

Consolidated Financial Statements for the Second Quarter of the Fiscal Year
Ending March 31, 2011
 <Under Japanese GAAP>

October 29, 2010

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

NAGASE & CO., LTD.

Code number: 8012

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Contact: Masanori Furukawa, Manager, Corporate Accounting Division

Filing of Quarterly Report (scheduled): November 12, 2010

Supplementary documents or quarterly financial results: No

Quarterly investors' meeting: Yes

Stock exchange listing: Tokyo, Osaka (First Sections)

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

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

1. Consolidated Results for the Second Quarter of the Fiscal Year Ending March 31, 2011

(April 1, 2010 to September 30, 2010)

(1) Consolidated Operating Results (Percentages represent changes compared with same period of the previous fiscal year.)

	Net sales		Operating income		Ordinary income		Net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
For the second quarter ended								
September 30, 2010	331,311	17.8	10,533	100.2	11,369	96.1	6,849	121.3
September 30, 2009	281,368	(26.8)	5,262	(40.9)	5,796	(41.1)	3,095	(45.8)

	Earnings per share	Earnings per share (diluted)
For the second quarter ended	Yen	Yen
September 30, 2010	53.29	—
September 30, 2009	24.08	—

(2) Consolidated Financial Position

	Total assets	Net assets	Net worth ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
September 30, 2010	370,197	203,353	52.9	1,524.00
March 31, 2010	368,088	202,753	53.1	1,519.61

(Reference) Equity capital: As of September 30, 2010: ¥195,905 million As of March 31, 2010: ¥195,344 million

2. Dividends

(Record date)	Dividends per share				
	1Q	Interim	3Q	Fiscal Year-End	Annual
For the year ending	Yen	Yen	Yen	Yen	Yen
March 31, 2010	—	7.00	—	9.00	16.00
March 31, 2011	—	9.00			
March 31, 2011 (estimate)			—	9.00	18.00

Note: Revisions to projected dividends during the three months ended September 30, 2010: No

3. Projected Consolidated Results for the Fiscal Year Ending March 31, 2011 (April 1, 2010 to March 31, 2011)

(Percentages represent changes compared with the corresponding periods of the previous fiscal year as applicable)

	Net sales		Operating income		Ordinary income		Net income		Earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal 2010 (Full fiscal year)	655,000	8.5	18,000	37.1	19,600	33.2	12,000	59.2	93.35

Note: Revisions to projected consolidated results during the three months ended September 30, 2010: Yes

4. Other (For details, please see “2. Others” on page 4.)

- (1) Changes in major subsidiaries during the period (changes in specified subsidiaries accompanying changes in the scope of consolidation): None

New: — (Company name:) Excluded: — (Company name:)

- (2) Application of simplified accounting methods or special accounting methods to the preparation of quarterly financial statements: No

- (3) Changes in accounting principles, procedures and presentation methods in connection with the preparation of consolidated financial statements
(Recorded under “Changes in significant items considered fundamental to the preparation of consolidated financial statements.”)

- i. Changes in accordance with revisions to accounting and other standards: Yes
ii. Changes in items other than (i) above: No

- (4) Number of shares issued and outstanding (common stock)

- i. Number of shares issued and outstanding as of the fiscal period end (including treasury stock)
As of September 30, 2010: 138,408,285 shares
As of March 31, 2010: 138,408,285 shares
- ii. Number of treasury stock as of the fiscal period end
As of September 30, 2010: 9,861,844 shares
As of March 31, 2010: 9,859,357 shares
- iii. Average number of shares during the period:
Six months ended September 30, 2010: 128,547,717 shares
Six months ended September 30, 2009: 128,560,183 shares

Indication of quarterly review procedure implementation status

This quarterly earnings report is exempt from the quarterly review procedure based upon the Financial Instruments and Exchange Act. Furthermore, quarterly consolidated financial statements were undergoing the review procedure process at the time of release.

Cautionary Statement with Respect to Forecasts of Consolidated Business Results

The results forecasts presented in this document are based upon currently available information and assumptions deemed rational. A variety of factors could cause actual results to differ materially from forecasts. Please refer to “Qualitative Information on Projected Consolidated Results” in the “Qualitative Information and Financial Statements” on page 4.

1. Qualitative Information and Financial Statements

(1) Qualitative Information and Overview of Consolidated Business Results

a. General Summary of Results

During the period under review, the Japanese economy remained steady owing to a surge in consumer demand on the back of government subsidies and active demand in Asia, primarily in China. This occurred amid increasing uncertainty about the future primarily due to concerns over an economic slowdown overseas and the ongoing strength of the yen.

Reflecting these circumstances, domestic sales for the second quarter rose 13.6 percent compared with the corresponding period of the previous fiscal year to ¥196.32 billion and overseas sales jumped 24.4 percent to ¥134.98 billion. Total net sales for the period under review were ¥331.31 billion, up 17.8 percent year on year.

On the earnings front, operating income surged 100.2 percent to ¥10.53 billion and ordinary income jumped 96.1 percent to ¥11.36 billion due to the increase in net sales. As a result, net income for the second quarter of the fiscal year under review increased 121.3 percent year on year to ¥6.84 billion.

b. Segment Summary

[Chemicals] Sales: ¥126.59 billion, a 14.0 percent increase from the same period of the previous fiscal year

Such factors as a recovery in demand in the chemicals industry overall affected Nagase's chemical businesses across the board. Reflecting this, sales improvements were recorded by the performance chemicals business, which handles coating materials, urethane materials, plastic raw materials and additives; the colors and imaging business, which handles dyestuffs, pigments, digital print processing materials, functional dyes and other products related to color; and the speciality chemicals business, which handles a wide range of materials such as surfactants, industrial oil solutions, organic synthesis materials and sealants, which have applications related to fluorochemicals and are used by the semiconductor industry. Overseas, overall sales increased despite decreased printing-related sales in South China.

[Plastics] Sales: ¥110.06 billion, a 27.5 percent increase from the same period of the previous fiscal year

During the period under review, overseas sales in the business areas of Northeast Asia, Southeast Asia and North America grew substantially. In Japan, although sales of functional film sheets and sheet molding-related products fell, sales of materials for office automation equipment, consumer electronics, automotives rose. As a result, overall sales in this segment increased significantly.

[Electronics] Sales: ¥68.54 billion, a 21.0 percent increase from the same period of the previous fiscal year

Despite indications of the beginnings of a trend toward inventory adjustments for a portion of products related to LCDs and semiconductors, sales of display-related products, including LCD display films and touch-panel components, grew substantially owing to an increase in new materials. In addition, sales of precision abrasive materials for the hard disk and semiconductor industries improved as did sales of chemicals used in manufacturing LCDs and semiconductors, reflecting favorable demand. The epoxy business also grew substantially, owing to a recovery in applications related to automobiles and strong demand for such mobile phones as smartphones. Furthermore, overseas sales showed considerable growth in all regions, resulting in a drastic increase in overall results.

[Life Sciences] Sales: ¥25.68 billion, a 4.2 percent decrease from the same period of the previous fiscal year

In the Life Sciences segment, although sales of enzymes and fermentation products in the fine chemicals business grew, sales of household products fell. In the pharmaceutical industry, sales dipped slightly despite improved performance for consignment projects. Sales of newly introduced items in the Beauty Care products business, which handles cosmetics and health foods, remained strong. However, these results failed to counter a drop in sales of existing products, leading to a slight decrease in results.

[Other] Sales: ¥0.41 billion, a 26.2 percent decrease from the same period of the previous fiscal year

No specific items to report in this segment during the period under review

(2) Qualitative Information on Consolidated Financial Position

Assets, Liabilities and Net Assets

Total assets increased ¥2.10 billion to ¥370.19 billion during the period under review, in spite of such factors as a decrease in the market value of investment securities due to a drop in share prices as well as a decrease in cash and cash equivalents due to a rise in working capital. This was primarily attributable to an increase in notes and accounts receivable and inventories due to a growth of sales.

Total liabilities amounted to ¥166.84 billion, up ¥1.50 billion from the previous fiscal year-end primarily due to an increase in short-term loans. This result occurred despite such factors as a decrease in deferred tax liabilities.

Net assets rose ¥0.60 billion to ¥203.35 billion mainly because of a rise in retained earnings. This increase occurred in spite of such factors as a decrease in net unrealized holding gain on securities.

As a result, the net worth ratio fell 0.2 percentage points to 52.9 percent compared with the previous fiscal year-end's 53.1 percent.

Cash Flows

Net cash provided by operating activities was ¥2.45 billion. This was mainly attributable to ¥11.09 billion in income before income taxes and minority interests, which offset an increase in working capital due to a rise in notes and accounts receivable and inventories stemming from sales expansion.

Net cash used in investing activities totaled ¥5.85 billion, reflecting such factors as purchases of property, plant and equipment.

Net cash provided by financing activities amounted to ¥2.54 billion due to an increase in short-term loans. This occurred in spite of such factors as the payment of dividends.

Including ¥0.20 billion cash and cash equivalents recorded due to the inclusion of a subsidiary in consolidation, the balance of cash and cash equivalents at September 30, 2010 was ¥41.44 billion, a decrease of ¥1.36 billion from the end of the previous fiscal year.

(3) Qualitative Information on Projected Consolidated Results

There are indications that the pace of global economic growth—which has been supported by economic recovery powered by increasing demand in emerging economies and has been on a resurgent expansion track—is slowing down. At the same time, uncertainty is increasing with regard to the Japanese economy due to such factors as concerns about the diminishing impact of government policies related to individual consumption; an increase in crude oil prices—which were relatively stable until the second quarter of the current fiscal year—from October onward; and the ongoing strength of the yen.

Under these circumstances, the Nagase Group will continue to undertake measures in the Chemicals, Plastics and Electronics segments to expand businesses and strengthen its functions in Asia (where growth centered on ongoing demand is anticipated), while strengthening its functions in businesses related to automobiles in Europe and North America. Moreover, Nagase will take steps to select and concentrate business in Japan as it bolsters measures to primarily expand its environment- and energy-related businesses. In the Life Sciences segment, Nagase is working to strengthen its technologies and manufacturing functions in order to further reinforce its business foundation.

Nagase aims to meet performance forecasts through the aforementioned measures. Moreover, mainly reflecting an upward revision of initial projections during the cumulative second quarter, full-year consolidated performance forecasts have been revised as follows: net sales of ¥655.00 billion (an 8.5 percent increase year on year), operating income of ¥18.00 billion (a 37.1 percent rise year on year), ordinary income of ¥19.60 billion (a 33.2 percent improvement year on year) and net income of ¥12.00 billion (a 59.2 percent jump year on year).

2. Others

(1) Changes in Significant Consolidated Subsidiaries

No

(2) Application of Accounting Methods for Quarterly Consolidated Financial Statements That Are Simplified or Extraordinary

No

(3) Outline of Changes in Significant Accounting Policies, Procedures and Presentation:

(i) From the first quarter of the fiscal year ending March 31, 2011, Nagase applies the “Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, March 10, 2008) and the “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method” (ASBJ PITF No. 24, March 10, 2008).

This change has had no impact on consolidated operating income and ordinary income.

(ii) From the first quarter of the fiscal year ending March 31, 2011, Nagase applies the “Accounting Standard for Asset Retirement Obligation” (ASBJ Statement No. 18, March 31, 2008) and the “Guidance on Accounting Standard for Asset Retirement Obligations” (ASBJ Guidance No. 21, March 31, 2008).

This change has had no impact on consolidated operating income and ordinary income.

(iii) From the first quarter of the fiscal year ending March 31, 2011, Nagase applies the “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, December 26, 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, December 26, 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, released December 26, 2008), and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, December 26, 2008).