities under the Environmental ISO Management Organization.

In addition, many Nagase Group manufacturing, processing, services, sales and other Group companies, having acquired certification independently, are conducting their own environmental activities.

We will continue with activities to improve the environmental management systems among certified Group companies.

Environmental Management Activities

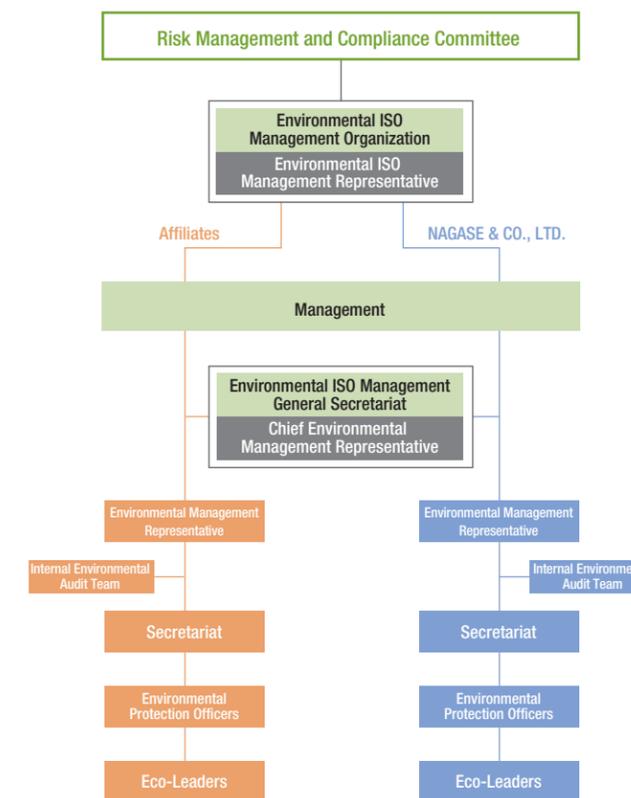
Nagase bases its environmental management activities on daily operations. Specific activities include the creation and expansion of eco-businesses and the enhancement of operational efficiency. The Company is strengthening its existing eco-businesses with new businesses in the energy field, placing extra focus on photovoltaic (PV) generation and energy-storage devices. Under our new three-year plan **Change-S2014**, Nagase will emphasize creating and expanding environmental and energy technology. By promoting information sharing and complementing functions among its departments and business groups, the Company will further reinforce the business structure required for the efficient and flexible provision of products and services that contribute to the realization of a sustainable, recycling-oriented and low-carbon society.

In addition, Nagase is promoting activities aimed at reducing the environmental impact of its business operations. Still, we believe that we can reduce the environmental impact of our business activities by, for example, improving the efficiency of our logistics operations. Acting on this belief, we developed the Nagase Energy Calculation Online (NECO) System, which enables the automatic calculation of domestic cargo transport volume using distribution receipt data managed by our sales control system, bringing it on line in August 2008.

This system makes it possible not only to calculate our annual cargo transport volume and CO₂ emissions but to analyze transport routes for optimization, which also helps reduce our CO₂ emissions. In such ways, the Nagase Group is striving to reduce energy consumption in its logistics operations, thereby contributing to the prevention of global warming.

Beginning fiscal 2012, we have held regular Safety Patrols and Energy and Resource Conservation Patrols in buildings owned by the Company. These patrols ensure safety in the workplace and promote energy savings awareness within the Company.

Environmental Management Structure



Environmental Policy

- 1. Comply with all environmental laws, regulations and other rules**
 - We will observe all environmental laws, municipal bylaws, environmental regulations and other rules as we conduct our business activities.
- 2. Develop businesses that give full consideration to environmental issues**
 - We will conduct our business activities in full awareness of the need to preserve the ecosystem and protect the environment, and we will make every possible effort to give full consideration to the environment within the limits of technological and economic feasibility.
- 3. Fulfill our responsibilities as a good corporate citizen**
 - As a good corporate citizen we will work together with public institutions, industry, and local communities to promote environmental conservation measures that are suitable for the Nagase Group.
- 4. Establish and continually improve an environmental management system**
 - We will work to construct an environmental management system in order to fully achieve the objectives set out in this Policy. We will continuously make improvements to this system by setting concrete goals and working to fulfill them.
- 5. Disclose and make the relevant parties fully aware of our Environmental Policy**
 - We will disclose the Policy to the public and make all who work for the Nagase Group fully aware of its contents.

Environmental Burden Reduction Activities

Together with efforts to reduce its environmental impact, NAGASE & CO., LTD., the core company of the Nagase Group, intends to “develop businesses that give full consideration to environmental issues” as one important element of its environmental policy. Nagase contributes to reducing environmental burden through the discovery and development at Group manufacturing companies of environment-oriented products and materials that are vital to society.

In line with revisions made to the Act on the Rational Use of Energy, Nagase has been designated as a “specified corporation” by the Bureau of Economy, Trade and Industry since its energy usage exceeds fixed levels. Consequently, since fiscal 2011, we have compiled data on the amount of energy consumed at every facility, formulated medium- and long-term energy reduction plans, and submitted regular reports to the Bureau of Economy, Trade and Industry.



We built a roof-top greening system on the west terrace of our headquarters building in Tokyo. This system uses a non-irrigation vegetation base to effectively catch moisture, evenly distribute water, insulate, and provide evapotranspiration, eliminating the need for regular watering. During summer months, offices directly below the space enjoy a proven average two-degree cooling effect (measured above the ceiling) compared to locations not under the greening system. A similar system is being built at the Company's Osaka headquarters building.

Activities Undertaken by Nagase ChemteX

Nagase ChemteX Corp., a core manufacturing subsidiary of the Nagase Group, promoted energy conservation activities by developing an energy-saving framework at all its facilities in accordance with the revised Act on the Rational Use of Energy. Nagase ChemteX is also working to reduce greenhouse gases. To this end, Nagase ChemteX has undertaken the following key energy-conservation measures: formulated and monitored energy conservation targets at each department based on the efforts of all employees; established a system to improve energy conservation-related proposals; and improved capital investment activities undertaken by Energy Conservation Committee staff members.

In addition, Nagase ChemteX decreased greenhouse gas emissions by upgrading to high-efficiency boilers and switching from heavy oil to liquid natural gas in January 2009. Through these actions, Nagase ChemteX was designated as a greenhouse gas emission-reducing business under the Japanese government's Domestic Carbon Credit System in March 2011.

During fiscal 2012, the Kansai Electric Power Co. Inc. asked Nagase to cooperate with energy-saving measures during the hot summer months. In September, we signed a special peak-time adjustment contract to cut 15% of used electricity. We achieved that goal for all three months of the contract, earning a discount on electricity fees.



Nagase's Environmental Business

1 Electronic Chemicals Business

Nagase currently manufactures and sells a chemical management system (CMS) to control the concentration of chemicals used in the manufacture of semiconductors and liquid crystal displays (LCDs) in order to make the process more stable. Moreover, the Company reuses chemicals. The waste solvent recovery system contributes to zero emissions by collecting and processing waste solvents that individual companies have difficulty reducing, and reusing them as raw materials for different industries.



Developer Dilution Supply Equipment



Precision Filtration Equipment

In addition, we relied on Group technologies, our expertise, and successful track record to build an on-site plant within Green Front Sakai (Sakai Display Products Corporation, formerly Sharp Sakai Plant) to manufacture, supply, and recycle chemicals used in the manufacture of LCD panels. The plant came online in October 2009. Utilizing the CMS and Nagase ChemteX Corp.'s chemical recycling technologies, this on-site plant recycles developer, stripping agents and other chemicals. Concentrating the Nagase Group's long-accumulated technologies at this recycling-oriented plant will enable major reductions in the use of chemicals and raw materials as well as significant environmental contributions.



Chemical Recycling Plant within "Green Front Sakai"



Developer Control Equipment

2 Nagase Enters Organic Fertilizer and Agribusiness

Kawai Hiryo manufactures organic fertilizers, including Bokashi fertilizers, and agricultural chemicals and materials, and supplies these products to professional agricultural producers nationwide. Bokashi fertilizers feature (1) easier breakdown in soil and (2) easier plant absorption of components in the fertilizer. This is accomplished by obtaining limited food residues and other organic raw materials, turning them into high-value-added fertilizer through fermentation and aging.

During fiscal 2012, Kawai Hiryo worked to expand sales of Akitsushima, a high-activity Bokashi fertilizer sold through our fertilizer business that is used as raw materials for local chicken production in Tokushima Prefecture. The company was certified as a major sales agent of Ajinomoto Healthy Supply, Inc., promoting and selling high-function liquid fertilizers, including AMIHEART and AJIFOL. The company is helping generate higher-quality agricultural production throughout Japan, from Hokkaido in the north to Kyushu in the south.

Another major Kawai business is in the growing/sales of tomatoes and other premium agricultural goods. Here, the company works in cooperation with affiliate Uma Yasai Farm to expand the Uma Yasai brand products based on proprietary cultivation technologies. This venture is designed to expand production of agricultural goods using the Kawai fertilizers.

Going forward, Kawai will integrate with the Nagase Group bio technologies, actively developing fertilizers and agricultural materials, engaging in agricultural pursuits through proprietary means, and establishing a new generation of high-value-added businesses.



3 Smart Grid Business

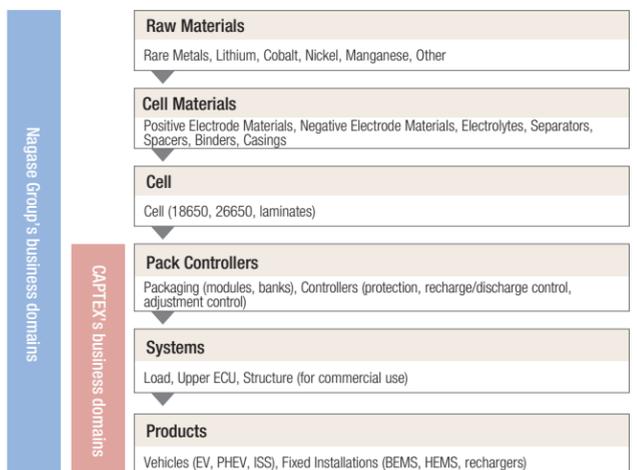
The Nagase Group has started a business based on a system that combines photovoltaic electricity and rechargeable lithium ion batteries. Wholly owned subsidiary Captex Co., Ltd. is taking the main role in development and manufacturing, focusing on rechargeable lithium ion battery control modules.

These control modules require rechargeable batteries to be highly efficient, long-lived, and safe, which demands control technologies that can manage battery information. Captex are experts in advanced control technologies for the remote management of rechargeable battery information, and the company is using these assets to design and develop control circuits and packaging for the batteries.

We are gaining the support of numerous customers owing to the provision of one-stop services in the following areas: (1) Rechargeable battery system overview (dimensions and voltage); (2) Project proposals (concept, structural, controller design, etc.); (3) Specification reviews (sample creation: design, casing, battery power source, electrical discharge control, transmission; evaluation: electrical discharge, heat, vibration testing); (4) Verification (Benchmarks and monitor evaluation); (5) Mass production (battery packaging, compact power source, recharge system).

With the completion of a high-volume production plant* in Okazaki City, Aichi Prefecture, in April 2012, we are expanding applications of lithium ion battery control modules beyond automotives to smart grids oriented to residential, office, commercial facility, factory and other uses.

*Land area: approx. 23,000m², floor area: approx. 5,000 m² (2 stories, completed: April 11, 2012)



Social Contribution Activities

1 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 its business operations, the Company has come to understand the importance of basic research in biochemistry and organic chemistry. In line with this realization, we established the Nagase Science and Technology Foundation in 1989 with the aim of supporting research and development, as well as international exchange, in fields including biochemistry and organic chemistry, promoting advances in scien-

tific technology and ultimately promoting socioeconomic development.

Current contributions include research grants to researchers, etc. To date, the foundation has awarded a cumulative 392 research grants and 178 international exchange fellowships (discontinued in fiscal 2004), the sum of which totals approximately ¥1.02 billion.

Beginning anew as a charitable organization on April 1, 2011, Nagase Science and Technology Foundation began providing research grants accompanying the bestowing of the Nagase Research Promotion Award.

Research Grants Provided in Fiscal 2013

Name	Organization	Title	Subject matter
Biochemistry			
Hiroyasu Ogino	Department of Chemical Engineering, Osaka Prefecture University	Professor	Development of organic solvent-tolerant enzymes
Shigenobu Kishino	Graduate School of Agriculture, Kyoto University	Assistant Professor	Construction of the rare fatty acid library by specific fatty acid metabolism in anaerobic bacteria
Shinji Sugiura	Research Center for Stem Cell Engineering, National Institute of Advanced Industrial Science and Technology (AIST)	Senior Scientist	Development of microenvironment array chip for screening of stem cell differentiation condition
Naoki Sugimoto	Frontier Institute for Biomolecular Engineering Research (FIBER), Konan University	Professor	Regulation of translational frameshift of RNA and function of produced protein mediated by non-canonical structures of mRNA
Takashi Sera	Graduate School of Natural Science and Technology, Okayama University	Professor	Editing of bacterial genomes using novel artificial restriction enzymes
Motohiro Tani	Department of Chemistry, Faculty of Sciences, Kyushu University	Associate Professor	Study on regulation of metabolism and signaling of biomembrane phospholipids
Ken-ichi Nishiyama	Cryobiofrontier Research Center, Faculty of Agriculture, Iwate University	Professor	Elucidation and application of molecular mechanisms underlying the function of MPlase, a glycolipolyase essential for membrane protein integration
Kohsuke Honda	Graduate School of Engineering, Osaka University	Associate Professor	Synthetic metabolic engineering -toward the on-demand bioproduction
Kenji Matsuno	Graduate School of Science, Department of Biological Sciences, Osaka University	Professor	Mechanisms of planar cell chirality formation through Myosin I
Toshiyuki Wakimoto	Graduate School of Pharmaceutical Sciences, The University of Tokyo	Associate Professor	Search for bacterial symbionts producing sponge metabolites
Kenji Watanabe	Department of Pharmaceutical Sciences, University of Shizuoka	Associate Professor	Targeted disruption of transcriptional regulators in fungi activates biosynthetic pathways
Organic Chemistry			
Masanobu Uchiyama	Graduate School of Pharmaceutical Sciences, University of Tokyo	Professor	Development near-IR molecules opening a new field of material and life sciences
Tsuneomi Kawasaki	Department of Materials Science and Engineering, University of Fukui	Associate Professor	Development of the enantioselective synthesis of amino acids using oriented prochirality of achiral imine at the single crystal surface
Takeo Kawabata	Institute for Chemical Research, Kyoto University	Professor	Regioselective total syntheses of natural glycosides
Wataru Setaka	Faculty of Urban Environmental Sciences, Tokyo Metropolitan University	Associate Professor	Synthesis and properties of crystalline molecular gyrotrop having a thiophene rotor
Takashi Nakanishi	Polymer Materials Unit, National Institute for Materials Science	Principal Researcher	Room temperature liquids of metal complexes: Electro-chromic and -magnetic liquid materials
Shuichi Nakamura	Graduate School of Engineering, Nagoya Institute of Technology	Associate Professor	Development of highly functional chiral catalysts and reagents having coordination group
Satoshi Minakata	Graduate School of Engineering, Osaka University	Professor	Development of organic reactions using mono- and trivalent iodine reagents

2 Active Contributions to Society

At the Nagase Group, one element of our environmental policy is to fulfill our responsibilities as a good corporate citizen. This is demonstrated by collaboration, sponsorship and other support, as well as participation in external organizations

TABLE FOR TWO Initiative

In October 2008, Nagase Tokyo Head Office participated in the TABLE FOR TWO (TFT) program operated by the NPO organization TABLE FOR TWO International as part of its employee-participatory social contribution activities. The Osaka Head Office also took part in the TFT program in January 2009. TFT was launched to reduce the incidence of life-style-related diseases caused by overeating and obesity in advanced countries including Japan, while extending food assistance to developing countries where people suffer from the shortage of food.

Every time a TFT healthy meal—a meal that includes an ample portion of vegetables—is bought at our employee dining halls, the employee who makes the purchase and the Company each donate 10 yen to the TFT office. This buys one highly



nutritious school meal for a child in the developing world. The total number of meals donated was 64,941 as of March 2013.

As there is no employee dining hall in the Nagoya Branch, the facility participates in TFT activities via vending machines. Purchasing beverages at special vending machines results in a contribution of a percentage of the sale. The Osaka branch has also installed TFT vending machines, making more opportunities available for social contributions outside the employee dining hall.

Collecting Used Stamps and Prepaid Cards

All Nagase locations have a place for collecting used stamps and prepaid cards. These items are regularly donated to the Japan Overseas Christian Medical Cooperative Service, which uses them to support overseas medical activities.



Together with Our Employees (Diversity, Work-Life Balance, Professional Development)

As part of its promotion of global business operations, the Group considers it important to create new value for its companies by utilizing diverse human resources and providing comfortable work environments where each Group employee can demonstrate his or her abilities to the fullest.

Recognizing the need for a long-term plan to achieve this goal, we launched the diversity committee in 2008, continuing to roll out initiatives since that time.

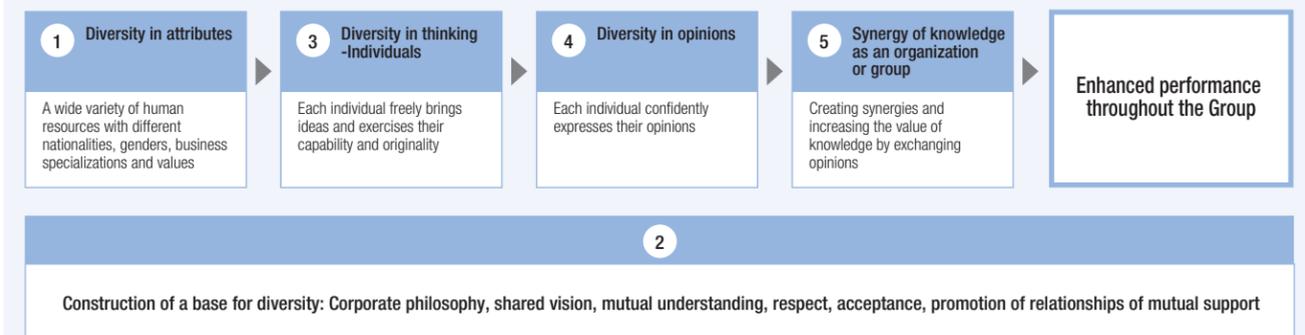
Diversity

1 Basic Stance on Diversity

The Nagase Group currently employs a diverse range of workers who differ in terms of gender, nationality, age, values and lifestyles. The Group considers that the development of corporate culture will lead to the creation of new businesses as well as the improvement of business performance throughout the Group. These objectives involve the development of a corporate culture in

which a diverse range of workers can share ideas, build shared acceptance through mutual understanding and help each other perform tasks while working vigorously and generating new synergies by exchanging values. Accordingly, the Nagase Group positions diversity as one of its important corporate strategies.

Objectives to Achieve through the Promotion of Employee Diversity



2 Diversity Initiatives

Our diversity initiatives began in earnest in fiscal 2008 with the launch of the Diversity Promotion Committee. We conducted a second annual survey during fiscal 2011, and will continue to monitor our progress over a three-year span as we introduced new activities in fiscal 2012.

We believe that diversity is an issue that our employees need to learn more about over time. To this end, the first three years of this program mainly called for education-based activities. Based on our surveys, however, we have started looking at more specific measures, including the fiscal 2012 initiatives listed on the right.

- 1 Continued messages via internal corporate communications (in-house education)
- 2 Career support program trial (Diversity in organization and individuals—career planning support)
- 3 Participation in inter-industry interchange meetings for female employees (same as above)
- 4 Home care seminars (Development of comfortable workplace)

Themes for Diversity Promotion

- 1 Sharing corporate philosophy and vision
- 2 Enhancement of transparency
- 3 Reinforcing relationships of friendly competition
- 4 Encouraging a breakthrough to the current situation
- 5 Eliminating a mindset that leads to gender bias
- 6 Creating a work environment in which employees feel free to utilize the in-house benefit system

Specific Measure In-house education

1

- ① Periodic messages from top management, Broadcasts of related information
- ② Instill deeply into Management Philosophy, Nagase Way, Direction, Current Conditions

Specific Measure Diversity in organization and individuals

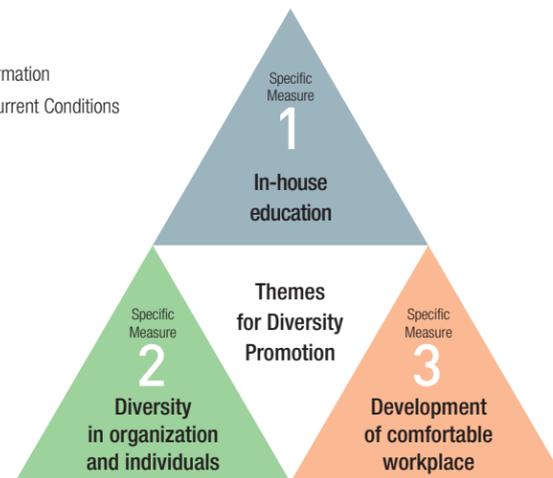
2

- ③ Improve global communications
- ④ Support for employees' career development
- ⑤ Continue employing non-Japanese, women for managerial positions; improve culture

Specific Measure Development of comfortable workplace

3

- ⑥ Instill awareness and activate initiatives for continuity and productivity improvements
- ⑦ Support employees who are dealing with home care or other challenges



Work-Life Balance

1 Basic Stance on Work-Life Balance

Striking a balance between work and life is indispensable to the promotion of employee diversity. Therefore, the Group maintains a comfortable workplace for employees with diverse characteristics to realize a good work-life balance. Nagase believes a good balance between work and life will bring benefits to both the Company and employees, and thus strives to raise awareness in house and develop work-life balance-related systems.

2 Work-Life Balance Initiatives

During fiscal 2012 we partially revised the current internal system, allowing employees to split home-care time off (up to two segments for each incident requiring home care). In addition, employees now can use up to five days per year for long-term sick leave (accumulated paid time off) when they need time off to care for a parent after using all regular eligible paid time off. The Company offers home care seminars (in conjunction with a not-for-profit organization) as another joint management-labor program to educate employees on corporate benefits. Nagase will make continuing efforts to enhance work-life balance to achieve even more comfortable work environments.



Professional Development

1 The Nagase Group Professional Development Policy

The Nagase Group Approach to Professional Development

The Nagase Group professional development program consists of a natural combination of on-the-job and off-the-job training. On-the-job training lets employees experience real-world work in a variety of roles to gain new knowledge and skills. Off-the-job training also involves training and gaining skills through both formal classes and self-directed learning.

The general consensus is that on-the-job training is an extremely important part of professional growth. However, we believe that on-the-job training can't be effective without adding new knowledge, skills, and systems for understanding them. The Nagase Group promotes on-the-job training, while at the same time ensuring employees are able to learn knowledge and skills for their continued growth. These programs include rank-specific, position-specific, and elective training, and other education opportunities.

Promoting Group Functions through Organization-Wide Human Resources Development

Under our *Change-S2014* medium-term business plan, our basic strategy is to bring to bear the total strength of the Nagase Group into the important fields along our value chain. The plan also defines Group-wide education programs based on rank, as well as improved headquarters-based training for overseas national staff.

Instilling Our Management Philosophy and the Nagase Way

The Nagase Way is a common code of conduct that guides Nagase Group employees in our management philosophy, vision, and strategy. Rank-specific Nagase Way training and on-site Nagase Way workshops are two ways that we continue to instill a better understanding of the Nagase Way among employees.

2 Major Topics under Change-S2014 for Nagase & Co.

Promoting globalization in our employees and sponsoring management training to create leaders with business skills

We have identified two major topics under Change-S2014 for professional development.

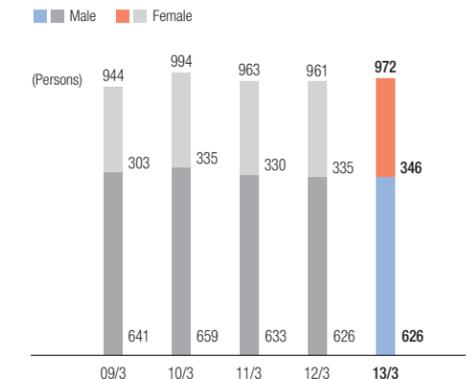
① Promote globalization	Overseas business school and practical training required for senior career-track employees (Assistant Manager); intercultural education programs (by title, responsibility)
② Train managers	Introduce a coaching program for division managers; add section manager training courses Basic MBA Skills (Globis)

We will continue to revise Group education and training programs according to changes in the external business environment and Nagase Group strategy.

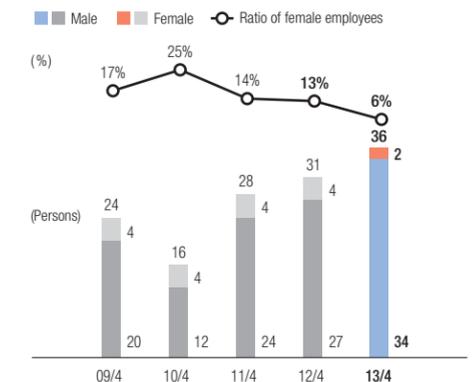
Number of Participants at Main Training Programs

Training Program	Fiscal 2010	Fiscal 2011	Fiscal 2012
Rank-specific	398	486	527
Elective	18	15	14
Overseas	12	5	14
The Business Leadership Program for Overseas National Staff	37	29	46

Number of Employees by Gender



Number of Career-track Employees Hired among New Graduates



Staff Development Program

	Rank-specific, Position-specific, Elective	For Clerical Position Staff	Other	For National Staff
General Manager	Overseas Business School Enrollment			
Division Manager	Division Manager Education Program (Domestic/International Business School Enrollment) Division Manager Training Program (Coaching)			
Section Manager	NMP (Nagase Management Program) Manager Training			NMP (Nagase Management Program)
Section Staff	Management Skills Seminar MBA Basics Education Program Strategic Planning Training	SA Training (Promotion)	Pre-assignment training Supervisor training Elective training	GMP (General Management Program)
	MBA Basics Education Program Overseas Business On-the-Job Training Strategic Planning Basics (Sixth Year)			BMP (Basic Management Program)
	Core/Skill Training (Second Year)			Clerical Position Business Skills Training (Second Year)
	Follow-Up Training Core Businesses Training On-the-job Training Introductory Training			Follow-Up Training Office Systems Training Introductory Training

	(Millions of yen)						Thousands of
	2008	2009	2010	2011	2012	2013	U.S. Dollars (Note 1)
For the Fiscal Year:							
Net Sales	¥ 764,755	¥ 715,238	¥ 603,949	¥ 660,213	¥ 631,854	¥ 666,272	\$7,084,232
Domestic	432,813	394,874	360,382	389,379	366,369	361,971	3,848,708
Overseas	331,942	320,364	243,567	270,833	265,485	304,301	3,235,524
Gross Profit	80,506	71,527	65,415	73,008	71,628	82,583	878,075
Operating Income	23,063	12,522	13,128	18,732	13,427	15,578	165,635
Income before Income Taxes and Minority Interest	20,264	11,183	13,534	20,918	16,536	19,458	206,890
Net Income	10,005	5,808	7,537	12,823	8,570	14,182	150,792
As of the Fiscal Year-End:							
Total Assets	¥ 419,869	¥ 340,968	¥ 368,088	¥ 375,336	¥ 450,842	¥ 486,747	\$5,175,407
Net Assets	208,377	191,931	202,753	209,316	212,744	237,806	2,528,506
Interest-Bearing Debt	33,342	31,340	21,886	27,125	88,710	98,425	1,046,518
Share Price (Yen)	1,018	761	1,169	990	1,024	1,147	12.20
Market Value	140,899	105,328	161,799	137,024	141,730	158,754	1,687,974
Number of Shares Issued and Outstanding (Thousands of Shares)	138,408	138,408	138,408	138,408	138,408	138,408	—
Number of Shareholders	6,324	5,801	5,446	5,136	6,124	6,921	—
Number of Employees	4,335	4,506	4,469	4,693	5,545	5,897	—

	(Yen)						U.S. Dollars (Note 1)
	2008	2009	2010	2011	2012	2013	
Per Share Data:							
Net Income	¥ 77.86	¥ 45.17	¥ 58.64	¥ 99.76	¥ 66.69	¥ 111.31	\$ 1.18
Net Assets	1,559.97	1,435.88	1,519.61	1,568.04	1,592.87	1,803.31	19.17
Cash Dividends	17.00	16.00	16.00	22.00	24.00	26.00	0.28
Ratios:							
Operating Margin (Operating Income / Net Sales) (%)	3.0	1.8	2.2	2.8	2.1	2.3	—
Ratio of Income before Income Taxes and Minority Interests to Net Sales (%)	2.6	1.6	2.2	3.2	2.6	2.9	—
Return on Sales (ROS) (%)	1.3	0.8	1.2	1.9	1.4	2.1	—
Total Assets Turnover (Times)	1.8	1.9	1.7	1.8	1.5	1.4	—
Return on Assets (ROA) (%)	2.4	1.5	2.1	3.4	2.1	3.0	—
Return on Equity (ROE) (%)	4.9	3.0	4.0	6.5	4.2	6.5	—
Shareholders' Equity Ratio (%)	47.8	54.1	53.1	53.7	45.4	46.9	—
Debt to Equity Ratio (Times)	0.17	0.17	0.11	0.13	0.43	0.43	—
Current Ratio (%)	168.3	197.3	195.3	200.2	155.4	184.4	—
Interest Coverage Ratio (Times) (Note 2)	23.2	13.5	23.2	35.4	21.26	15.46	—

Note: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥94.05=U.S. \$1.00, the approximate rate of exchange prevailing on March 31, 2013.
 Note: 2. Interest coverage ratio is calculated as (operating profit + interest income + dividend income)/interest expense.

Business Lines and Scope of Consolidation

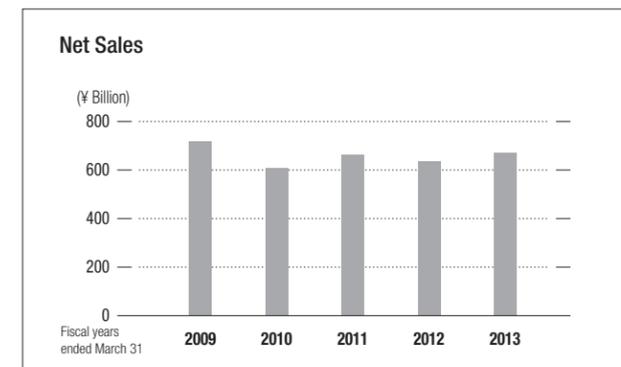
The Nagase Group imports and exports a diverse array of products and engages in domestic transactions, with NAGASE & CO., LTD. (the "Company" or "NAGASE") at its center. In addition, the Nagase Group manufactures and sells products and provides services. These businesses are conducted by 104 related companies, consisting of 76 subsidiaries and 28 affiliates. The scope of consolidation includes 61 subsidiaries as well as 21 affiliates, which are accounted for by the equity method.

Overview of Results

Net Sales

During the period under review, Japan's economy was a mix of good and bad news, depending on the region and industry. Consumer sentiment was weak, while the economic stagnation in Europe, slowing growth in China, and anti-Japanese demonstrations there, were all factors dragging on the economy. The recent weakness in the yen has led to an improved export environment and rising share prices in the stock market—both promising signs of recovery. However, the impact of these positive factors was limited, making for an overall challenging business environment.

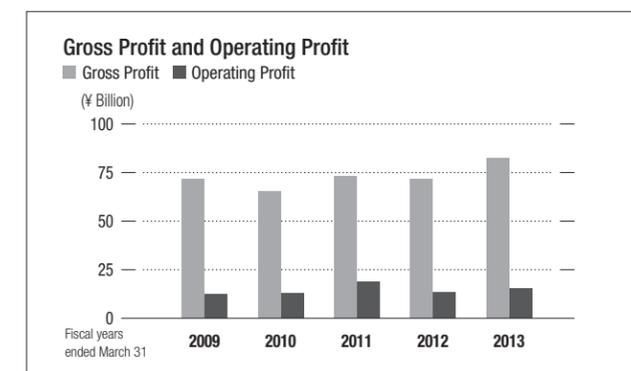
In response to this environment, the Nagase Group recorded domestic sales of ¥361.97 billion (1.2% year-on-year decrease) and overseas sales of ¥304.3 billion (14.6% increase). Consolidated net sales amounted to ¥666.27 billion, representing a 5.4% year-on-year increase.



Gross Profit and Net Income

By adding Hayashibara Co., Ltd. to our consolidation, and with strong sales of components for smart phones and tablets, the Group recorded year-on-year gross profit increase of 15.3%, reaching ¥82.58 billion. As a result, our gross profit ratio rose 1.1 points to 12.4%.

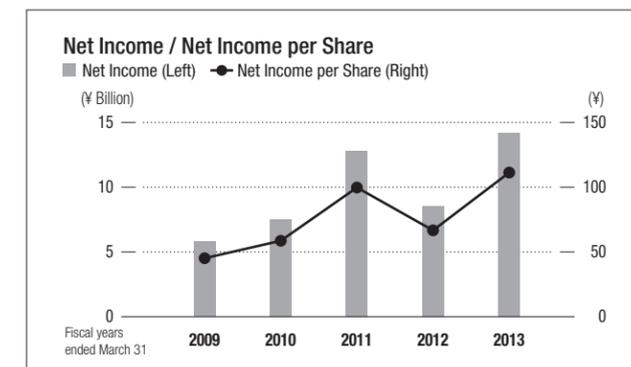
Operating profit climbed 16% compared to the prior fiscal year, to ¥15.57 billion. The Group felt the negative impact of higher selling, general and administrative expenses with the addition of new consolidated subsidiaries as well as higher operating losses among several subsidiaries. However, a change in depreciation method for property, plant and equipment led to lower depreciation and amortization expense, offsetting the downward pressure on results. The Group's operating margin improved 0.2 points compared to the prior fiscal year, rising to 2.3%.



The Nagase Group recorded ordinary income of ¥17.92 billion, which was a 14.3% year-on-year increase. While the Group enjoyed an increase in equity in earnings of affiliates, interest expense associated with securing long-term loans to acquire Hayashibara Co., Ltd. also rose significantly. The ordinary income ratio improved 0.2% compared to the prior fiscal year, amounting to 2.7%.

Net income before income taxes and minority interest amounted to ¥19.45 billion, which was a 17.7% year-on-year increase. The ratio of income before income taxes and minority interests to net sales improved 0.3 points to 2.9%.

As a result, the Group recorded net income of ¥14.18 billion, a 65.5% year-on-year increase. Return on sales (ROS) improved 0.7 points, up to 2.1%. Net income per share improved from ¥66.69 in the prior fiscal year to ¥111.31 for the year under review.



Results by Business Segment

Functional Materials

Fiscal years ended March 31		(¥ Million)
	2012	2013
Net Sales	177,126	180,025
Segment Income	6,285	5,428
Segment Assets	81,267	81,384
Depreciation and Amortization	599	434
Amortization of Goodwill	1	—
Goodwill	—	—
Amount Invested in Equity Method Affiliates	367	1,781
Amount of Increase in Tangible and Intangible Fixed Assets	1,107	626

Net sales of Functional Materials rose ¥2.89 billion (+1.6%) year on year, up to ¥180.02 billion. Despite significant growth in Southeast Asia, sales in Japan and Northeast Asia fell, resulting in a slight gain overall. In contrast, operating profit fell ¥850 million (-13.6%) to ¥5.42 billion for the period. Increased earnings in Southeast Asia only had a minor impact on profits, while lower revenues in Japan and Northeast Asia led to gross profit declines as well.

As a whole, the performance chemical business experienced slightly lower year-on-year sales. Sales of plastic materials and additives to the Asian markets fell, while anti-Japanese sentiment in China led to decreased sales of urethane materials to the automotive industry. Despite this weakness, the Group recorded solid sales of coating raw materials for domestic construction, and increased year-on-year sales of basic chemicals in Southeast Asia and additives for the Middle East.

The specialty chemicals business recorded lower year-on-year sales as a whole. While sales of surfactants performed well, sales of raw materials for industrial oil solutions and fluorochemicals for the automotive and fiber industries were weak. Sales of precision abrasive materials for the hard disk drive industry also came in at levels lower than the prior fiscal year.

Advanced Materials & Processing

Fiscal years ended March 31		(¥ Million)
	2012	2013
Net Sales	217,929	214,546
Segment Income	2,979	2,386
Segment Assets	105,771	108,696
Depreciation and Amortization	693	537
Amortization of Goodwill	—	—
Goodwill	—	—
Amount Invested in Equity Method Affiliates	233	1,545
Amount of Increase in Tangible and Intangible Fixed Assets	225	853

Advanced Materials & Processing recorded net sales of ¥214.54 billion, which was a ¥3.38 billion (-1.6%) year-on-year decrease. This result was mainly due to lower domestic sales, despite gains in Northeast Asia and Southeast Asia. Operating profit came in at ¥2.38 billion, or a ¥0.59 billion (-19.9%) year-on-year decrease. Factors contributing to this decline included lower gross profit levels, stemming from lower revenues, and wider operating losses among the Group's

manufacturing facilities related to office equipment and appliances.

The Group's colors and imaging business recorded lower overall sales compared to the prior fiscal year. Sales underperformed prior-year levels in dyes/additives and information printing materials. At the same consolidation and reorganization among dyestuffs and textile processing agents for the textile processing industry also placed downward pressure on sales for the year.

Office Equipment and Appliances saw an overall increase in sales compared to the prior fiscal year. Despite lower sales domestically and decreased exports of raw materials to major users, sales of plastics grew in Asia, while exports of molding tools also outperformed prior-year levels.

As a whole, business in functional films and sheets and plastic molding products fell year on year. Despite sales gains in anti-reflective sheets for game machines, these gains were more than offset by declines in sales of liquid crystal polarizer film precision inspection systems.

Electronics

Fiscal years ended March 31		(¥ Million)
	2012	2013
Net Sales	110,495	116,105
Segment Income	6,019	6,297
Segment Assets	52,834	61,760
Depreciation and Amortization	1,927	1,508
Amortization of Goodwill	23	96
Goodwill	1,884	2,046
Amount Invested in Equity Method Affiliates	103	56
Amount of Increase in Tangible and Intangible Fixed Assets	4,079	2,784

The Electronics business recorded significant revenue growth in Northeast Asia, as well as gains in Japan, Southeast Asia, Europe, and the United States. As a result, net sales amounted to ¥116.1 billion, representing a ¥5.6 billion (+5.1%) year-on-year increase. Operating profit came in at ¥6.29 billion, or a ¥0.27 billion (+4.6% increase), mainly due to gross profit linked sales increases in touch-panel materials.

The Group's Electronic chemicals business experienced lower year-on-year revenues as a whole. Solid performance in formulated epoxy resin sales for mobile phones was more than offset by lower comparable sales of chemicals used in the manufacture of semiconductors and LCD panels.

Meanwhile, the Electronic materials business saw significant gains in touch-panel materials revenues, outpacing weaker performance in liquid crystal film and LED-related components.

Automotive & Energy

Fiscal years ended March 31		(¥ Million)
	2012	2013
Net Sales	76,113	83,068
Segment Income	936	763
Segment Assets	34,795	37,387
Depreciation and Amortization	530	250
Amortization of Goodwill	—	—
Goodwill	—	—
Amount Invested in Equity Method Affiliates	726	1,613
Amount of Increase in Tangible and Intangible Fixed Assets	1,515	92

The Automotive & Energy segment enjoyed revenue growth compared to the prior fiscal period. During the first half of the year, demand for reconstruction in the wake of the March 11 disaster and government eco-car subsidies domestically led to major growth in auto production. Overseas, Japanese car makers again saw production gains. These factors combined to push Group revenues for raw materials and parts to the Japanese and international auto markets higher.

Meanwhile, the second half of the fiscal year saw the end of eco-car subsidies, leading to lower domestic sales. Anti-Japanese sentiment in China pushed auto manufacturing by Japanese companies lower, meaning weaker sales performance by the Group in the related Japanese and Chinese markets. However, favorable sales trends in North America and ASEAN worked to drive sales for the segment higher overall year on year.

As a result, net sales for the Automotive & Energy segment amounted to ¥83.06 billion, representing a ¥6.95 billion (+9.1%) increase compared to the prior fiscal year. Operating profit came in at ¥0.76 billion, or a ¥0.17 billion decrease (-18.4%). This was mainly the result of operating losses in our energy business, for which improved profitability in export transactions stemming from a weakened yen during the fourth quarter could not compensate.

Life & Healthcare

Fiscal years ended March 31		(¥ Million)
	2012	2013
Net Sales	49,170	71,685
Segment Income	706	3,986
Segment Assets	102,317	95,735
Depreciation and Amortization	813	2,025
Amortization of Goodwill	126	1,516
Goodwill	30,195	28,679
Amount Invested in Equity Method Affiliates	1,598	1,856
Amount of Increase in Tangible and Intangible Fixed Assets	1,438	3,028

In Life & Healthcare, sales improved significantly as a whole compared to the prior fiscal year. This result was mainly due to the consolidation of functional saccharides business sales from Hayashibara Co., Ltd. (net sales of ¥24.41 billion), acquired by the Group during the prior fiscal year. As a result, net sales amounted to ¥71.68 billion yen, representing a year-on-year increase of ¥22.51 billion (+45.8%). Operating profit amounted to ¥3.98 billion, a ¥3.27 billion (464.1%) increase, again, mainly due to the addition of Hayashibara functional saccharides.

As a whole, the Group's fine chemicals business experienced revenue growth for the period under review. Sales of pharmaceutical raw materials and intermediates were level with the prior fiscal year, while in vitro diagnostics and medical materials performed relatively well. At the same time, the Group saw strong sales gains in trehalose and other functional saccharides. Enzyme and fermentation products also reported steady revenue trends in the food and starch sectors.

The beauty care products business (cosmetics and health foods sales) recorded higher sales of newly introduced health foods and whitening cosmetics; however, overall revenues were down due to decreased sales in major cosmetics products launched during the prior fiscal year.

Other

The Other business segment saw lower revenues and higher profits for the fiscal period under review. Net sales amounted to ¥0.84 billion, a ¥0.17 billion decrease (-17.4%), while operating profit showed a ¥0.12 billion year-on-year increase (+87.9%), up to ¥0.26 billion.

Financial Condition

Consolidated Statement of Cash Flows

Cash and cash equivalents at the end of the year amounted to ¥45.81 billion, representing a ¥17.29 billion (+60.7%) increase compared to the end of the prior fiscal year.

■ Cash Flows from Operating Activities

Cash flows from operating activities amounted to ¥18.57 billion for the fiscal year under review. Cash outlays for income tax payments amounted to ¥6.38 billion, which was more than offset by net income before income taxes and minority interests of ¥19.45 billion and non-cash depreciation and amortization of ¥7.44 billion.

■ Cash Flows from Investing Activities

Cash flows used in investing activities amounted to ¥9.52 billion. While the Group recorded cash inflows from the sales of property, plant and equipment in the amount of ¥3.23 billion, cash used in the acquisition of non-current tangible and intangible fixed assets amounted to ¥12.26 billion.

■ Cash Flows from Financing Activities

Cash flows from financing activities amounted to ¥1.16 billion for the fiscal year under review. The Group paid ¥27.83 billion in repayments of loans, which was offset by ¥29.85 billion in proceeds from the issuance of corporate bonds.

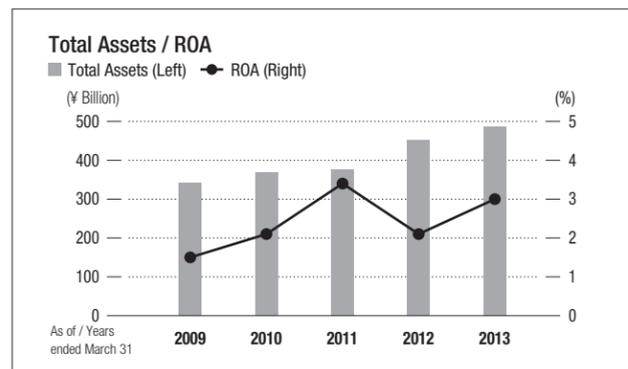
Cash Flow Summary

Fiscal years ended March 31					(¥ Million)
	2009	2010	2011	2012	2013
Net Cash Provided by (Used in) Operating Activities	36,161	27,875	10,997	5,690	18,576
Net Cash Provided by (Used in) Investing Activities	(11,062)	(9,438)	(9,147)	(81,066)	(9,529)
Net Cash Provided by (Used in) Financing Activities	(5,549)	(11,753)	3,564	56,961	1,164

Consolidated Balance Sheets

Assets

Total assets as of the end of the fiscal year under review amounted to ¥486.74 billion, a ¥35.9 billion increase compared to the end of the prior fiscal year. Current assets increased by ¥23.47 billion to ¥305.75 billion, mainly due to increases in cash and time deposits and inventories. Non-current assets increased by ¥12.43 billion, reaching ¥180.99 billion at the end of the fiscal year. This increase was mainly due to acquisitions of property, plant and equipment in the form of land and buildings, as well as valuation gains in investments in securities.



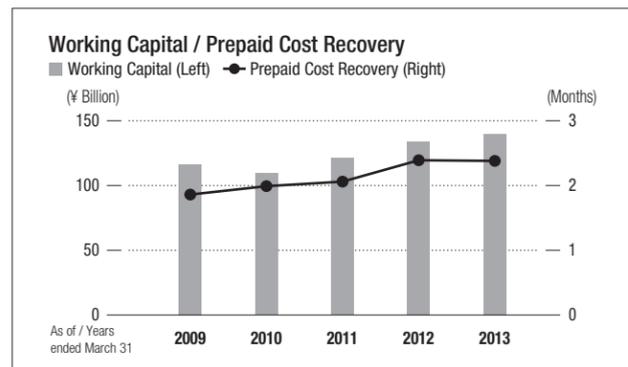
Liabilities

Total liabilities as of the end of the fiscal year under review amounted to ¥248.94 billion, an increase of ¥10.84 billion compared to the end of the prior fiscal year. This increase was mainly due to the issuance of unsecured bonds, offset in part by a decrease in loans.

Current liabilities decreased by ¥15.87 billion, amounting to ¥165.81 billion at the end of the year. This decrease was mainly due to decreases in trade payables, short-term loans, and current portion of long-term debt.

Long-term liabilities increased by ¥26.72 billion, rising to ¥83.12 billion as of the end of the year. A decrease in long-term debt was outpaced by increases in bonds and deferred tax liabilities.

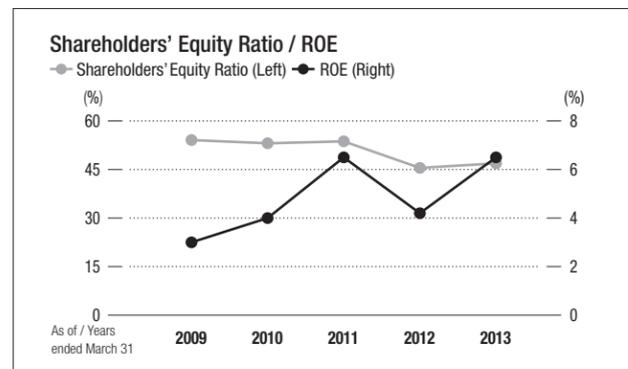
As a result, working capital rose from ¥133.79 billion at the beginning of the year to ¥139.92 billion at the end of the year. Prepaid cost recovery improved by 0.01 months. Current ratio improved 29.0 points, compared to last year's 155.4%, rising to 184.4%.



Net Assets

Net assets improved ¥25.06 billion compared to the end of the prior fiscal year, reaching ¥237.8 billion. This increase was mainly due to ¥14.18 billion in net income and improved translation adjustments stemming from a weakened yen.

As a result, the Group saw a 1.5-point increase in shareholders' equity ratio, up to 46.9% as of the end of the fiscal year under review.



Capital Investment

Capital investment during the fiscal period under review amounted to ¥11.69 billion, mainly stemming from investments in domestic manufacturing subsidiaries.

By segment, the Company made capital investments as described below:

Functional materials-related capital investment amounted to ¥0.62 billion, used for improvements at Group manufacturing subsidiaries.

The Group added another ¥0.85 billion in capital investment for new manufacturing automation equipment related to advanced materials and processing at manufacturing subsidiaries.

Electronics and Automotive & Energy-related capital investment amounted to ¥2.78 billion (LCD panel processing equipment) and ¥90 million respectively.

In the Life & Healthcare business, the Group committed ¥3.02 billion in capital funds to build new formulation and enzyme product manufacturing lines. The Group also invested ¥3.87 billion to acquire land to expand office space leased from another party.

In the Other segment, the Group invested ¥0.43 billion to acquire software.

Cash on hand and capital acquired from outside sources were used as funding for these capital investments.

Research Costs

To leverage the total capacity of the Group and create new business opportunities, the Nagase Group engages in research activities designed for marketing driven development of new technologies and products, as well as to gather and share technological information.

At present, the Nagase R&D Center pursues research focusing on technological solutions that we can bring to our customers. Major areas of research at the R&D Center include process development for pharmaceuticals and intermediates utilizing organic synthesis and biotech, development of medical equipment materials/nucleic acid-related technology, development of enzymes and enzyme prod-

ucts using microorganism technologies, and the development of cosmetics and health foods utilizing natural material exploration and pharmacological assessment technologies. Since fiscal 2008, we have worked in cooperation with Kobe University in a next-generation agri-industrial bio production project, moving closer to producing specific, practical results.

In addition, we continue to work closely with our major subsidiary Nagase ChemteX Corp. across a wide range of projects to develop and manufacture new products. We will forge deeper ties with the Hayashibara R&D Center to drive synergies in our business. Our intellectual property includes chiral synthesis technologies for the production of non-natural amino acids, and development of new enzymes (exploration, manufacturing, application). As well, we have applied for numerous patents related to the invention of applications in the cosmetics and health foods fields, and we enjoy a highly positive reputation among our customers, who cite our technological development capacities. In this manner, the Nagase R&D Center contributes to development and revenue growth of the Nagase Life Sciences segment.

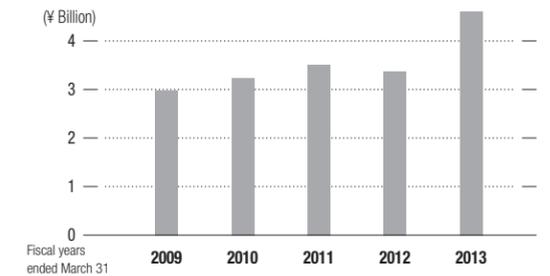
The Nagase Application Workshop (NAW) is home to expert technical staff, processing facilities, and assessment equipment related to plastics and coating materials. The Nagase Group sales network brings in many different suggestions for development and technical support services from their interaction with customers and vendors. The NAW looks closely at each idea, working to solve customer needs through technical development.

Nagase ChemteX Corp. focuses on electronics, life science, automotive, and environment/energy fields. ChemteX staff, in a cross-organization research and development division, and product development departments in each Group business work together to develop new products, leveraging proprietary Nagase synthesis, compounding, and bio-technologies, as well as assessment technologies—all developed over many years of technological experience. In particular, Nagase ChemteX is actively engaged in development for solar cells, hybrid vehicles, wind power, bio-materials, and other environment/energy-related fields, producing high-function, high-value-added products and solutions designed to meet market demands for lighter weight, enhanced durability, and recyclability. Hayashibara conducts research and development into functional saccharides and functional dyes.

The functional saccharides business consists of screening for microbes leading to the discovery and analysis of new enzyme-producing bacteria and research and development into unique functional saccharides produced from these enzyme-producing bacteria. The Nagase Group functional saccharides have applications and usages in a wide variety of fields, from foods to cosmetics and perfumes, pharmaceuticals, health, agriculture, and industry. On top of our long history of technological development, we continue to explore and adopt new methods. This work has resulted in products such as TREHA™, AA2G™, and a new generation of powerful functional saccharide products. We continue to pursue research and development programs that create new products and applications, from basic research to applied research, from application development to patents, all linked in a cohesive intellectual property strategy. In functional dyes business, we are making use of the extensive Hayashibara functional dyes library, pursuing development to offer products and new applications in photo and printing plate and other commercial fields, as well as in Life Sciences fields such as pharmaceuticals.

The Group incurred a total of ¥4.61 billion in consolidated research costs for the fiscal year under review.

Research and Development Expenses



Outlook for the Year Ending March 31, 2014

The business environment for the fiscal year ending March 2014 is likely to see improvements in Japanese exports due to the weakened yen, as well as higher utilization rates among Japanese manufacturers. This should contribute to improved consumer confidence, driven by better business conditions and rising prices in the stock market. Meanwhile, conventional wisdom has North America and ASEAN countries continuing to recover economically, in contrast to the EU, which will continue to suffer the effects of long-term financial issues. As such exports levels to the EU are a source of concern for businesses world-wide.

Given this outlook, the Group forecasts consolidated net sales of ¥764.0 billion (14.7% year-on-year increase) for the next fiscal year. The Group also forecasts a 13.1% increase in gross profit, to ¥93.4 billion. With respect to operating profit, we expect an increase in retirement benefit costs related to the amortization of actuarial differences in retirement benefit obligations. However, we still forecast operating profit of ¥19.2 billion (23.2% increase), based on the aforementioned increase in net sales. As a result, the Group forecasts ordinary income in the amount of ¥21.0 billion (17.1% year-on-year increase), with a smaller 2.2% growth in net income of ¥14.5 billion, mainly due to the absence of special prior-year factors such as additional deferred tax assets.

The Group has assumed an exchange rate of 95 yen to one U.S. dollar in the above earnings forecasts.

	Net Sales	Operating Profit	Ordinary Income	Net Income
Year ending March 31, 2014 (Projected)	764,000	19,200	21,000	14,500
Year ended March 31, 2013 (Actual)	666,272	15,578	17,927	14,182
Increase (Decrease)	+14.7%	+23.2%	+17.1%	+2.2%

Profit Sharing Policy

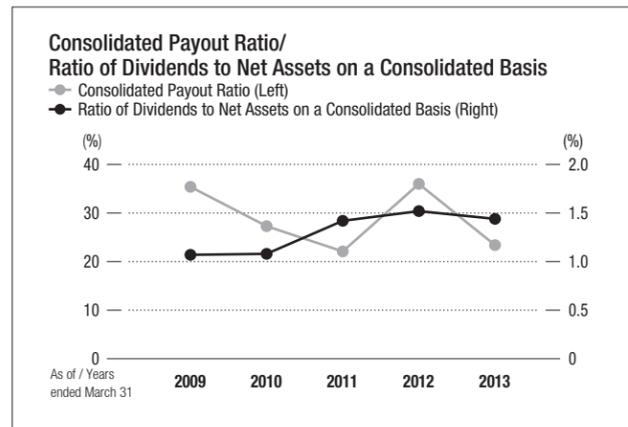
■ Dividend Policy

Through the enhancement of its earnings power and corporate structure, NAGASE adheres to an ongoing basic policy of making continuous and secured dividend payouts linked to its consolidated performance, and thus it aims to keep increasing the per-share dividend with due consideration given to the payout ratio and the ratio of dividends to net assets on a consolidated basis. NAGASE intends to use the retained funds effectively to support future business activities and to strengthen its management foundation.

In addition, the Company has determined in its articles of incorporation allowances or interim dividend payments according to the provisions of article 454 paragraph 5 of the Companies Act. Accordingly, the Company's board of directors has resolved to adopt a dividend policy calling for two dividend payments every year, one at interim and one at the end of the fiscal year, subject to approval by the general meeting of shareholders.

Based on this policy, NAGASE plans to pay a year-end dividend of ¥13.00 per share for the fiscal year ended March 31, 2013. Therefore, together with the interim dividend, the Company will pay an annual dividend of ¥26.00 per share. The consolidated payout ratio decreased to 23.4% from 36.0% for the previous fiscal year.

For the fiscal year ending March 31, 2014, NAGASE plans to pay an annual per-share dividend of ¥28.00, consisting of an interim and year-end dividend of ¥14.00 each.



Statements made in this document with respect to the Nagase Group's performance outlook contain forward-looking statements based on assumptions, projections and plans of the Company as of May 10, 2013. Forecasts in connection with the Group's future performance are subject to a variety of risks and uncertainties including those outlined as follows. As a result, readers are advised that actual results may differ materially from projections.

■ Operating and Other Risks

The Nagase Group is engaged in trading, marketing, research and development, manufacturing and processing, and conducts global business activities in the five segments of Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, Life & Healthcare, and Other. The following presents an overview of major operating and other risks to which the Nagase Group's businesses are subject by their nature and that exert or could exert a significant influence on investor decisions.

This section includes forward-looking statements. Such statements have been based on conditions as of the end of the fiscal year under review.

(1) Overall Operating Risk

The Nagase Group conducts a wide spectrum of operations in the segments of Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare, conducting business in the dyes/pigments, coating raw material/ink, surfactants, OA, electrical equipment, home electronics, automobiles, LCDs, semiconductors, and pharmaceutical/medical industries from a base in. The chemical industry both in Japan and internationally is subject to significant volatility that could impact the Group's performance and financial position.

(2) Product Market Conditions

The Nagase Group relies heavily on petrochemicals manufactured from naphtha in our Functional Materials, Advanced Materials & Processing, and Automotive & Energy segments. Petrochemical product raw material market conditions and the balance of supply and demand are key factors determining market conditions for each product. Changes in these conditions could impact Company revenues and profits. In addition, the Nagase Group uses raw materials derived from grains in the production of certain products. Market prices for grains are subject to wide volatility. To the extent that cost increases cannot be passed on to the consumer in prices adjustments, the Company may experience significant impact on profits.

(3) Impact of Fluctuations in Foreign Currency Exchange Rates

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

(4) Impact of Fluctuations in Interest Rates

The Nagase Group procures the funds required for its operating and investing activities through debt financing with financial institutions. The Group has a certain amount of interest-bearing debt with variable interest rates. When undertaking variable-rate debt financing, the Group ensures that the risk associated with fluctuations in interest rates is minimized by using interest rate swap contracts and other available means. However, future fluctuations in interest rates could impact the Nagase Group's performance and financial position.

(5) Risks Involved in Operating Overseas

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

(6) Impact of Changes in Stock Prices

The Nagase Group maintains a portfolio of marketable stock, primarily shares of companies with which the Group transacts business, and is subject to the risk of changes in the prices of these shares. As a matter of policy, the Nagase Group seeks to reduce this risk by continuously reviewing and reorganizing its shareholdings.

However, changes in stock prices could impact the Group's performance and financial position. Moreover, a drop in stock prices that reduces return on pension plan assets could impact the Group's profitability by increasing retirement benefit costs.

(7) Counterparty Credit Risk

The Nagase Group is exposed to credit risk because it extends credit to counterparties in a diverse array of transactions in Japan and overseas. As a matter of policy, the Nagase Group moves to preclude credit risk with risk hedges such as guarantees and collateral in correlation with the financial condition of counterparties.

However, the Nagase Group cannot be absolutely certain that it has avoided credit risk. Deterioration of the financial condition or bankruptcy of counterparties could impact the Group's performance and financial position.

(8) Risk of Investments

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

(9) 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. Also, the Group handles products for which it assumes liability as their importer. As such, the Group devotes significant attention to the quality of these products. However, issues such as defects in these products would terminate sales and require the Nagase Group to reimburse customers, which could impact the Group's performance and financial position.

(10) Risks of Handling Various Chemicals

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

(11) Risk of Natural Disasters

The Nagase Group companies have each created a business continuity plan in the event of a natural disaster, adopting a presence verification system, drafting a disaster-response manual, and implementing measures to respond to earthquakes, disaster prevention training, and other preparations in the event of a natural disaster. However as the Nagase Group conducts business across a wide range of nations and regions, large-scale disasters, H1N1 flu and other infectious diseases, or other events could potentially disrupt the Company's supply chain, slowing Company sales activities or interrupting production due to damage to plant facilities. Such events could result in significant opportunity loss, or have other adverse effects on Group management performance and/or financial conditions.

Consolidated Balance Sheets

Nagase & Co., Ltd. and Consolidated Subsidiaries (March 31, 2013 and 2012)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current assets:			
Cash and time deposits (Notes 16 and 22)	¥ 46,693	¥ 29,184	\$ 496,470
Notes and accounts receivable (Notes 16 and 25)	196,001	197,702	2,084,009
Inventories (Note 5)	51,863	45,260	551,441
Deferred tax assets (Note 12)	4,282	4,067	45,529
Other current assets	7,967	7,299	84,710
Less allowance for doubtful accounts	(1,057)	(1,235)	(11,239)
Total current assets	305,751	282,280	3,250,941
Property, plant and equipment, at cost (Note 6):			
Land (Note 9)	19,441	18,523	206,709
Buildings and structures	50,057	45,398	532,238
Machinery, equipment and vehicles	77,351	71,588	822,446
Leased assets	537	566	5,710
Construction in progress	1,833	4,120	19,490
	149,221	140,198	1,586,614
Less accumulated depreciation	(88,254)	(83,470)	(938,373)
Property, plant and equipment, net (Note 23)	60,967	56,727	648,240
Investments and other assets:			
Investments in securities (Notes 7 and 16):			
Unconsolidated subsidiaries and affiliates (Note 23)	7,770	7,307	82,616
Other	49,099	41,707	522,052
	56,870	49,014	604,678
Long-term loans receivable	837	1,122	8,900
Goodwill (Notes 23)	30,726	32,079	326,699
Technology-based assets	20,093	21,669	213,642
Deferred tax assets (Note 12)	2,249	896	23,913
Other assets (Note 6)	9,542	7,317	101,457
Less allowance for doubtful accounts	(289)	(266)	(3,073)
Total investments and other assets	120,029	111,833	1,276,225
Total assets (Note 23)	¥486,747	¥450,842	\$5,175,407

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Current liabilities:			
Notes and accounts payable (Notes 9, 16 and 25)	¥107,941	¥109,163	\$1,147,698
Short-term loans (Notes 8 and 16)	25,061	38,633	266,465
Current portion of long-term loans and finance lease obligations (Notes 8 and 16)	10,473	11,613	111,356
Accrued income taxes (Note 12)	2,947	3,170	31,334
Deferred tax liabilities (Note 12)	21	50	223
Accrued expenses	3,538	3,605	37,618
Accrued bonuses for employees	3,968	3,632	42,190
Accrued bonuses for directors	219	198	2,329
Other current liabilities	11,641	11,622	123,775
Total current liabilities	165,812	181,689	1,763,020
Long-term liabilities:			
Bonds (Notes 8 and 16)	30,000	—	318,979
Long-term loans and finance lease obligations (Notes 8 and 16)	32,890	38,463	349,708
Deferred tax liabilities (Note 12)	9,251	7,251	98,363
Accrued retirement benefits for employees (Note 11)	10,283	10,032	109,335
Other long-term liabilities	703	660	7,475
Total long-term liabilities	83,129	56,407	883,881
Contingent liabilities (Note 20)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized—346,980,000 shares			
Issued—138,408,285 shares in 2013 and 2012	9,699	9,699	103,126
Capital surplus	10,041	10,041	106,762
Retained earnings (Note 26)	199,160	186,907	2,117,597
Less treasury stock, at cost (Note 14) —11,693,809 shares in 2013 and 9,893,787 shares in 2012	(7,109)	(5,460)	(75,587)
Total shareholders' equity	211,792	201,188	2,251,909
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 7)	17,943	12,731	190,781
Deferred loss on hedges (Note 16(c))	(6)	(21)	(64)
Translation adjustments	(1,223)	(9,191)	(13,004)
Total accumulated other comprehensive income	16,712	3,518	177,693
Stock acquisition rights	50	110	532
Minority interests	9,250	7,927	98,352
Total net assets	237,806	212,744	2,528,506
Total liabilities and net assets	¥486,747	¥450,842	\$5,175,407

Consolidated Statements of Income

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2013 and 2012)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales (Note 23)	¥666,272	¥631,854	\$7,084,232
Cost of sales (Note 18)	583,689	560,226	6,206,156
Gross profit	82,583	71,628	878,075
Selling, general and administrative expenses (Note 18)	67,004	58,200	712,430
Operating income (Note 23)	15,578	13,427	165,635
Other income (expenses):			
Interest and dividend income	1,416	1,286	15,056
Interest expense	(1,099)	(692)	(11,685)
Equity in earnings of affiliates	933	368	9,920
Gain on sales of investments in securities	801	1,759	8,517
Loss on devaluation of investments in securities	(45)	(383)	(478)
Gain on sales of property, plant and equipment	3,358	16	35,704
Loss on sales of property, plant and equipment	(98)	(5)	(1,042)
Loss on disposal of property, plant and equipment	(196)	(172)	(2,084)
Loss on impairment of fixed assets (Notes 6 and 23)	(1,896)	(455)	(20,159)
Other, net	707	1,388	7,517
Income before income taxes and minority interests	19,458	16,536	206,890
Income taxes (Note 12):			
Current	6,417	6,980	68,230
Deferred	(2,004)	118	(21,308)
Income before minority interests	15,044	9,438	159,957
Minority interests	862	867	9,165
Net income	¥ 14,182	¥ 8,570	\$ 150,792

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2013 and 2012)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income before minority interests	¥15,044	¥ 9,438	\$159,957
Other comprehensive income (loss) (Note 10):			
Net unrealized holding gain (loss) on securities	5,212	(456)	55,417
Deferred gain (loss) on hedges	15	(13)	159
Translation adjustments	6,181	(1,626)	65,720
Share of other comprehensive income (loss) of affiliates accounted for by the equity method	768	(58)	8,166
	12,178	(2,155)	129,484
Comprehensive income	¥27,222	¥ 7,282	\$289,442
Comprehensive income attributable to:			
Shareholders of the Company	¥25,674	¥ 6,518	\$272,982
Minority interests	1,548	764	16,459

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2013 and 2012)

	Millions of yen											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2011	¥9,699	¥10,041	¥181,665	¥(5,460)	¥195,946	¥13,188	¥ (8)	¥ (7,610)	¥ 5,570	¥235	¥7,564	¥209,316
Net income for the year	—	—	8,570	—	8,570	—	—	—	—	—	—	8,570
Gain on sales of treasury stock	—	0	—	—	0	—	—	—	—	—	—	0
Cash dividends	—	—	(3,212)	—	(3,212)	—	—	—	—	—	—	(3,212)
Purchases of treasury stock	—	—	—	(0)	(0)	—	—	—	—	—	—	(0)
Disposition of treasury stock	—	—	—	0	0	—	—	—	—	—	—	0
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(118)	—	(118)	—	—	—	—	—	—	(118)
Adjustments due to change in scope of application of equity method	—	—	3	—	3	—	—	—	—	—	—	3
Other	—	—	—	—	—	(457)	(13)	(1,580)	(2,051)	(124)	363	(1,813)
Balance at April 1, 2012	9,699	10,041	186,907	(5,460)	201,188	12,731	(21)	(9,191)	3,518	110	7,927	212,744
Net income for the year	—	—	14,182	—	14,182	—	—	—	—	—	—	14,182
Gain on sales of treasury stock	—	0	—	—	0	—	—	—	—	—	—	0
Cash dividends	—	—	(3,189)	—	(3,189)	—	—	—	—	—	—	(3,189)
Purchases of treasury stock	—	—	—	(1,649)	(1,649)	—	—	—	—	—	—	(1,649)
Disposition of treasury stock	—	—	—	0	0	—	—	—	—	—	—	0
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(66)	—	(66)	—	—	—	—	—	—	(66)
Adjustments due to change in scope of application of equity method	—	—	717	—	717	—	—	—	—	—	—	717
Changes in fiscal year-end of consolidated subsidiaries	—	—	609	—	609	—	—	—	—	—	—	609
Other	—	—	—	—	—	5,211	15	7,967	13,194	(60)	1,322	14,457
Balance at March 31, 2013	¥9,699	¥10,041	¥199,160	¥(7,109)	¥211,792	¥17,943	¥ (6)	¥ (1,223)	¥16,712	¥ 50	¥9,250	¥237,806

	Thousands of U.S. dollars (Note 1)											
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2012	\$103,126	\$ 106,762	\$1,987,315	\$(58,054)	\$2,139,160	\$135,364	\$(223)	\$(97,725)	\$ 37,406	\$1,170	\$84,285	\$2,262,031
Net income for the year	—	—	150,792	—	150,792	—	—	—	—	—	—	150,792
Gain on sales of treasury stock	—	0	—	—	0	—	—	—	—	—	—	0
Cash dividends	—	—	(33,907)	—	(33,907)	—	—	—	—	—	—	(33,907)
Purchases of treasury stock	—	—	—	(17,533)	(17,533)	—	—	—	—	—	—	(17,533)
Disposition of treasury stock	—	—	—	0	0	—	—	—	—	—	—	0
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(702)	—	(702)	—	—	—	—	—	—	(702)
Adjustments due to change in scope of application of equity method	—	—	7,624	—	7,624	—	—	—	—	—	—	7,624
Changes in fiscal year-end of consolidated subsidiaries	—	—	6,475	—	6,475	—	—	—	—	—	—	6,475
Other	—	—	—	—	—	55,407	159	84,710	140,287	(638)	14,056	(153,716)
Balance at March 31, 2013	\$103,126	\$ 106,762	\$2,117,597	\$(75,587)	\$2,251,909	\$190,781	\$(64)	\$(13,004)	\$177,693	\$ 532	\$98,352	\$2,528,506

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Operating activities			
Income before income taxes and minority interests	¥19,458	¥16,536	\$206,890
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization other than amortization of goodwill	7,445	7,272	79,160
Amortization of goodwill	1,612	151	17,140
Loss on impairment of fixed assets	1,896	455	20,159
Provision for accrued retirement benefits for employees, net of payments	205	974	2,180
Interest and dividend income	(1,416)	(1,286)	(15,056)
Interest expense	1,099	692	11,685
Exchange gain, net	(1,032)	(9)	(10,973)
Gain on sales of property, plant and equipment, net	(3,259)	(11)	(34,652)
Gain on sales of investments in securities, net	(800)	(1,753)	(8,506)
Loss on devaluation of investments in securities	45	383	478
Changes in operating assets and liabilities:			
Notes and accounts receivable	10,357	(10,120)	110,122
Inventories	(1,490)	(7,417)	(15,843)
Notes and accounts payable	(8,771)	6,712	(93,259)
Other, net	(1,061)	111	(11,281)
Subtotal	24,289	12,689	258,256
Interest and dividends received	1,724	1,467	18,331
Interest paid	(1,050)	(637)	(11,164)
Income taxes paid	(6,387)	(7,829)	(67,911)
Net cash provided by operating activities	18,576	5,690	197,512
Investing activities			
Purchases of property, plant and equipment	(10,551)	(11,215)	(112,185)
Proceeds from sales of property, plant and equipment	3,235	46	34,397
Purchases of investments in securities	(214)	(914)	(2,275)
Proceeds from sales of investments in securities	1,200	2,151	12,759
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	—	537	—
Net disbursement due to the acquisition of subsidiaries	—	(67,774)	—
Purchases of investments in capital included in Other assets	(646)	(686)	(6,869)
Increase in short-term loans receivable included in Other current assets, net	(380)	(175)	(4,040)
Purchases of intangible fixed assets included in Other assets	(1,709)	(1,420)	(18,171)
Other, net	(464)	(1,615)	(4,934)
Net cash used in investing activities	(9,529)	(81,066)	(101,318)
Financing activities			
(Decrease) increase in short-term loans payable, net	(16,273)	22,976	(173,025)
Proceeds from long-term loans	4,665	39,257	49,601
Repayments of long-term loans	(11,564)	(1,527)	(122,956)
Proceeds from issuance of bonds	29,855	—	317,438
Purchase of treasury stock	(1,649)	(0)	(17,533)
Cash dividends paid	(3,189)	(3,212)	(33,907)
Cash dividends paid to minority shareholders	(540)	(401)	(5,742)
Other, net	(139)	(130)	(1,478)
Net cash provided by financing activities	1,164	56,961	12,376
Effect of exchange rate changes on cash and cash equivalents	2,451	(434)	26,061
Net increase (decrease) in cash and cash equivalents	12,662	(18,849)	134,631
Cash and cash equivalents at beginning of the year	28,517	47,202	303,211
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	915	165	9,729
Increase in cash and cash equivalents resulting from changes in fiscal year-end of consolidated subsidiaries	3,721	—	39,564
Cash and cash equivalents at end of the year (Note 22)	¥45,816	¥28,517	\$487,145

See accompanying notes to consolidated financial statements.

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of NAGASE & CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

In addition, certain reclassifications of previously stated amounts have been made to conform the consolidated financial statements for the year ended March 31, 2012 to the 2013 presentation. Such reclassifications had no effect on consolidated net income

or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥94.05 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2013. 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 Financial Instruments and Exchange Act of Japan, amounts of less than one million yen for the years ended March 31, 2013 and 2012 have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements for the years ended March 31, 2013 and 2012 (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 significant companies that it controls directly or indirectly. Significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

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

From the fiscal year ended March 31, 2013, the reporting dates of 21 consolidated subsidiaries and TOTAKU INDUSTRIES, INC., of which the fiscal year ends had been the last day of December and February, respectively, were conformed to that of the Company for the sake of timely performance management, prompt implementation of management policies and adequate disclosure.

In addition, 10 consolidated subsidiaries and 3 affiliates, which are required to have a December 31 year-end closing date in accordance with regulations of their countries of domicile, are consolidated by using their financial statements as of the parent fiscal year end prepared solely for consolidation purposes. Until the fiscal year ended March 31, 2012, necessary adjustments had been made for any significant intercompany transactions that had been incurred during the periods between the year ends of these companies and the year end of the Company.

In accordance with these changes, operating results from March 1, 2012 to March 31, 2012 for TOTAKU INDUSTRIES, INC. and from January 1, 2012 to March 31, 2012 for the other consolidated subsidiaries and affiliates have been credited to retained earnings and the changes in cash and cash equivalents are presented as "Increase in cash and cash equivalents resulting from changes in fiscal year-end of consolidated subsidiaries" in the accompanying consolidated statement of cash flow for the year ended March 31, 2013.

(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 foreign currency forward 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 or 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 net assets excluding minority interests, net unrealized holding gain on securities, and deferred loss on hedges are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. 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" as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

(c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the weighted-average method.

(e) Investments in Securities

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

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

(f) Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of the principal assets are as follows:

Buildings (other than structures attached to the buildings)	15 to 50 years
Machinery and equipment	2 to 17 years

(g) Intangible Assets (except for leased assets)

Costs incurred for computer software obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years.

Technology-based assets recognized upon acquisition are amortized on a straight-line basis over 13 to 17 years.

(h) Goodwill

Goodwill is amortized over a period not exceeding 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leased Assets

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

(j) Allowance for Doubtful Accounts

The Company and its consolidated subsidiaries provide allowances for doubtful accounts based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experi-

encing financial difficulties.

(k) Income Taxes

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

(l) Accrued Bonuses for Employees

Accrued bonuses for employees are provided based on the estimated amount of bonuses to be paid to employees in the following fiscal year which has been earned in the current fiscal year.

(m) Accrued Bonuses for Directors

Accrued bonuses for directors are provided based on the estimated amount of bonuses to be paid to directors in the following fiscal year which has been earned in the current fiscal year.

(n) Retirement Benefits

Accrued retirement benefits for employees are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the end of the year.

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

(o) Derivatives and Hedging Activities

The Company and its consolidated subsidiaries utilize derivative financial instruments principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and to mitigate the risk of fluctuation in interest rates on borrowings. The Company has established a control environment that includes policies and procedures for risk assessment in accordance with the Company's rules for foreign exchange transactions and interest-rate swap 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 assesses the effectiveness of the hedging activities and verifies the approval, reporting and monitoring of all transactions involving derivatives. The Company and its consolidated subsidiaries do not hold or issue derivative financial instruments for speculative trading purposes.

If an interest-rate swap contract meets certain criteria, the net amount to be paid or received under the contract is added to or deducted from the interest on the underlying hedged item.

Receivables and payables hedged by foreign currency forward exchange contracts are translated at the corresponding foreign exchange contract rates ("Allocation method").

The Company and its consolidated subsidiaries are exposed to certain market risk arising from their foreign currency forward 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 non-performance 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 credited or charged to income except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a separate component of accumulated other comprehensive income (loss).

(p) Research and Development Costs

Research and development costs are charged to income when incurred.

(q) Distributions of Retained Earnings

Dividends and other distributions of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such distributions are applicable. The accompanying consolidated financial statements do not, however, reflect the applicable distributions of retained earnings as approved by the shareholders subsequent to the fiscal year end. (Refer to Note 26.)

equipment. As a result, the Company concluded that adopting the straight-line method to allocate depreciation expense evenly over the estimated useful lives of property, plant and equipment would more appropriately reflect the actual characteristics of the Group's business considering that manufacturing facilities and equipment will likely be used consistently and reliably over the estimated useful lives.

As a result of this change, depreciation expense decreased by ¥2,138 million (\$2,733 thousand), operating income increased by ¥1,896 million (\$2,159 thousand) and income before income taxes and minority interests increased by ¥1,918 million (\$2,393 thousand) for the year ended March 31, 2013, from the corresponding amounts which would have been recorded under the previous depreciation method.

(b) Change in Accounting Estimates

Effective April 1, 2012, the Company and certain consolidated subsidiaries have changed the estimated useful lives of certain items of property, plant and equipment.

As a result of this change, depreciation expense increased by ¥90 million (\$957 thousand), and operating income and income before income taxes and minority interests decreased by ¥88 million (\$936 thousand) for the year ended March 31, 2013, from the corresponding amounts which would have been recorded under the previous estimated useful lives.

retirement benefit obligation can be attributed to each period based on the plan's benefit formula or the straight-line method, and the calculation method for the discount rate has been revised.

The Company and certain consolidated subsidiaries expect to apply the revised accounting standard and related guidance from the beginning of the year ending March 31, 2014. The Company is in the process of evaluating the effect of applying the revised accounting standard on its consolidated financial statements.

5. INVENTORIES

Inventories at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Merchandise and finished goods	¥47,104	¥41,087	\$500,840
Work in process	1,554	1,292	16,523
Raw materials and supplies	3,204	2,879	34,067
Total	¥51,863	¥45,260	\$551,441

6. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the years ended March 31, 2013 and 2012 was as follows:

Major use	Classification	Location	Millions of yen	Thousands of U.S. dollars
			2013	2013
Processing equipment for plastic materials	Building, machinery and land	Kinki area	¥1,252	\$13,312
Coating equipment for semiconductor wafer	Machinery	Kinki area	269	2,860
Manufacturing facility for pharmaceutical intermediates	Building and machinery	Kinki area	196	2,084
Manufacturing equipment for resin plastic tray products for transport use	Machinery and structure	Shanghai	94	999
Processing facility for optical films for liquid crystal displays (LCDs)	Building and machinery	Guangdong	56	595
Idle assets	Land and intangible assets included in Other assets	Kinki area	27	287
Total			¥1,896	\$20,159

Major use	Classification	Location	Millions of yen
			2012
Processing equipment for liquid crystal panel materials	Machinery and equipment	Kanto area, Shanghai	¥ 319
Parking facilities	Buildings and structures	Kinki area	82
Idle assets	Land	Kinki area	54
Total			¥ 455

The Company and its consolidated subsidiaries group fixed assets for business use principally based on its business management segment. They also group fixed assets to be disposed of and idle assets at each asset individually as smallest cash-generating units.

For the year ended March 31, 2013, accompanied with the withdrawal from the corresponding businesses, the carrying values of manufacturing equipment for resin plastic tray products for transport use, coating equipment for semiconductor wafer, and a processing facility for optical films for LCDs were reduced to their recoverable amounts and a loss on impairment was recognized.

Due to decreasing profitability in response to the drastic change in the business environment, the carrying values of processing equipment for plastic materials, and a manufacturing facility for pharmaceutical intermediates were reduced to their recoverable amounts and a loss on impairment was recognized.

The recoverable amounts were measured at the higher of net selling value and value in use. Net selling value for assets to be disposed of was set at zero since it is difficult to sell them or use them for any purpose other than their original purpose. Value in use for the measurement of recoverable amounts is based on the present

value of the future cash flow with the discount rate of 1.239%.

Due to decreasing land prices, the carrying values of idle assets were reduced to their recoverable amounts and a loss on impairment was recognized. The recoverable amounts were calculated based on the appraisal value published by the tax authorities.

For the year ended March 31, 2012, accompanied with the withdrawal from the corresponding business, the carrying values of processing equipment for liquid crystal panel materials were reduced to their recoverable amounts and a loss on impairment was recognized.

Accompanied with the closure of a part of parking facilities operated by the Company's consolidated subsidiary, the carrying values of parking facilities were reduced to their recoverable amounts and a loss on impairment was recognized.

The recoverable amounts were measured at net selling value. Net selling value for assets to be disposed of was set at zero since it is difficult to sell them or use them for any purpose other than their original purpose.

Due to decreasing land prices, the carrying values of idle assets were reduced to their recoverable amounts and a loss on impairment was recognized. The recoverable amounts were calculated based on the appraisal value published by the tax authorities.

3. ACCOUNTING CHANGES

(a) Change in Accounting Principles that are Difficult to Distinguish from Changes in Accounting Estimates

Effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment, except for buildings acquired on or subsequent to April 1, 1998, to the straight-line method. Previously, the declining-balance method had been principally applied by the Company and its domestic consolidated subsidiaries, and the straight-line method had been applied principally by the Company's overseas subsidiaries.

Under the "CHANGE" 11 medium-term business plan (from the year ended March 31, 2010 to the year ended March 31, 2012), the Company and its consolidated subsidiaries (collectively, the "Group") had been engaged in building stronger research, development, and manufacturing functions. In addition, the current "Change-S2014" medium-term business plan (from the year ended March 31, 2013 to the year ending March 31, 2015), keeps the Group's attention focused on these same areas, while calling for significant increase in capital investment.

With increased capital investment, greater investment in group manufacturing companies, and full-scale operations of manufacturing facilities from the year ended March 31, 2013, the Company has reexamined its depreciation policies for property, plant and

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standards for Retirement Benefits

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 revised on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 revised on May 17, 2012.)

Under the revised accounting standards, actuarial gains and losses and prior service costs that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income (loss)), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset. In addition, the

7. INVESTMENTS IN SECURITIES

(a) Marketable securities classified as other securities at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen					
	2013			2012		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Equity securities	¥43,727	¥16,433	¥27,293	¥33,237	¥13,043	¥20,194
Securities whose carrying value does not exceed their acquisition cost:						
Equity securities	1,196	1,369	(172)	4,356	5,061	(705)
Total	¥44,923	¥17,802	¥27,121	¥37,594	¥18,105	¥19,489

	Thousands of U.S. dollars		
	2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Equity securities	\$464,934	\$174,726	\$290,197
Securities whose carrying value does not exceed their acquisition cost:			
Equity securities	12,717	14,556	(1,829)
Total	\$477,650	\$189,282	\$288,368

The Company and its consolidated subsidiaries recognized impairment losses on valuation of marketable securities of ¥38 million (\$404 thousand) and ¥251 million for the years ended March 31, 2013 and 2012, respectively.

(b) Securities classified as other securities for which market value was not determinable at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Carrying value	Carrying value	Carrying value
Market value not determinable:			
Equity securities	¥4,176	¥4,112	\$44,402
Total	¥4,176	¥4,112	\$44,402

Please refer to Note 16 (c).

(c) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds from sales	¥1,199	¥2,127	\$12,749
Gain on sales	801	1,594	8,517
Loss on sales	0	5	0

8. SHORT-TERM LOANS, BONDS, LONG-TERM LOANS AND FINANCE LEASE OBLIGATIONS

Short-term loans at March 31, 2013 and 2012, principally represented notes and loans in the form of deeds at weighted-average annual interest rates of 1.97% and 1.33% per annum, respectively.

Long-term loans, bonds and finance lease obligations at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unsecured loans from banks and insurance companies, payable in Yen, U.S. dollar, Euro, Malaysian ringgit and RMB, due through 2019, at rates from 0.44% to 6.75%	¥ 43,022	¥ 49,751	\$ 457,438
Unsecured bonds in Yen, due 2015, at a rate of 0.306%	10,000	–	106,326
Unsecured bonds in Yen, due 2017, at a rate of 0.442%	10,000	–	106,326
Unsecured bonds in Yen, due 2019, at a rate of 0.753%	10,000	–	106,326
Lease obligations	341	325	3,626
	73,364	50,077	780,053
Less current portion	(10,473)	(11,613)	(111,356)
Total	¥ 62,890	¥ 38,463	\$ 668,687

The aggregate annual maturities of bonds, long-term loans and finance lease obligations subsequent to March 31, 2013 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥10,473	\$111,356
2015	6,335	67,358
2016	15,777	167,751
2017	8,378	89,080
2018	12,256	130,314
2019 and thereafter	20,142	214,163
Total	¥73,364	\$780,053

9. PLEDGED ASSETS

At March 31, 2013, a consolidated subsidiary's assets pledged as collateral for its accounts payable were as follows:

	Millions of yen	Thousands of U.S. dollars
Land	¥560	\$5,954
Total	¥560	\$5,954

10. OTHER COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and tax effects allocated to each component of other comprehensive income (loss) for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gain (loss) on investments in securities:			
Amount arising during the year	¥ 8,420	¥(1,399)	\$ 89,527
Reclassification adjustments for gains and losses realized in the statement of income	(747)	(910)	(7,943)
Amount before tax effect	7,672	(2,309)	81,574
Tax effect	(2,459)	1,852	(26,146)
Net unrealized holding gain (loss) on investments in securities	5,212	(456)	55,417
Deferred gain (loss) on hedges:			
Amount arising during the year	(202)	(21)	(2,148)
Reclassification adjustments for gains and losses realized in the statement of income	226	—	2,403
Amount before tax effect	24	(21)	255
Tax effect	(9)	7	(96)
Deferred gain (loss) on hedges	15	(13)	159
Translation adjustments:			
Amount arising during the year	6,181	(1,626)	65,720
Share of other comprehensive income (loss) of affiliates accounted for by the equity method:			
Amount arising during the year	768	(58)	8,166
Other comprehensive income (loss), net	¥12,178	¥(2,155)	\$129,484

11. 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 has established an employees' retirement benefit trust for the payment of retirement benefits. Certain overseas consolidated subsidiaries also have defined benefit pension plans. Also, the Company and certain domestic consolidated subsidiaries have defined contribution pension plans. In addition to the retirement benefit plans described above, the

Company and its consolidated subsidiaries pay additional retirement benefits under certain conditions.

The following table sets forth the funded and accrued status of the plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 and 2012 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Retirement benefit obligation	¥(28,103)	¥(25,049)	\$ (298,809)
Plan assets at fair value	16,392	14,294	174,290
Unfunded retirement benefit obligation	(11,710)	(10,755)	(124,508)
Unrecognized actuarial loss	1,516	722	16,119
Prepaid pension cost	(89)	—	(946)
Accrued retirement benefits recognized in the consolidated balance sheets	¥(10,283)	¥(10,032)	\$ (109,335)

The components of retirement benefit expenses of the Company and the consolidated subsidiaries for the years ended March 31, 2013 and 2012 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥1,226	¥1,047	\$13,036
Interest cost	513	444	5,455
Expected return on plan assets	(322)	(292)	(3,424)
Amortization of actuarial loss	694	674	7,379
Contributions to defined contribution pension plans	237	156	2,520
Amortization of prior service cost	92	—	978
Retirement benefit expenses	¥2,442	¥2,030	\$25,965

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	Mainly 1.7%	Mainly 2.5%
Expected rate of return on plan assets	Mainly 2.1%	Mainly 2.5%

12. INCOME TAXES

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in statutory tax rates of approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012, respectively.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 differ from the statutory tax rates for the following reasons:

	2013	2012
Statutory tax rates	38.0%	40.7%
Effect of:		
Expenses not deductible for income tax purposes	2.4	3.0
Dividends and other income deductible for income tax purposes	(11.0)	(13.5)
Net adjustment resulting from elimination of dividend income upon consolidation	10.0	13.9
Different tax rates applied at overseas subsidiaries	(5.7)	(7.5)
Tax credit	(0.6)	(0.6)
Amortization of goodwill	3.2	0.4
Valuation allowance	(11.7)	4.4
Other, net	(1.9)	2.1
Effective tax rates	22.7%	42.9%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Accrued bonuses for employees	¥ 1,363	¥ 1,314	\$ 14,492
Allowance for doubtful accounts	598	590	6,358
Unrealized gain on inventories	522	447	5,550
Accrued enterprise taxes	221	256	2,350
Tax loss carryforwards	18,192	19,674	193,429
Accrued retirement benefits for employees	3,639	3,648	38,692
Investments in securities	1,818	1,963	19,330
Loss on impairment of fixed assets	601	160	6,390
Other	2,064	1,807	21,946
Gross deferred tax assets	29,022	29,864	308,581
Valuation allowance	(11,779)	(14,512)	(125,242)
Total deferred tax assets	¥17,243	¥15,352	\$183,339
Deferred tax liabilities:			
Technology-based assets	¥ (7,183)	¥ (7,778)	\$ (76,374)
Deferred capital gain on property	(1,974)	(1,113)	(20,989)
Reserve for special depreciation	(728)	(1,086)	(7,741)
Undistributed earnings of overseas subsidiaries	(442)	(531)	(4,700)
Revaluation of land	(359)	(357)	(3,817)
Net unrealized holding gain on securities	(9,168)	(6,697)	(97,480)
Other	(127)	(124)	(1,350)
Total deferred tax liabilities	(19,985)	(17,689)	(212,493)
Net deferred tax liabilities	¥ (2,741)	¥ (2,337)	\$ (29,144)

13. SHAREHOLDERS' EQUITY

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2013 and

2012 amounted to ¥2,424 million (\$25,774 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding 50% of the proceeds of the sale of new shares as additional paid-in capital.

Movements in common stock during the years ended March 31, 2013 and 2012 are summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	138,408,285	—	—	138,408,285
	2012			
	April 1, 2011	Increase	Decrease	March 31, 2012
Common stock	138,408,285	—	—	138,408,285

14. TREASURY STOCK

Movements in treasury stock during the years ended March 31, 2013 and 2012 are summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Treasury stock	9,893,787	1,800,372	350	11,693,809
	2012			
	April 1, 2011	Increase	Decrease	March 31, 2012
Treasury stock	9,893,808	210	231	9,893,787

15. SHARE-BASED COMPENSATION

At March 31, 2013, the Company had one stock option plan: the 2008 stock option plan.

The 2008 stock option plan (the 2008 plan) was approved by shareholders of the Company on June 26, 2008. The 2008 plan provided for granting options to purchase 421,000 shares of common stock to directors, executive officers, technology officers

and certain key employees of the Company and directors of certain subsidiaries. The exercise price was ¥1,114 (\$11.84) per share at March 31, 2013. This exercise price is subject to adjustment in certain cases which include stock splits. The options became exercisable on August 1, 2010 and are scheduled to expire on July 31, 2013.

Information regarding the Company's stock option plans is summarized as follows:

	The 2008 plan
Number of shares:	
Outstanding at March 31, 2011	419,000
Granted	—
Expired	(5,000)
Exercised	—
Outstanding at March 31, 2012	414,000
Granted	—
Expired	(5,000)
Exercised	—
Outstanding at March 31, 2013	409,000
	(Yen)
Fair value of options as of the grant date	¥124
	(U.S. dollars)
Fair value of options as of the grant date	\$1.32

16. FINANCIAL INSTRUMENTS

(a) Policy for Financial Instruments

The Company and its consolidated subsidiaries invest excess funds in highly secure and short-term financial assets, whose principal is guaranteed to be recoverable. With regard to financing, short-term working funds are raised by bank borrowings or issuance of commercial paper and the Group policy is to procure long-term funds with bank borrowings and through the issuance of bonds. The purpose of entering into derivative transactions is to mitigate the foreign currency exchange rate fluctuation risk arising from the receivables and payables denominated in foreign currencies, and fluctuation risk related to interest rates with respect to loans payable, and derivative transactions are not carried out for speculative purposes.

(b) Types of Financial Instruments, Related Risk and Risk Management for Financial Instruments

Receivables such as trade notes and accounts receivable are exposed to customers' credit risks. With regard to this risk, the Group manages the settlement date by each customer, and establishes credit limits by each customer based on the Group's internal credit rating policy and monitors outstanding balances in conjunction with an established system under which the credit status by each customer is reviewed at least once a year and the credit limit amount updated as necessary.

In the cases of those receivables and liabilities denominated in foreign currencies, foreign currency forward exchange contracts are used to hedge the risk of fluctuation. However, for foreign currency transactions denominated in the same currency involving either payables or receivables, foreign currency forward exchange contracts are used solely for the netted position.

Investments in securities are subject to market price fluctuation risk. However, these are mainly equity securities of other companies with which the Group has business relationships. The Group regularly monitors both their fair value and the financial condition of the issuer. The Group also reviews as needed the condition of its holdings with concern to the status of sales and financial transactions.

Short-term loans are raised primarily in connection with business activities and bridge loans relating to investments and financing. Long-term loans and bonds are taken out principally for the purpose of making capital spending, investments and financing. Loans with variable interest rates are subject to the risk of fluctuating interest rates. However, to reduce such risk, the Group utilizes derivatives (interest-rate swap transactions) as a hedging instrument.

Derivatives mainly include foreign currencies forward exchange contracts to manage the market risk of fluctuation in foreign currency exchange rates and interest-rate swaps to manage the market risk of fluctuating interest rates related to the interest payments for bank loans.

In addition, operating liabilities and bank loans are exposed to liquidity risk. However, the Group works to build up a clear picture of the balance of inflow and outflow of cash, managing such risk by establishing liquidity on hand in excess of half of the amount of monthly net sales.

(c) Market Value of Financial Instruments

Carrying amount, estimated fair value and difference as of March 31, 2013 and 2012 are as follows. Financial instruments for which fair value is deemed extremely difficult to determine are not included.

	Millions of yen		
	2013		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 46,693	¥ 46,693	¥ —
Notes and accounts receivable	196,001	196,001	(0)
Investments in securities			
Other securities	44,923	44,923	—
Total assets	¥287,618	¥287,618	¥ (0)
Liabilities			
Notes and accounts payable	¥107,941	¥107,941	¥ (0)
Short-term loans	25,061	25,061	—
Current portion of long-term loans	10,408	10,408	—
Long-term loans	32,614	32,994	380
Bonds	30,000	30,266	266
Total liabilities	¥206,024	¥206,671	¥646
Derivatives(*)			
Not subject to hedge accounting	¥ (385)	¥ (385)	¥ —
Subject to hedge accounting	(9)	(9)	—
Total derivative transactions	¥ (395)	¥ (395)	¥ —

	Millions of yen		
	2012		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 29,184	¥ 29,184	¥ —
Notes and accounts receivable	197,702	197,702	(0)
Investments in securities			
Other securities	37,594	37,594	—
Total assets	¥264,480	¥264,480	¥ (0)
Liabilities			
Notes and accounts payable	¥109,163	¥109,163	¥ (0)
Short-term loans	38,633	38,633	—
Current portion of long-term loans	11,551	11,551	—
Long-term loans	38,200	38,335	135
Total liabilities	¥197,548	¥197,683	¥135
Derivatives(*)			
Not subject to hedge accounting	¥ (126)	¥ (126)	¥ —
Subject to hedge accounting	(34)	(34)	—
Total derivative transactions	¥ (161)	¥ (161)	¥ —

	Thousands of U.S. dollars		
	2013		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	\$ 496,470	\$ 496,470	\$ —
Notes and accounts receivable	2,084,009	2,084,009	(0)
Investments in securities			
Other securities	477,650	477,650	—
Total assets	\$3,058,139	\$3,058,139	\$ (0)
Liabilities			
Notes and accounts payable	\$1,147,698	\$1,147,698	\$ (0)
Short-term loans	266,465	266,465	—
Current portion of long-term loans	110,665	110,665	—
Long-term loans	346,773	350,813	4,040
Bonds	318,979	321,808	2,828
Total liabilities	\$2,190,579	\$2,197,459	\$6,869
Derivatives(*)			
Not subject to hedge accounting	\$ (4,094)	\$ (4,094)	\$ —
Subject to hedge accounting	(96)	(96)	—
Total derivative transactions	\$ (4,200)	\$ (4,200)	\$ —

* Receivables and payables arising from derivative transactions are presented as a net amount. Net payables are presented in parentheses.

The calculation methods of fair values of financial instruments and securities and derivative transactions are as follows:

Cash and time deposits

Since these items are settled in a short period of time, their carrying amount approximates the fair value.

Notes and accounts receivable

The fair value of trade notes and accounts receivable is estimated as the present value of future cash flow of each receivable classified by settlement date and discounted at the market rate of interest at the reporting date.

Investments in securities

The fair value of investment in securities is based on quoted market prices. Please refer to Note 7 regarding information on securities by holding objective.

Notes and accounts payable

The fair value of trade notes and accounts payable is estimated as the present value of future cash flow of each payable classified by settlement date and discounted at the market rate of interest at the reporting date.

Short-term loans and current portion of long-term loans

Since these items are settled in a short period of time, their carrying amount approxi-

mates the fair value.

Long-term loans

The fair value of long-term loans with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming new loans under similar conditions to existing loans are made. Floating interest rates for long-term loans are hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans is reasonably based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to loans made under similar circumstances.

Bonds

The fair value of bonds is based on the market price.

Derivative transactions

Please refer to Note 17.

The carrying value of financial instruments without determinable market value at March 31, 2013 and 2012 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unlisted equity securities	¥ 4,176	¥ 4,112	\$ 44,402
Investments in unconsolidated subsidiaries and affiliates	7,770	7,307	82,616
Total	¥11,947	¥11,419	\$127,028

For the above securities, there is no market price and it is difficult to determine the fair value. Therefore, the fair value of the securities is not included in investments in securities in the summary table of financial instruments.

The redemption schedule for time deposits and notes and accounts receivable with maturity dates at March 31, 2013 is summarized as follows:

	Millions of yen	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	¥ 46,257	¥ —
Notes and accounts receivable	195,993	7
Total	¥242,251	¥ 7

	Thousands of U.S. dollars	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	\$ 491,834	\$ —
Notes and accounts receivable	2,083,923	74
Total	\$2,575,768	\$ 74

With respect to the redemption schedule of short-term loans, bonds, long-term loans and finance lease obligations, please refer to Note 8.

17. DERIVATIVES AND HEDGING ACTIVITIES

The open currency-related derivatives positions not designated as hedging instruments at March 31, 2013 and 2012 are as follows:

	Type	Millions of yen		
		2013		
		Contract value	Estimated fair value	Unrecognized gain (loss)
Foreign currency forward exchange contracts:				
Selling:				
	U.S. dollars	¥ 6,392	¥ (303)	¥ (303)
	Yen	48	(0)	(0)
	Euro	832	(7)	(7)
	RMB	174	1	1
	Others	83	6	6
Buying:				
	U.S. dollars	2,067	(23)	(23)
	Yen	1,651	(58)	(58)
	Euro	42	(0)	(0)
	Others	1	0	0
Total		¥11,292	¥ (385)	¥ (385)

	Type	Millions of yen		
		2012		
		Contract value	Estimated fair value	Unrecognized gain (loss)
Over-the-counter transactions	Foreign currency forward exchange contracts:			
	Selling:			
	U.S. dollars	¥2,652	¥ (86)	¥ (86)
	Yen	351	(2)	(2)
	Euro	628	(34)	(34)
	RMB	358	(30)	(30)
	Others	0	(0)	(0)
	Buying:			
	U.S. dollars	966	11	11
	Yen	1,150	14	14
	Euro	38	1	1
Others	2	0	0	
Total		¥6,150	¥ (126)	¥ (126)

	Type	Thousands of U.S. dollars		
		2013		
		Contract value	Estimated fair value	Unrecognized gain (loss)
Over-the-counter transactions	Foreign currency forward exchange contracts:			
	Selling:			
	U.S. dollars	\$67,964	\$(3,222)	\$(3,222)
	Yen	510	(0)	(0)
	Euro	8,846	(74)	(74)
	RMB	1,850	11	11
	Others	883	64	64
	Buying:			
	U.S. dollars	21,978	(245)	(245)
	Yen	17,554	(617)	(617)
	Euro	447	(0)	(0)
Others	11	0	0	
Total		\$120,064	\$(4,094)	\$(4,094)

Fair value is based on the prices obtained from financial institutions.

The open currency-related derivatives positions designated as hedging instruments at March 31, 2013 and 2012 are as follows:

Method for hedge accounting	Type of derivative transaction	Major hedged item	Millions of yen		
			2013		
			Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	¥ 221	¥ 10	¥ (8)	
	Euro	332	—	(3)	
	Others	3	—	(0)	
	Buying:				
	U.S. dollars	24	—	2	
	Euro	44	—	(0)	
	Others	12	—	0	
	Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:			
		Selling:			
Euro		13	—	(*)	
Others		1	—	(*)	
Buying:					
Euro		48	—	(*)	
Others	0	—	(*)		
Total		¥ 703	¥ 10	¥ (9)	

Method for hedge accounting	Type of derivative transaction	Major hedged item	Millions of yen		
			2012		
			Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	—	¥ —	¥ (68)	
	Euro	Accounts receivable	95	—	(5)
	RMB	—	84	—	(7)
	Others	—	7	—	(0)
	Buying:				
	U.S. dollars	—	1,085	—	40
	Euro	Accounts payable	146	—	6
	Others	—	8	—	0
	Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:			
Selling:					
U.S. dollars		—	4,000	—	(*)
Euro		Accounts receivable	10	—	(*)
Others		—	162	—	(*)
Buying:					
U.S. dollars		—	721	—	(*)
Euro		Accounts payable	108	—	(*)
Others		—	(0)	—	(*)
Total			¥8,310	¥ —	¥ (34)

Method for hedge accounting	Type of derivative transaction	Major hedged item	Thousands of U.S. dollars		
			2013		
			Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Deferral hedge accounting	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars	—	\$2,350	\$106	\$(85)
	Euro	Accounts receivable	3,530	—	(32)
	Others	—	32	—	0
	Buying:				
	U.S. dollars	—	255	—	21
	Euro	Accounts payable	468	—	0
	Others	—	128	—	0
	Allocation method for foreign currency forward exchange contracts (Note 2(o))	Foreign currency forward exchange contracts:			
		Selling:			
Euro		Accounts receivable	138	—	(*)
Others		—	11	—	(*)
Buying:					
Euro		Accounts payable	510	—	(*)
Others	—	0	—	(*)	
Total		\$7,475	\$106	\$(96)	

Fair value is based on the prices obtained from financial institutions.

(*): The fair value of foreign currency forward exchange contracts that qualify for the Allocation method is included in estimated fair value of accounts receivables and accounts payables.

The open interest-related derivatives positions designated as hedging instruments at March 31, 2013 and 2012 are as follows.

		Millions of yen			
		2013			
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying debt	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	¥35,840	¥26,580	(**)

		Millions of yen			
		2012			
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying debt	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	¥42,300	¥33,840	(**)

		Thousands of U.S. dollars			
		2013			
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying debt	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	\$381,074	\$282,616	(**)

(**): Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans, their fair values were included in estimated fair value of long-term loans.

18. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2013 and 2012 totaled ¥4,610 million (\$49,016 thousand) and ¥3,372 million, respectively.

19. LEASES

(a) Finance leases

Finance lease transactions commencing on or before March 31, 2008 that do not transfer ownership to the lessee are accounted for in the same manner as operating leases. However, the related disclosures as of and for the years ended March 31, 2013

and 2012 were omitted because these amounts were immaterial.

(b) Operating leases

Future minimum lease payments subsequent to March 31, 2013 under operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥288	\$ 3,062
2015 and thereafter	655	6,964
Total	¥943	\$10,027

20. CONTINGENT LIABILITIES

At March 31, 2013, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of customers and other in the aggregate amount of ¥809 million (\$8,602 thousand) and as guarantors of housing loans of employees in the aggregate amount of ¥9 million (\$96 thousand).

In addition, at March 31, 2013, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed for a total amount of ¥304 million (\$3,232 thousand).

21. AMOUNTS PER SHARE

Amounts per share at March 31, 2013 and 2012 and for the years then ended are as follows:

	Yen		U.S. dollars
	2013	2012	2013
Net income:			
Basic	¥ 111.31	¥ 66.69	\$ 1.18
Diluted	—	—	—
Net assets	1,803.31	1,592.87	19.17
Cash dividends applicable to the year	26.00	24.00	0.28

Basic net income per share has been computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share for the years ended March 31, 2013 and 2012 have not been presented because no potentially dilutive shares of common stock were outstanding.

The amounts per share of net assets have been computed based on the number of

shares of common stock outstanding at the year end.

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.

The financial data used in the computation of basic net income per share for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net income	¥14,182	¥8,570	\$150,792
Adjusted net income available for distribution to shareholders of common stock	¥14,182	¥8,570	\$150,792
Weighted-average number of shares	127,406,786	128,514,527	

22. CASH AND TIME DEPOSITS

A reconciliation of cash and time deposits in the accompanying consolidated balance sheets at March 31, 2013 and 2012 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and time deposits	¥46,693	¥29,184	\$496,470
Time deposits with maturities of more than three months	(876)	(667)	(9,314)
Cash and cash equivalents	¥45,816	¥28,517	\$487,145

23. SEGMENT INFORMATION

(a) Overview of reportable segments

The reportable segments of the Company comprise those entities for which obtaining separate financial reports is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments.

From April 2012, the Company has been executing on the "Change-S2014" three-year business plan. To accomplish the goals set out in this plan, effective April 1, 2012, the Company reorganized four business segments (Chemicals, Plastics, Electronics, and Life Sciences) away from product categories into segments to more fully concentrate the strengths of the entire group, reflecting the respective positions of each business in the value chain, as well as with the most closely aligned industries. This realignment has resulted in five segment categories: Functional Materials (located at the top of the value chain), Advanced Materials & Processing (located in the next stage of the value chain), Electronics, Automotive & Energy, and Life & Healthcare (functioning over the related industries). Reportable segments have also been reclassified to reflect this change.

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, urethane materials, plastic materials, plastic adhesives, industrial oil solutions, surfactants, fluorochemicals, encapsulant materials, silicone materials, precision electronics abrasives, and more for the paints/inks, resins, urethane foam, organic synthesis, surfactants, semiconductor, and HDD-related industries.

The Advanced Materials & Processing segment is engaged in the sales of dyestuffs, dyes, functional dyes, information printing products, thermoplastic resins, thermosetting resins, synthetic rubber, inorganic materials, plastics products, resins molding tools/dies, and external inspection equipment, and more for the dye/additive, information

printing, textile processing, raw resin material, resin molding, and functional film and sheet industries.

The Electronics segment is engaged in the sales of pre-processing materials and devices for LCD/semiconductors, materials for LCD panels, materials and devices for semiconductor assembly, low-temperatures/vacuum equipment, high-function epoxy resins, and more for the display, touch panel, LCD, semiconductor, electronic components, heavy electrical, and other industries.

The Automotive & Energy segment is engaged in sales of plastic products, thermoplastic resins, thermosetting resins, resins molding tools/dies, battery materials, solar cell/secondary battery-related materials, and more for the automotive, automotive component, and energy industries.

The Life & Healthcare segment is engaged in the sales of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, additives for cosmetics, and feeds/fertilizers and radiation measurement services for the pharmaceutical, food, cosmetics, and other industries. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(b) Calculation methods of net sales, income or loss, assets, and other items by reportable segments

Accounting methods for reportable segments are generally the same as those listed in Note 2. Reportable segment income corresponds to operating income in the consolidated statements of income. Intersegment internal income and transfers are determined based on the values of transactions at actual market prices.

(c) Information on net sales, income or loss, assets and other items for each reportable segment

Information by reportable segments for the year ended March 31, 2013 is as follows:

	2013										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	¥180,025	¥214,546	¥116,105	¥83,068	¥71,685	¥665,431	¥ 841	¥666,272	¥ —	¥ —	¥666,272
Intersegment sales and transfers	4,904	2,182	733	1,384	452	9,657	5,523	15,180	—	(15,180)	—
Net sales	184,929	216,728	116,838	84,453	72,138	675,088	6,364	681,453	—	(15,180)	666,272
Segment income	¥ 5,428	¥ 2,386	¥ 6,297	¥ 763	¥ 3,986	¥ 18,862	¥ 265	¥ 19,127	¥ (3,672)	¥ 123	¥ 15,578
Segment assets	¥ 81,384	¥108,696	¥ 61,760	¥37,387	¥95,735	¥384,964	¥6,489	¥391,453	¥127,891	¥(32,597)	¥486,747
Other items											
Depreciation and amortization other than amortization of goodwill	434	537	1,508	250	2,025	4,756	202	4,959	2,486	—	7,445
Amortization of goodwill	—	—	96	—	1,516	1,612	—	1,612	—	—	1,612
Unamortized balance of goodwill	—	—	2,046	—	28,679	30,726	—	30,726	—	—	30,726
Investments in affiliates accounted for by the equity method	1,781	1,545	56	1,613	1,856	6,854	1,793	8,648	—	—	8,648
Increase in tangible and intangible fixed assets	626	853	2,784	92	3,028	7,385	436	7,821	3,870	—	11,691

As described in Note 3(a), effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed its depreciation method from principally the declining-balance method to the straight-line method. As a result of this change, segment income increased in the "Functional Materials" segment, the "Advanced Materials & Processing" segment, the "Electronics" segment, the "Automotive & Energy" segment, the "Life & Healthcare" segment, and the "corporate" segment by ¥218 million (\$2,318 thousand), ¥215 million (\$2,286 thousand), ¥778 million (\$8,272 thousand), ¥170 million (\$1,808 thousand), ¥168 million (\$1,786 thousand), and ¥344 million (\$3,658 thousand), respectively, from the corresponding amounts which would have been recorded under the previous depreciation method.

As described in Note 3(b), effective April 1, 2012, the Company and certain consolidated subsidiaries have changed the useful lives of certain items of property, plant and equipment. As a result of this change, segment income decreased in the "Electronics" segment and the "Automotive & Energy" segment by ¥86 million (\$914 thousand) and ¥2 million (\$21 thousand), respectively, from the corresponding amounts which would have been recorded under the previous estimated useful lives.

Under the new segmentation policy adopted by the Company, information by reportable segments for the year ended March 31, 2012 would have been as follows:

	2012										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	¥177,126	¥217,929	¥110,495	¥76,113	¥ 49,170	¥630,835	¥1,018	¥631,854	¥ —	¥ —	¥631,854
Intersegment sales and transfers	5,449	2,224	710	1,967	629	10,982	5,369	16,352	—	(16,352)	—
Net sales	182,576	220,154	111,206	78,080	49,800	641,818	6,388	648,207	—	(16,352)	631,854
Segment income	¥ 6,285	¥ 2,979	¥ 6,019	¥ 936	¥ 706	¥ 16,927	¥ 141	¥ 17,068	¥ (4,477)	¥ 835	¥ 13,427
Segment assets	¥ 81,267	¥105,771	¥ 52,834	¥34,795	¥102,317	¥376,985	¥6,702	¥383,688	¥ 95,917	¥(28,763)	¥450,842
Other items											
Depreciation and amortization other than amortization of goodwill	599	693	1,927	530	813	4,564	343	4,908	2,363	—	7,272
Amortization of goodwill	1	—	23	—	126	151	—	151	—	—	151
Unamortized balance of goodwill	—	—	1,884	—	30,195	32,079	—	32,079	—	—	32,079
Investments in affiliates accounted for by the equity method	367	233	103	726	1,598	3,028	1,725	4,753	—	—	4,753
Increase in tangible and intangible fixed assets	1,107	225	4,079	1,515	1,438	8,366	78	8,445	4,736	—	13,182

	2013										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	\$1,914,141	\$2,281,191	\$1,234,503	\$883,232	\$ 762,201	\$7,075,290	\$ 8,942	\$7,084,232	\$ —	\$ —	\$7,084,232
Intersegment sales and transfers	52,142	23,200	7,794	14,716	4,806	102,679	58,724	161,404	—	(161,404)	—
Net sales	1,966,284	2,304,391	1,242,297	897,959	767,018	7,177,969	67,666	7,245,646	—	(161,404)	7,084,232
Segment income	\$ 57,714	\$ 25,369	\$ 66,954	\$ 8,113	\$ 42,382	\$ 200,553	\$ 2,818	\$ 203,371	\$ (39,043)	\$ 1,308	\$ 165,635
Segment assets	\$ 865,327	\$1,155,726	\$ 656,672	\$397,523	\$1,017,916	\$4,093,184	\$68,995	\$4,162,180	\$1,359,819	\$ (346,592)	\$5,175,407
Other items											
Depreciation and amortization other than amortization of goodwill	4,615	5,710	16,034	2,658	21,531	50,569	2,148	52,727	26,433	—	79,160
Amortization of goodwill	—	—	1,021	—	16,119	17,140	—	17,140	—	—	17,140
Unamortized balance of goodwill	—	—	21,754	—	304,934	326,699	—	326,699	—	—	326,699
Investments in affiliates accounted for by the equity method	18,937	16,427	595	17,150	19,734	72,876	19,064	91,951	—	—	91,951
Increase in tangible and intangible fixed assets	6,656	9,070	29,601	978	32,196	78,522	4,636	83,158	41,148	—	124,306

(d) Geographical information

Net sales for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japan	¥361,971	¥366,369	\$3,848,708
China	133,076	122,501	1,414,949
Other	171,224	142,983	1,820,564
Total	¥666,272	¥631,854	\$7,084,232

Net sales are classified by country or region based on locations of customers.

Property, plant and equipment as of March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Japan	¥54,619	¥53,569	\$580,744
Other	6,347	3,158	67,485
Total	¥60,967	¥56,727	\$648,240

Independent Auditor's Report

(e) Information on loss on impairment of fixed assets per reportable segments

Loss on impairment of fixed assets for the years ended March 31, 2013 and 2012 is as follows:

Millions of yen								
2013								
Reportable Segments								
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	—	¥1,359	¥326	—	¥211	¥1,896	—	¥1,896

Millions of yen								
2012								
Reportable Segments								
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	—	—	¥319	—	¥54	¥373	¥82	¥455

Thousands of U.S. dollars								
2013								
Reportable Segments								
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total
Loss on impairment of fixed assets	—	\$14,450	\$3,466	—	\$2,243	\$20,159	—	\$20,159

24. RELATED PARTY TRANSACTION

On August 10, 2012, the Company acquired treasury stock from Mr. Reiji Nagase, a representative director of the Company, and his relatives Ms. Reiko Nagase and Ms. Yoshiko Umezono as determined by a resolution at the Board of Directors' meeting held on August 9, 2012 through the off-auction own share repurchase trading system (ToSTNeT-3) on the Tokyo Stock Exchange at ¥913 (\$9.71) per share, the closing price on August 9, 2012.

The Company and its subsidiary's transactions with these related parties for the year ended March 31, 2013 were as follows:

Transactions:	Millions of yen	Thousands of U.S. dollars
	2013	2013
With Mr. Reiji Nagase -Acquisition of treasury stock	¥584	\$6,209
With Ms. Reiko Nagase - Acquisition of treasury stock	442	4,700
With Ms. Yoshiko Umezono -Acquisition of treasury stock	456	4,848

25. EFFECT OF BANK HOLIDAY

As the balance sheet date fell on a bank holiday, the following notes receivable and notes payable with due dates of March 31, 2013 and 2012 were included in the respective balances and were settled on the next business day.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Notes receivable	¥2,146	¥2,158	\$ 22,818
Notes payable	579	579	6,156

26. SUBSEQUENT EVENT

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was approved at a meeting of the shareholders held on June 26, 2013:

Cash dividends (¥13.0 = U.S.\$0.14 per share)	Millions of yen	Thousands of U.S. dollars
	¥1,647	\$17,512



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
NAGASE & CO., LTD.

We have audited the accompanying consolidated financial statements of NAGASE & CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NAGASE & CO., LTD. and its consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 3 to the consolidated financial statements, which describes that NAGASE & CO., LTD. and its domestic consolidated subsidiaries changed their depreciation method from principally the declining-balance method to the straight-line method for property, plant and equipment. Our opinion is not qualified in respect of this matter.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young Shin Nihon LLC

June 26, 2013
Osaka, Japan

A member firm of Ernst & Young Global Limited

Consolidated Subsidiaries, Affiliates and Offices

● Consolidated subsidiary ● Company accounted for under the equity method

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Japan					
Manufacturing and Processing					
●	Nagase ChemteX Corporation	Research, manufacture, and sale of enzymes, fermented products, pharmaceutical intermediates, disinfecting agents, functional polymers, epichlorohydrin derivatives, electronics materials, etc.	Osaka Pref.	1970	100.0
●	Hayashibara Co., Ltd.	Development, manufacture, and sale of food raw materials, pharmaceutical raw materials, cosmetics raw materials, health foods raw materials, functional dyes, etc.	Okayama Pref.	1932	100.0
●	Nagase Medicals Co., Ltd.	Manufacture and sale of pharmaceuticals, animal drugs, health foods, and cosmetics	Hyogo Pref.	1972	100.0
●	Setsunan Kasei Co., Ltd.	Coloring and sale of plastics	Osaka Pref.	1966	100.0
●	Totaku Industries, Inc.	Manufacture and sale of plastic products	Osaka Pref.	1952	77.1
●	Kotobuki Kasei Corp.	Molding, processing and sale of plastic products	Tochigi Pref.	1972	100.0 (42.5)
●	Nagase Techno-Engineering Co., Ltd.	Manufacture, sale and maintenance of low-temperature vacuum equipment, systems for chemical supply management and recycling processes, inspection systems, and the peripheral equipment for each of these.	Tokyo Pref.	1989	100.0
●	NCK Ltd.	Small-lot repackaging of industrial-use resins and curing agents, etc., filter cleaning, management of special containers	Hyogo Pref.	1985	100.0 (100.0)
●	Fukui Yamada Chemical Co., Ltd.	Manufacture of color former	Fukui Pref.	1985	90.0
●	Nagase Filters Co., Ltd.	Planning, production, processing, quality testing and sale of metal filters	Osaka Pref.	2006	100.0
●	CAPTEX Co., Ltd.	Manufacture and development of battery power source controllers, battery power sources and power source peripheral equipment	Aichi Pref.	2004	100.0
●	Sun Delta Corporation	Development of applications for synthetic plastic products and manufacture and sale of processed products	Tokyo Pref.	2005	50.0
●	Honshu Rheem Co., Ltd.	Manufacture and sale of fiber drums, import and sale of food processing machines and materials	Kanagawa Pref.	1968	40.0
●	Toyo Beauty Supply Corp.	Contract manufacture of cosmetics and health foods	Tokyo Pref.	1964	40.0
●	eX. Grade Co., Ltd.	Development, manufacture and sale of components for electronic equipment	Osaka Pref.	2003	30.4
●	SN Tech Corporation	Manufacture of developer, recycling business	Osaka Pref.	2008	40.0 (5.0)
●	Kawai Hiryo Corporation	Manufacture and sale of organic fertilizers and agricultural chemicals and materials	Shizuoka Pref.	1981	100.0 (33.3)
●	Nihon Bio Fertilizer Co., Ltd.	Manufacture and sale of organic fertilizer	Shizuoka Pref.	1986	100.0 (100.0)
●	Uma Yasai Farm Corporation	Processing and sale of agricultural and livestock goods	Shizuoka Pref.	2008	90.0 (90.0)
●	Digital Wire Technology Co., Ltd.	Design, manufacture, and quality management of fabless semiconductors	Tokyo Pref.	2012	66.0
Servicing					
●	Nagase Logistics Co., Ltd.	Warehousing and distribution	Hyogo Pref.	1982	100.0
●	Hoei Techno Service Co., Ltd.	Duplication and processing of computer software, warehousing and distribution	Tokyo Pref.	1991	100.0 (100.0)
●	Nagase General Service Co., Ltd.	Sale and lease of various goods, real estate administration	Tokyo Pref.	1983	100.0
●	Nagase Information Development, Ltd.	Software development and maintenance	Tokyo Pref.	1987	100.0
●	Nagase Trade Management Co., Ltd.	Business agent for foreign trade documentation	Tokyo Pref.	1996	100.0
●	Nippon Vopac Co., Ltd.	Warehousing, motor truck carrier business and freight transportation services	Tokyo Pref.	1966	20.0
●	Nagase Landauer, Ltd.	Radiation measuring services	Ibaraki Pref.	1974	50.0
●	Nagase Logistics Support Co., Ltd.	An exclusive stevedore for Nagase Logistics Co., Ltd.	Hyogo Pref.	1954	100.0 (100.0)
●	Choko Co., Ltd.	Insurance agency	Osaka Pref.	1971	44.6
●	TAGCyx Biotechnologies	High-function materials using artificial bases, reagent kits, diagnostic products, pharmaceuticals	Kanagawa Pref.	2007	36.5

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase Chemical Co., Ltd.	Sale of dyestuffs, industrial chemicals, chemicals for manufacturing paper, plastics and machinery	Tokyo Pref.	1995	100.0
●	Nagase Plastics Co., Ltd.	Sale of raw materials for plastics and plastic products	Osaka Pref.	1975	100.0
●	Hoei Sangyo Co., Ltd.	Sale of film materials, magnetic products, information imaging materials, etc.	Tokyo Pref.	1974	80.5
●	Nagase Beauty Care Co., Ltd.	Sale of cosmetics and health foods	Tokyo Pref.	1991	100.0
●	Nishinihon Nagase Co., Ltd.	Sale of dyestuffs, auxiliaries, industrial chemicals and plastics	Fukuoka Pref.	1969	100.0
●	Nagase Elex Co., Ltd.	Sale of raw materials for plastics and plastic products	Tokyo Pref.	1979	100.0
●	Nagase Abrasive Materials Co., Ltd.	Sale of abrasives, inorganic materials and related equipment	Osaka Pref.	1955	100.0
●	Nagase Sanbio Co., Ltd.	Sale of enzymes and additives for food and feed	Tokyo Pref.	1987	100.0 (13.0)
●	Nagase Chemspec Co., Ltd.	Sale and technological servicing of chemicals	Tokyo Pref.	1976	100.0
●	Nagase Tool Matex Co., Ltd.	Sale of auto models, test production materials, and carbon fiber composites	Tokyo Pref.	1965	100.0
●	NAGASE-OG COLORS & CHEMICALS CO., LTD.	Purchasing and information services related to dyes, industrial chemicals, etc.	Osaka Pref.	1957	50.0
●	OnFine Co., Ltd.	Manufacture and sale of electronics and fluorine and polysilane variants for use in materials	Osaka Pref.	2002	50.0 (25.0)
●	Nihon UNF Co., Ltd.	Manufacture, sale, import/export, management consulting, and investment in pharmaceuticals and non-pharmaceuticals	Shizuoka Pref.	2001	20.0
GREATER CHINA AND KOREA					
Manufacturing and Processing					
●	Nagase ChemteX (Wuxi) Corp.	Plastic manufacture and sale of adhesives and high-tech chemical products for electronics, technology services	China	2002	100.0 (50.0)
●	Nagase International Electronics Ltd.	Process and assembly of films in South China	China	2004	100.0 (20.0)
●	Totaku Industries Suzhou Co., Ltd.	Manufacture and sale of plastic products	China	2005	100.0 (100.0)
●	Nagase Precision Plastics Shanghai Co., Ltd.	Plastic tray molding	China	2001	99.4 (3.2)
●	Nagase Electronics Technology Co., Ltd.	Chemical etching of liquid crystal glass panel units	Taiwan	2005	71.0 (11.0)
●	Nagase Engineering Service Korea Co., Ltd.	Equipment maintenance service and engineering	Korea	1997	100.0 (100.0)
●	Nagase Electronics Technology (Xiamen) Co., Ltd.	Chemical etching of liquid crystal glass panel units	China	2010	100.0 (100.0)
●	Guangzhou Kurabo Chemicals Co., Ltd.	Manufacture of molded urethane products for automobiles	China	2001	20.0
●	Toyo Quality One (Guangzhou) Co., Ltd.	Research and development, manufacturing, processing, sale, technology consulting, and after-sale service for major automotive parts	China	2004	20.0
●	Toyo Quality One Ningbo Co., Ltd.	Manufacture and sale of polyurethane foam	China	1993	24.2
●	Tokai Spring Mfg. (Foshan) Co., Ltd.	Development, manufacture, and sale of precision press products, spring, and standard molds	China	2005	30.0
●	Light Chemical (Changzhou) Co., Ltd.	Research, development, and afterservice for high-function composites and intermediates; sales of internally developed products	China	2011	33.4
●	Nagase International Electronics (Shenzhen) Ltd.	Film processing and assembly	China	2012	100.0 (100.0)
Servicing					
●	Nagase Marketing and Service (Shenzhen) Ltd.	Contract customer services	China	2006	100.0 (100.0)
●	Nagase CMS Technology (Shanghai) Co., Ltd.	Construction and maintenance of chemical supply and management equipment	China	2006	100.0 (60.0)
●	NW Consultant Service (Shenzhen) Ltd.	Print quality management consultant	China	2008	60.0 (30.0)
●	Nagase Business Management and Planning (Shanghai) Co., Ltd.	Management of Nagase Group operations and promotion of business strategies related to Greater China	China	2011	100.0

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase (Hong Kong) Ltd.	Import/export, domestic sales, marketing	China	1971	100.0
●	Shanghai Hua Chang Trading Co., Ltd.	Sale of resins and related products	China	1998	70.0 (53.8)
	Suzhou Branch Office / Ningbo Branch Office		China		
	Chengdu Branch Office / Chongqing Branch Office		China		
●	Shanghai Nagase Trading Co., Ltd.	Import/export, domestic sales, marketing	China	1997	100.0
●	Nagase Wahlee Plastics Corp.	Sale of plastics and related products	Taiwan	1990	60.0 (5.0)
	Taichung Office / Taipei Office		Taiwan		
	Gangshan Office		Taiwan		
●	NWP (B.V.I.) Corporation	Vehicle for investments into China from Taiwan	British Virgin Islands	2007	100.0 (100.0)
●	Guangzhou Nagase Trading Ltd.	Import/export, domestic sales, marketing	China	2002	100.0 (100.0)
	Wuhan Branch Office / Chongqing Branch Office		China		
	Chengdu Branch Office / Changsha Branch Office		China		
	Zhengzhou Branch Office		China		
●	Nagase (Taiwan) Co., Ltd.	Import/export, domestic sales, marketing	Taiwan	1988	100.0
	Xiamen Representative Office		China		
●	Tianjin Nagase International Trading Co., Ltd.	Import/export, domestic sales, marketing	China	2003	100.0
	Dalian Branch Office/ Qingdao Branch Office		China		
	Changchun Branch Office		China		
●	NWP International Trading (Shenzhen) Co., Ltd.	Sale of plastic products in South China	China	2004	100.0 (100.0)
	Dongguan Branch Office		China		
	Guangzhou Branch Office		China		
●	Nagase Korea Corp.	General import/export trading, retailing/wholeselling, import/export trade agency	Korea	2001	100.0
●	Xiamen Nagase International Trading Co., Ltd.	Import/export, domestic sales, marketing	China	2011	100.0 (100.0)
	Sekisui Plastics (Hong Kong) Trading Co., Ltd.	Sale of import components, sale of molded products	China	2011	26.0
ASEAN AND THE MIDDLE EAST					
Manufacturing and Processing					
●	Nagase Finechem Singapore (Pte) Ltd.	Manufacture and recycling of chemical agents for liquid crystals	Singapore	2001	100.0 (40.0)
●	Pac Tech Asia Sdn. Bhd.	Manufacture and sale of semiconductor manufacturing equipment, semiconductor wafer bumping contract manufacturing	Malaysia	2006	100.0 (100.0)
●	Sanko Gosei Technology (Thailand) Ltd.	Manufacture of automobile components	Thailand	1994	40.0
●	Automotive Mold Technology Co., Ltd.	Manufacture of automotive molds and dies	Thailand	2000	32.1
●	Nafuko Co., Ltd.	Manufacture, import/export and sale of packaging materials and related equipment	Thailand	1996	28.0 (28.0)
●	Dainichi Color Vietnam Co., Ltd.	Manufacture and sale of color masterbatch blend for plastic	Vietnam	2005	40.0
●	P.T. Toyo Quality One Indonesia	Manufacture of flame lamination products	Indonesia	2008	25.0
●	Majend Makcs Co., Ltd.	Plastic film processing	Thailand	2002	30.0 (30.0)
	ZCL Chemicals Ltd.	Contract synthesis and process development	India	1991	25.0
	PT. TUNE Manufacturing Indonesia	Painting and sale of exterior auto parts	Indonesia	2013	35.0 (25.0)

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase (Thailand) Co., Ltd.	Import/export, domestic sales, marketing	Thailand	1989	100.0
	Eastern Office		Thailand		
●	Nagase Singapore (Pte) Ltd.	Import/export, domestic sales, marketing	Singapore	1975	100.0
	Australia Branch		Australia		
	Bangladesh Liaison Office		Bangladesh		
●	Nagase (Malaysia) Sdn. Bhd.	Import/export, domestic sales, marketing	Malaysia	1981	100.0
	Johor Bahru Office		Malaysia		
	Penang Office		Malaysia		
●	P.T. Nagase Impor-Ekspor Indonesia	Import/export, domestic sales, marketing	Indonesia	1998	100.0 (10.0)
●	Nagase Philippines Corp.	Import/export, domestic sales, marketing	Philippines	1997	100.0
●	Nagase Philippines International Services Corp.	Domestic sales, import/export	Philippines	2005	100.0
●	Nagase Vietnam Co., Ltd.	Import/export, domestic sales, marketing	Vietnam	2008	100.0
	Ho Chi Minh City Branch		Vietnam		
●	Nagase India Private Ltd.	Import/export, domestic sales, marketing	India	2006	100.0 (0.1)
	North India Branch (Gurgaon)		India		
	Nagase (Siam) Co., Ltd.	Contract services for Group companies	Thailand	2000	49.0 (49.0)
—	Nagase & Co., Ltd. Dubai Branch	Branch	United Arab Emirates		
AMERICAS					
Manufacturing and Processing					
●	Engineered Materials Systems Inc.	Research and development, manufacture, and sale of materials for commercial adhesives, conductive adhesives	America	1993	100.0 (50.0)
●	Pac Tech USA-Packaging Technologies Inc.	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	America	2001	100.0 (100.0)
●	Sofix Corp.	Manufacture and sale of color formers	America	1990	100.0
●	KN Platech America Corporation	Manufacture and sale of blow-formed plastic components and products	America	2010	50.0
●	TIMLE S.A. DE C.V.	Manufacture and sale of automotive laminated frames sale of automotive urethane foam	Mexico	2010	15.0
	TQ-1 de MEXICO S.A. DE C.V.	Manufacture and sale of urethane for automotive seat pads	Mexico	2012	25.0
Sales					
●	Nagase America Corp.	Import/export, domestic sales, marketing	America	1971	100.0
	Michigan Branch		America		
	California Branch		America		
●	Nagase Enterprise Mexico S.A. de C.V.	Import/export sales, intermediate trade, market development, information collection	Mexico	2010	100.0 (100.0)
	NAGASE DO BRASIL REPRESENTAÇÃO COMERCIAL LTDA.	Survey biomedical businesses in Brazil and South America; review other development businesses in the region	Brazil	2012	100.0 (0.1)
Europe					
Manufacturing and Processing					
●	Pac Tech-Packaging Technologies GmbH	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	Germany	1995	73.5
Sales					
●	Nagase (Europa) GmbH	Import/export, domestic sales, marketing	Germany	1980	100.0
	Hungary Representative Office		Hungary		
	London Branch		England		

About NAGASE & CO., LTD.

Company Name	NAGASE & CO., LTD.		
Founded	June 18, 1832		
Establishment	December 9, 1917		
Capital	¥9,699 million		
Employees	972 (Consolidated: 5,897)		
Main Business	Import/export and domestic sales of dyestuffs, chemicals, plastics, machinery, electronics materials, cosmetics and health foods		
Main Banks	Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Corporate Bank, Ltd., Sumitomo Mitsui Trust Bank, Limited		
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
	Nagase Application Workshop	:	2-4-45, Higashitsukaguchicho, Amagasaki City, 661-0011 Tel: (81) 6-4961-6730

History

1832	<ul style="list-style-type: none"> Nagase founded in Kyoto as a dyestuffs trading concern Sales of dyestuffs, starches and funori seaweed
1893	<ul style="list-style-type: none"> Established Osaka branch office
1898	<ul style="list-style-type: none"> Head office moved to Osaka
1900	<ul style="list-style-type: none"> Established business ties with Basel Chemical Co. of Switzerland (now BASF)
1911	<ul style="list-style-type: none"> Established Tokyo branch office
1917	<ul style="list-style-type: none"> Inaugurated as Nagase Shoten Company with capital of ¥3 million
1923	<ul style="list-style-type: none"> Established business ties with Eastman Kodak Co. of the United States
1930	<ul style="list-style-type: none"> Concluded exclusive distributorship agreements with Union Carbide and Carbon Corp. of the United States
1940	<ul style="list-style-type: none"> Established Nagoya branch office
1943	<ul style="list-style-type: none"> Company name changed to NAGASE & CO., LTD.
1964	<ul style="list-style-type: none"> Listed Company shares on the Osaka Securities Exchange
1968	<ul style="list-style-type: none"> Concluded an exclusive distributorship agreement with General Electric Co. of the United States
1970	<ul style="list-style-type: none"> Established Nagase-CIBA Ltd. (now Nagase ChemteX Corp.) jointly with Ciba-Geigy Ltd. Listed Company shares on the Tokyo Stock Exchange
1971	<ul style="list-style-type: none"> Established Nagase (Hong Kong) Ltd. and Nagase America Corp. Established Engineering Plastics, Ltd. jointly with General Electric Co.
1974	<ul style="list-style-type: none"> Established Nagase Landauer Ltd. jointly with Technical Operations, Inc. of the United States
1975	<ul style="list-style-type: none"> Established Nagase Singapore (Pte) Ltd.
1980	<ul style="list-style-type: none"> Established Nagase (Europa) GmbH
1982	<ul style="list-style-type: none"> Established Nagase (Malaysia) Sdn. Bhd.
1985	<ul style="list-style-type: none"> Established Seoul branch office
1988	<ul style="list-style-type: none"> Established Nagase (Taiwan) Co., Ltd.
1989	<ul style="list-style-type: none"> 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

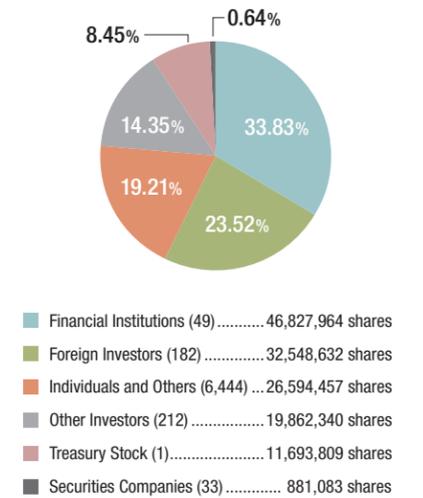
1990	<ul style="list-style-type: none"> Established Sofix Corp. Set up the Nagase R&D Center in Kobe Established joint venture Nagase Wahlee Plastics Corp. (Taiwan)
1997	<ul style="list-style-type: none"> Established Nagase Philippines Corp. Established Shanghai Nagase Trading Co., Ltd. Established Nagase Engineering Service Korea Co., Ltd.
1998	<ul style="list-style-type: none"> Established P.T. Nagase Impor-Ekspor Indonesia Established Shanghai Hua Chang Trading Co., Ltd.
2001	<ul style="list-style-type: none"> Closed the Seoul branch office and established Nagase Korea Corp. Established Nagase FineChem Singapore (Pte) Ltd. Established Nagase Precision Plastics Shanghai Co., Ltd.
2002	<ul style="list-style-type: none"> Established Guangzhou Nagase Trading Ltd. Established a representative office in Hanoi, Vietnam Established Nagase ChemteX (Wuxi) Corp.
2004	<ul style="list-style-type: none"> Established Nagase International Electronics Ltd. Established NWP International Trading (Shenzhen) Co., Ltd.
2005	<ul style="list-style-type: none"> Established Totaku Industries Suzhou Co., Ltd. Established Nagase Electronics Technology Co., Ltd. Established Nagase Philippines International Services Corp.
2006	<ul style="list-style-type: none"> Acquired stock of semiconductor manufacturing equipment maker Pac Tech- Packaging Technologies GmbH Established Nagase India Private Ltd.
2007	<ul style="list-style-type: none"> Established Nagase Application Workshop
2008	<ul style="list-style-type: none"> Established Sakai Sales Office Established Nagase Vietnam Co., Ltd.
2009	<ul style="list-style-type: none"> Opened a branch office in Dubai
2012	<ul style="list-style-type: none"> Acquisition of Engineered Materials Systems Inc. stock (consolidated subsidiary), U.S.-based maker of formulated epoxy resins Acquisition of Hayashibara Co., Ltd. stock (Okayama, Japan; consolidated subsidiary)

Stock Exchange Listings		Tokyo, Osaka (First Sections)
Code		8012
Authorized Number of Shares		346,980,000
Issued Number of Shares		138,408,285
Number of Shareholders		6,921
Principal Shareholders		

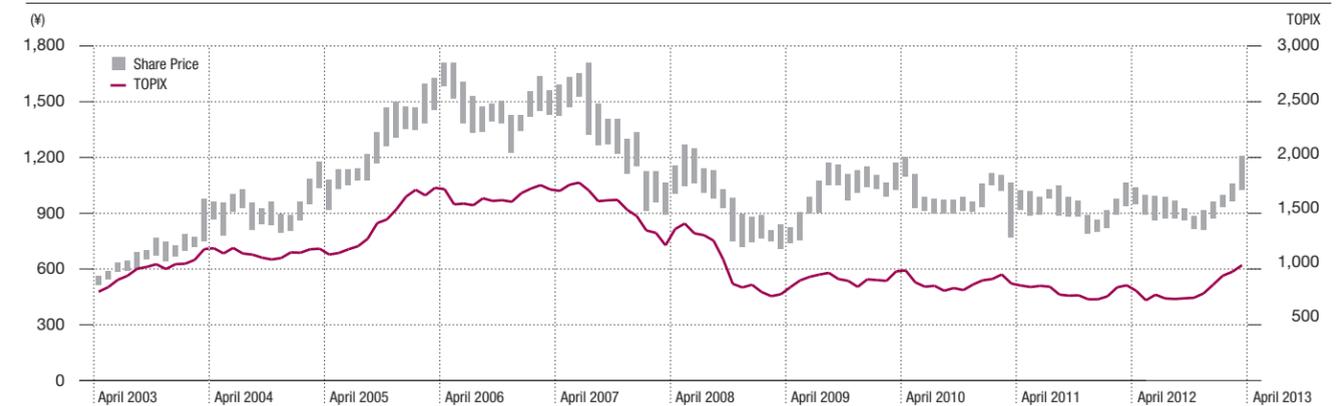
Name	Number of Shares Held (thousands)	Percentage of Total Shares Outstanding (%)
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	10,005	7.23
The Master Trust Bank of Japan, Ltd. (Trust Account)	6,574	4.75
Sumitomo Mitsui Trust Bank, Limited	5,776	4.17
Japan Trustee Services Bank, Ltd. (Trust Account)	4,891	3.53
Nippon Life Insurance Company	4,486	3.24
Sumitomo Mitsui Banking Corporation	4,377	3.16
Hiroshi Nagase	4,139	2.99
Reiko Nagase	3,593	2.60
NORTHERN TRUST CO. AVFC RE U.S. TAX EXEMPTED PENSION FUNDS	3,582	2.59
Mitsui Sumitomo Insurance Co., Ltd.	2,951	2.13

Notes: 1. In addition to the above, the Company holds 11,693 thousand shares of treasury stock (8.45%) without voting rights.
2. Shares owned by Hiroshi Nagase include shares nominally owned by NAGASE & CO., LTD.

Composition of Shareholders



Monthly Share Price Range of Nagase



Monthly Trading Volume

