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

October 30, 2008

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

Nagase & Co., Ltd.
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Filing of Quarterly Report (scheduled): November 12, 2008
Start of distribution of dividends (scheduled): December 8, 2008

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

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

(1) Net Sales and Income (Cumulative) (Percentages represent change compared with the previous second quarter.)

	Net sales (¥ million)	Year-on-year change (%)	Operating income (¥ million)	Year-on-year change (%)	Ordinary income (¥ million)	Year-on-year change (%)
Six months ended Sept. 30, 2008	384,621	–	8,901	–	9,849	–
Six months ended Sept. 30, 2007	369,256	7.6	10,626	0.2	11,657	1.9

	Net income (¥ million)	Year-on-year change (%)	Earnings per share (¥)	Earnings per share (diluted) (¥)
Six months ended Sept. 30, 2008	5,706	–	44.38	44.38
Six months ended Sept. 30, 2007	(642)	–	(5.00)	–

(2) Financial Position

	Total assets (¥ million)	Net assets (¥ million)	Net worth ratio (%)	Net assets per share (¥)
Sept. 30, 2008	412,554	206,453	48.1	1,544.33
Sept. 30, 2007	419,869	208,337	47.8	1,559.97

(Reference) Equity capital: Sept. 30, 2008: ¥198,549 million; March 31, 2008: ¥200,554 million

2. Dividends

	Dividends per share (¥)				
	First quarter	Second quarter	Third quarter	Year-end	Full year
Fiscal year ended March 31, 2008	–	0.00	–	17.00	17.00
Fiscal year ending March 31, 2009	–	8.00	———	———	———
Fiscal year ending March 31, 2009 (est.)	———	———	–	8.00	16.00

Note: Revisions to projected dividends during the quarter: Yes

3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2009 (April 1, 2008 – March 31, 2009)

(Percentages represent change compared to the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥ million)	(%)	(¥)
Full year	770,000	0.7	18,000	(22.0)	19,500	(21.4)	9,000	(10.1)	70.00

Note: Revisions to projected consolidated results during the quarter: Yes

4. Other

(1) Changes in major subsidiaries during the period (changes in specified subsidiaries due to changes in the scope of consolidation): No

(2) Use of simplified accounting methods or special accounting methods for preparation of quarterly financial statements: Yes
See "4. Other" of "Qualitative Information and Financial Statements" on pages 4-5.

(3) Changes in accounting rules, procedures, presentation method, etc., for the quarterly Consolidated Financial Statements (changes in material items that form the basis for the preparation of the quarterly consolidated financial statements)
(a) Changes in consolidated accounting methods: Yes
(b) Changes other than (a) above: Yes
See "4. Other" of "Qualitative Information and Financial Statements" on pages 4-5.

(4) Number of shares issued and outstanding (common stock)
(a) Number of shares at end of period (including treasury stock): September 30, 2008: 138,408,285 shares; March 31, 2008: 138,408,285 shares
(b) Treasury stock at end of period: September 30, 2008: 9,841,419 shares; March 31, 2008: 9,844,934 shares
(c) Average number of shares during the period: Six months ended September 30, 2008: 128,579,544; Six months ended September 30, 2007: 128,474,198

Note: Cautionary Remark Regarding Forward-Looking Statements

1. The projected consolidated results for the fiscal year ending March 31, 2009 have been revised from projections announced on April 30, 2008. The projected consolidated results for the fiscal year contained in this document are based on information currently available to the Company on the date of release. Due to various factors, actual results may differ materially from the forecast.
2. Effective from the three months ended June 30, 2008, the Company applies the "Accounting Standard for Quarterly Financial Reporting" (ASBJ Statement No. 12) and its Implementation Guidance, "Guidance on Accounting Standard for Quarterly Financial Reporting" (ASBJ Guidance No. 14). Quarterly consolidated financial statements have been prepared in accordance with the "Regulation for Quarterly Consolidated Financial Reporting."

Qualitative Information and Financial Statements

1. Qualitative Information on Consolidated Operating Results

(1) Summary of Overall Performance

During the second quarter of the fiscal year ending March 31, 2009, the six months ended September 30, 2008, the Japanese economy weakened with a visible slowdown in corporate exports and capital investment. The risk of a further economic downturn in the United States increased due to financial instability, and a trend toward weakening growth in the global economy overall continues to spread.

Under these conditions, domestic sales for the first two quarters increased 5.1 percent compared with the same period of the previous fiscal year to ¥219.66 billion and overseas sales increased 2.9 percent to ¥164.95 billion for total net sales of ¥384.62 billion, a 4.2 percent increase.

Despite factors including an increase in manufacturing costs at manufacturing subsidiaries due to rising raw material prices, gross profit increased 0.9 percent compared with the same period of the previous fiscal year to ¥39.05 billion due to the increase in sales, but selling, general and administrative expenses increased due to factors including amortization of actuarial gain in retirement benefit accounting. Consequently, operating income decreased 16.2 percent to ¥8.90 billion and ordinary income decreased 15.5 percent to ¥9.84 billion. However, factors including an extraordinary loss of ¥14.3 billion recorded in the same period of the previous fiscal year related to the voluntary recall of products that resulted in a net loss had no significant effect on the current second-quarter period, and net income was ¥5.70 billion.

(2) Segment Summary

[Chemicals] Sales: ¥140.82 billion, a 7.8 percent increase from the same period of the previous fiscal year

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

[Plastics] Sales: ¥134.53 billion, a 6.3 percent increase from the same period of the previous fiscal year

Although yen-denominated sales in the ASEAN region decreased due in part to the effect of a stronger yen, sales increased in the Greater China region including Hong Kong and Taiwan. Despite a decrease in domestic sales for precision instruments and electronics applications and a drop in sales for applications in building and packaging materials including Nagase products, automotive-related sales were strong, and overall sales in the Plastics segment increased.

[Electronics] Sales: ¥80.19 billion, a 4.7 percent decrease from the same period of the previous fiscal year

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

[Life Sciences] Sales: ¥ 28.21 billion, a 5.4 percent increase from the same period of the previous fiscal year

Sales were flat in the beauty care business, which handles cosmetics and health foods. Although sales in the fine chemicals business related to enzymes were flat, overall segment sales increased due to an increase in sales centered on pharmaceutical intermediates.

[Others] Sales: ¥0.83 billion, a 25.6 percent decrease from the same period of the previous fiscal year

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

2. Qualitative Information on Consolidated Financial Position

(1) Assets, Liabilities and Net Assets

Despite the purchase of property, plant and equipment and other factors, total assets decreased ¥7.31 billion from the end of the previous fiscal year to ¥412.55 billion, mainly due to a decrease in investment securities following a drop in share prices and a decrease in notes and accounts receivable.

Despite an increase in long-term debt, total liabilities decreased ¥5.39 billion from the end of the previous fiscal year to ¥206.10 billion due to factors including decreases in short-term loans and in deferred tax liabilities resulting from a decrease in net unrealized holding gain on securities following a decline in share prices.

Net assets decreased ¥1.92 billion from the end of the previous fiscal year to ¥206.45 billion despite recording net income, due to factors including a decrease in net unrealized holding gain on securities recorded as net assets and a decrease in translation adjustments.

As a result, the net worth ratio increased 0.3 percentage points to 48.1 percent from 47.8 percent at the end of the previous fiscal year.

(2) Cash Flows

Net cash provided by operating activities was ¥12.18 billion, mainly due to income before income taxes and minority interests, despite factors including income taxes paid and other expenditures.

Net cash used in investing activities was ¥6.20 billion, mainly as a result of purchases of property and equipment.

Net cash used in financing activities was ¥4.05 billion, due to a decrease in short-term loans and the payment of dividends, despite proceeds from long-term debt.

As a result, the balance of cash and cash equivalents at September 30, 2008 was ¥23.59 billion, an increase of ¥0.10 billion from the end of the previous fiscal year.

3. Qualitative Information on Projected Consolidated Results

The Company expects the severe operating environment to continue due to the outlook that lower confidence globally in financial systems will have a pronounced effect on the real economy.

Under these conditions, the Nagase Group foresees a downturn in demand from the electronic equipment, electronics, automobile and other industries, which are the final customers of its main business partners, and the possibility of an impairment loss on stock held due to the weak performance of the stock market. As a result, projections for the fiscal year ending March 31, 2009 are for consolidated net sales of ¥770.0 billion (a 0.7 percent increase from the previous fiscal year), operating income of ¥18.0 billion (a 22.0 percent decrease), ordinary income of ¥19.5 billion (a 21.4 percent decrease), and net income of ¥9.0 billion (a 10.1 percent decrease).

4. Other

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

None applicable.

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

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

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

(a) Effective from the three months ended June 30, 2008, the Company applies the “Accounting Standard for Quarterly Financial Reporting” (ASBJ Statement No. 12, issued March 14, 2007) and its Implementation Guidance, “Guidance on Accounting Standard for Quarterly Financial Reporting” (ASBJ Guidance No. 14, issued March 14, 2007). Quarterly consolidated financial statements have been prepared in accordance with the “Regulation for Quarterly Consolidated Financial Reporting.”

(b) Effective from the three months ended June 30, 2008, the Company applies the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued July 5, 2006), changing from primarily using the cost or market method to the average method (method for reducing the carrying amount of inventories below book value due to decline in profitability) for the valuation of inventories held for normal sale. As a result, gross profit, operating income, ordinary income and income before income taxes and minority interests each decreased by ¥547 million.

(c) Effective from the three months ended June 30, 2008, the Company applies the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (ASBJ PITF No. 18, issued May 17, 2006) and carries out necessary consolidated financial adjustments. There is no effect on income from these changes.

(d) Previously, finance lease transactions without title transfer were accounted for as operating leases. However, companies are able to apply “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13, issued June 17, 1993 (First Committee of Business Accounting Council), revised March 30, 2007) and its Implementation Guidance, “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 (issued January 18, 1994 (Japanese Institute of Certified Public Accountants), revised March 30, 2007) on quarterly financial statements of fiscal years beginning on or after April 1, 2008. Accordingly, the Company has applied the revised accounting standard from the three months ended June 30, 2008. The revised accounting standard requires that all finance lease transactions be capitalized.

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

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

There is no effect on income from these changes.