# NOF CORPORATION

# Consolidated Financial Statements

For the years ended March 31, 2006 and 2007

## Report of Independent Auditors

The Board of Directors
NOF CORPORATION

We have audited the accompanying consolidated balance sheet of NOF CORPORATION and consolidated subsidiaries as of March 31, 2007, and the related consolidated statements of income, changes in net assets, and cash flows for the year then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our 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 financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOF CORPORATION and consolidated subsidiaries at March 31, 2007, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

June 28, 2007

**NOF CORPORATION and Subsidiaries**

Consolidated Balance Sheets
As of March 31, 2006 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and time deposits (Note 4) | ¥ 8,888 | ¥ 8,012 | $ 67,872 |
| Notes and accounts receivable | 29,784 | 33,482 | 283,626 |
| Allowance for bad debts | (72) | (119) | (1,006) |
| | 29,712 | 33,363 | 282,619 |
| Inventories | 21,443 | 24,614 | 208,501 |
| Deferred tax assets (Note 11) | 2,033 | 2,066 | 17,503 |
| Other current assets (Note 5) | 6,901 | 2,868 | 24,294 |
| Total current assets | 68,977 | 70,923 | 600,789 |
| Property, plant and equipment (Note 6): | | | |
| Land | 19,529 | 19,376 | 164,134 |
| Buildings and structures | 51,728 | 53,057 | 449,449 |
| Machinery and equipment | 80,290 | 83,901 | 710,726 |
| Construction in progress | 1,702 | 3,050 | 25,839 |
| Others | 12,177 | 12,585 | 106,607 |
| Accumulated depreciation | (105,629) | (109,213) | (925,151) |
| Total property, plant and equipment | 59,797 | 62,756 | 531,604 |
| Investments and other assets: | | | |
| Investments in securities (Note 5) | 51,472 | 47,687 | 403,958 |
| Deferred tax assets (Note 11) | 1,175 | 434 | 3,677 |
| Intangible assets | 3,103 | 3,338 | 28,279 |
| Prepaid pension expenses (Note 12) | 4,714 | 5,946 | 50,370 |
| Other assets | 3,014 | 3,537 | 29,951 |
| Total investments and other assets | 63,478 | 60,942 | 516,235 |
| Total assets | ¥ 192,252 | ¥ 194,621 | $ 1,648,628 |

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**

Consolidated Balance Sheets
As of March 31, 2006 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Short-term bank loans (Note 6) | ¥ 5,015 | ¥ 9,646 | $ 81,708 |
| Current portion of long-term debt (Note 6) | 9,684 | 5,824 | 49,333 |
| Notes and accounts payable | 22,312 | 25,199 | 213,465 |
| Accrued expenses | 5,884 | 6,284 | 53,229 |
| Income taxes payable | 2,540 | 2,463 | 20,862 |
| Advances received | 3,057 | 3,365 | 28,508 |
| Other current liabilities (Note 11) | 4,209 | 4,656 | 39,447 |
| Total current liabilities | 52,701 | 57,437 | 486,552 |
| Long-term liabilities: | | | |
| Long-term debt (Note 6) | 13,959 | 12,554 | 106,343 |
| Deferred tax liabilities (Note 11) | 18,736 | 17,549 | 148,660 |
| Accrued pension and severance costs (Note 12) | 3,492 | 3,687 | 31,235 |
| Accrued retirement benefits to directors and corporate auditors | 650 | 368 | 3,120 |
| Other long-term liabilities | 874 | 1,021 | 8,641 |
| Total long-term liabilities | 37,711 | 35,179 | 297,999 |
| Contingent liabilities and commitment (Note 15) | | | |
| Net assets: | | | |
| Shareholders' equity | | | |
| Common stock: | | | |
| Authorised:783,828,000 shares at March 31, 2006 and 2007 | | | |
| Issued: 208,482,752 shares and 203,682,752 shares at March 31, 2006 and 2007 | 17,742 | 17,742 | 150,292 |
| Capital surplus | 15,696 | 15,113 | 128,025 |
| Retained earnings | 46,138 | 49,204 | 416,801 |
| Treasury stock, at cost | (372) | (1,177) | (9,967) |
| Total shareholders' equity | 79,204 | 80,882 | 685,151 |
| Valuation, translation adjustments and others | | | |
| Unrealized gain on other securities | 19,408 | 17,453 | 147,843 |
| Foreign currency translation adjustments | (424) | (221) | (1,873) |
| Total valuation, translation adjustments and others | 18,984 | 17,232 | 145,970 |
| Minority interests | 3,652 | 3,891 | 32,956 |
| Total net assets | 101,840 | 102,005 | 864,077 |
| Total liabilities and net assets | ¥ 192,252 | ¥ 194,621 | $ 1,648,628 |

The accompanying notes are an integral part of the statements.

## NOF CORPORATION and Subsidiaries

Consolidated Statements of Income
For the years ended March 31, 2006 and 2007

| | Millions of yen 2006 | Millions of yen 2007 | Thousands of U.S. dollars (Note 3) 2007 |
|---|---|---|---|
| Net sales | ¥ 143,157 | ¥ 150,209 | $ 1,272,415 |
| Cost of sales (Notes 8 and 12) | 104,078 | 110,309 | 934,422 |
| Gross profit | 39,079 | 39,900 | 337,993 |
| Selling, general and administrative expenses (Notes 7, 8 and 12) | 27,937 | 28,305 | 239,770 |
| Operating income | 11,142 | 11,595 | 98,223 |
| Other income (expenses): | | | |
| Interest and dividend income | 570 | 631 | 5,341 |
| Interest expenses | (434) | (408) | (3,455) |
| Gain on sale of properties | 431 | 570 | 4,824 |
| Loss on disposal of properties | (152) | (136) | (1,150) |
| Loss on disposal of obsolete inventory items | (159) | (190) | (1,610) |
| Gain on sale of investments in securities | 819 | 846 | 7,168 |
| Impairment loss on investments in securities | (5) | (35) | (292) |
| Equity in earnings(losses) of affiliates | 144 | (64) | (540) |
| Foreign exchange gain, net | 272 | 162 | 1,376 |
| Impairment loss on fixed assets (Note 9) | (665) | - | - |
| Environmental expenditures | (329) | (30) | (255) |
| China project expenditures | (168) | (229) | (1,941) |
| Cost of corrective measures for products | - | (323) | (2,736) |
| Others, net | (57) | 397 | 3,355 |
| | 267 | 1,191 | 10,085 |
| Income before income taxes and minority interests in the earnings of consolidated subsidiaries | 11,409 | 12,786 | 108,308 |
| Income taxes (Note 11) | | | |
| Current | 4,010 | 4,436 | 37,572 |
| Deferred | 756 | 853 | 7,224 |
| | 4,766 | 5,289 | 44,796 |
| Minority interests in the earnings of consolidated subsidiaries | (186) | (270) | (2,291) |
| Net income | ¥ 6,457 | ¥ 7,227 | $ 61,221 |

| | yen 2006 | yen 2007 | U.S. dollars (Note 3) |
|---|---|---|---|
| Per share: | | | |
| Net income - primary | 32.0 | 35.5 | 0.30 |
| Net income - fully diluted | 30.0 | 35.5 | 0.30 |
| Cash dividends applicable to the year | 9.0 | 11.0 | 0.09 |
| | (thousands) | | |
| Weighted average number of shares | 199,438 | 203,308 | |

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**

Consolidated Statements of Changes in Net Assets
For the years ended March 31, 2006 and 2007

| | Millions of yen | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gain on other securities | Foreign currency translation adjustments | Total valuation, translation adjustments and others | Minority interests | Total net assets |
| Balance at March 31, 2005 | 202,479 | ¥ 15,995 | ¥ 13,377 | ¥ 41,857 | ¥ (727) | ¥ 70,502 | ¥ 10,841 | ¥ (695) | ¥ 10,146 | ¥ 3,525 | ¥ 84,173 |
| Net income | - | - | - | 6,457 | - | 6,457 | - | - | - | - | 6,457 |
| Cash dividends | - | - | - | (1,606) | - | (1,606) | - | - | - | - | (1,606) |
| Bonuses to directors | - | - | - | (67) | - | (67) | - | - | - | - | (67) |
| Conversion of bonds into stock | 6,004 | 1,747 | 1,741 | - | 3,558 | 7,046 | - | - | - | - | 7,046 |
| Purchase of treasury stock | - | - | - | - | (3,498) | (3,498) | - | - | - | - | (3,498) |
| Reissuance of treasury stock | - | - | 578 | - | 295 | 873 | - | - | - | - | 873 |
| Decrease in affiliates under the equity method | - | - | - | (503) | - | (503) | - | - | - | - | (503) |
| Net change in items other than shareholders' Equity | - | - | - | - | - | - | 8,567 | 271 | 8,838 | 127 | 8,965 |
| Balance at March 31, 2006 | 208,483 | ¥ 17,742 | ¥ 15,696 | ¥ 46,138 | ¥ (372) | ¥ 79,204 | ¥ 19,408 | ¥ (424) | ¥ 18,984 | ¥ 3,652 | ¥ 101,840 |
| Net income | - | - | - | 7,227 | - | 7,227 | - | - | - | - | 7,227 |
| Cash dividends | - | - | - | (2,053) | - | (2,053) | - | - | - | - | (2,053) |
| Bonuses to directors | - | - | - | (83) | - | (83) | - | - | - | - | (83) |
| Purchase of treasury stock | - | - | - | - | (3,889) | (3,889) | - | - | - | - | (3,889) |
| Reissuance of treasury stock | - | - | - | (36) | 112 | 76 | - | - | - | - | 76 |
| Retirement of treasury stock | (4,800) | - | (583) | (2,389) | 2,972 | - | - | - | - | - | - |
| Increase in consolidated subsidiaries | - | - | - | 400 | - | 400 | - | - | - | - | 400 |
| Net change in items other than shareholders' Equity | - | - | - | - | - | - | (1,955) | 203 | (1,752) | 239 | (1,513) |
| Balance at March 31, 2007 | 203,683 | ¥ 17,742 | ¥ 15,113 | ¥ 49,204 | ¥ (1,177) | ¥ 80,882 | ¥ 17,453 | ¥ (221) | ¥ 17,232 | ¥ 3,891 | ¥ 102,005 |

| | Thousands of U.S. dollars (Note 3) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Number of shares of common stock (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gain on other securities | Foreign currency translation adjustments | Total valuation and adjustments | Minority interest | Total net assets |
| Balance at March 31, 2006 | 208,483 | $ 150,292 | $ 132,959 | $ 390,830 | $ (3,152) | $ 670,929 | $ 164,402 | $ (3,586) | $ 160,816 | $ 30,940 | $ 862,685 |
| Net income for the year ended March 31, 2007 | - | - | - | 61,221 | - | 61,221 | - | - | - | - | 61,221 |
| Cash dividends | - | - | - | (17,394) | - | (17,394) | - | - | - | - | (17,394) |
| Bonuses to directors | - | - | - | (708) | - | (708) | - | - | - | - | (708) |
| Purchase of treasury stock | - | - | - | - | (32,937) | (32,937) | - | - | - | - | (32,937) |
| Reissuance of treasury stock | - | - | - | (305) | 953 | 648 | - | - | - | - | 648 |
| Retirement of treasury stock | (4,800) | - | (4,934) | (20,235) | 25,169 | - | - | - | - | - | - |
| Increase in affiliates under the equity method | - | - | - | 3,392 | - | 3,392 | - | - | - | - | 3,392 |
| Net change in items other than shareholders' Equity | - | - | - | - | - | - | (16,559) | 1,713 | (14,846) | 2,016 | (12,830) |
| Balance at March 31, 2007 | 203,683 | $ 150,292 | $ 128,025 | $ 416,801 | $ (9,967) | $ 685,151 | $ 147,843 | $ (1,873) | $ 145,970 | $ 32,956 | $ 864,077 |

The accompanying notes are an integral part of the statements.

**NOF CORPORATION and Subsidiaries**

Consolidated Statements of Cash Flows
For the years ended March 31, 2006 and 2007

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Cash flows from operating activities: | | | |
| Income before income taxes and minority interests in the earnings of consolidated subsidiaries | ¥ 11,409 | ¥ 12,786 | $ 108,308 |
| Adjustments for: | | | |
| Depreciation | 5,371 | 5,800 | 49,128 |
| Amortization of excess costs of investments over equity in net assets | 42 | - | - |
| Net change in accrued pension and severance costs | (1,072) | (1,159) | (9,818) |
| Interest and dividend income | (570) | (630) | (5,341) |
| Interest expenses | 434 | 408 | 3,455 |
| Equity in (earnings) losses of affiliates | (144) | 64 | 540 |
| Gain on sale of properties | (431) | (570) | (4,824) |
| Impairment loss on investments in securities | 5 | 35 | 292 |
| Gain on sale of investments in securities, net | (819) | (846) | (7,168) |
| Impairment loss on fixed assets | 665 | - | - |
| Environmental expenditures | 329 | - | - |
| Increase (decrease) in notes and accounts receivable | 3,952 | (3,280) | (27,788) |
| Increase in inventories | (516) | (3,013) | (25,520) |
| Increase (decrease) in notes and accounts payable | (246) | 2,525 | 21,392 |
| Others, net | 590 | (1,145) | (9,688) |
| Sub total | 18,999 | 10,975 | 92,968 |
| Interest and dividends received | 565 | 660 | 5,595 |
| Interest paid | (433) | (426) | (3,611) |
| Income taxes paid | (3,571) | (4,608) | (39,035) |
| Net cash provided by operating activities | 15,560 | 6,601 | 55,917 |
| Cash flows from investing activities: | | | |
| Payments for purchase of investments in securities | (35) | (1,826) | (15,465) |
| Proceeds from sale of investments in securities | 2,169 | 2,581 | 21,866 |
| Payments for purchase of property, plant and equipment | (7,028) | (8,073) | (68,382) |
| Proceeds from sale of property, plant and equipment | 1,421 | 1,031 | 8,730 |
| Payments for the settlement on coating business | (1,353) | - | - |
| Net increase in short-term loans receivable | 76 | 7 | 58 |
| Payments for long-term loans receivable | (522) | (270) | (2,289) |
| Proceeds from long-term loans receivable | 544 | 20 | 171 |
| Others, net | (393) | 343 | 2,898 |
| Net cash used in investing activities - forward | (5,121) | (6,187) | (52,413) |

**NOF CORPORATION and Subsidiaries**

Consolidated Statements of Cash Flows
For the years ended March 31, 2006 and 2007

| | | | |
|---|---|---|---|
| Cash flows from financing activities: | | | |
| Net Increase (decrease) in short-term bank loans | (2,000) | 4,800 | 40,661 |
| Borrowing of long-term debt | 500 | 4,300 | 36,425 |
| Repayments of long-term debt | (189) | (9,744) | (82,540) |
| Payments for reserve for sinking fund | (4,845) | - | - |
| Refund from reserve for sinking fund | - | 4,845 | 41,039 |
| Payments for redemption of convertible bonds | (311) | - | - |
| Payments for purchase of treasury stock | (3,284) | (3,816) | (32,324) |
| Cash dividends paid | (1,603) | (2,054) | (17,398) |
| Cash dividends to minority shareholders | (51) | (101) | (859) |
| Net cash used in financing activities | (11,783) | (1,770) | (14,996) |
| Effect of exchange rate change on cash and cash equivalents | 273 | 144 | 1,220 |
| Net decrease in cash and cash equivalents | (1,071) | (1,212) | (10,272) |
| Cash and cash equivalents at beginning of year | 9,699 | 8,628 | 73,090 |
| Adjustments of new consolidated subsidiaries on cash and cash equivalents | - | 303 | 2,573 |
| Cash and cash equivalents at end of year (Note 4) | ¥ 8,628 | ¥ 7,719 | $ 65,391 |

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements
For the years ended March 31, 2006 and 2007

1. Basis of presenting the consolidated financial statements

NOF CORPORATION (the "Company") and its subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been prepared in accordance with 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 are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 33 subsidiaries (majority-owned companies) as of March 31, 2007 (33 for 2006). The consolidated financial statements include the accounts of the Company and 23 of its subsidiaries for the year ended March 31, 2007 (21 for 2006).

The remaining 10 (12 for 2006) subsidiaries, whose combined assets, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

**NOF CORPORATION and Subsidiaries**

Notes to Consolidated Financial Statements
For the years ended March 31, 2006 and 2007

The accompanying consolidated financial statements include the accounts of the 23 majority owned subsidiaries listed below (the Company and these consolidated subsidiaries are together referred to as the "Group"):

Nikka Coating Co., Ltd. and Korea Shamrock Co., Ltd. which were non-consolidated subsidiaries until the previous fiscal year have been included as a consolidated subsidiaries from the fiscal year ended March 31,2007 due to an increase in materiality.

| Name of subsidiaries | Percentage owned by the Company |
|---|---|
| (Domestic subsidiaries) | % |
| Nippon Koki Co., Ltd. | 95.0 |
| Nichiyu Giken Kogyo Co., Ltd. | 66.7 |
| Nippon Dacro Shamrock Co., Ltd. | 100.0 |
| Hokkaido NOF Corporation | 100.0 |
| Nichiyu Trading Co., Ltd. | 100.0 |
| Japex Corporation | 70.0 |
| Showa Kinzoku Kogyo Co., Ltd. | 75.0 |
| Nichiyu Solution Inc. | 100.0 |
| Nippo Kogyo Co., Ltd. | 93.0 |
| Nichiyu Logistics Co., Ltd. | 100.0 |
| Cactus Co., Ltd. | 66.7 |
| Yuka Sangyo Co., Ltd. | 100.0 |
| Nichiyu Kogyo Co., Ltd. | 100.0 |
| Nikka Coating Co., Ltd. | 100.0 |
| (Overseas subsidiaries) | |
| Metal Coatings International Inc. | 100.0 |
| Michigan Metal Coatings Co. | 100.0 |
| Georgia Metal Coatings Co. | 100.0 |
| Dacral S.A. | 100.0 |
| Metal Coatings Brazil Ind. E. Com. Ltda. | 90.0 |
| Dacral Manufacturing NV | 100.0 |
| NOF Europe (Belgium) NV | 100.0 |
| P.T. NOF Mas Chemical Industries | 89.6 |
| Korea Shamrock Co., Ltd. | 80.0 |

The Company and all of its consolidated subsidiaries use a fiscal year ending March 31, except for Nippon Dacro Shamrock Co., Ltd., Nikka Coating Co., Ltd. and overseas subsidiaries. Those subsidiaries use a fiscal year ending on December 31. The accounts of those subsidiaries have been consolidated by using the result of operations and account balances for the fiscal year, and necessary adjustments have been made for any material transactions that occurred between the different fiscal year-ends.

(2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in the net assets of such subsidiaries are amortized on a straight-line basis over their estimated useful lives or over a period of 5 years.

(3) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(4) Accounting for investments in unconsolidated subsidiaries and affiliates

The equity method is applied to investments in 3 affiliates for the years ended March 31, 2006 and 2007.

The 3 affiliates accounted for by the equity method for the year ended March 31, 2007 are listed below:

| Name of Affiliates | Percentage owned by the Company |
|---|---|
| | % |
| Autoliv Nichiyu Co., Ltd. | 40.0 |
| Nissan Soap Co., Ltd. | 32.8 |
| P.T. Sinar Oleochemical International | 32.4 |

(5) Financial instruments

(a) Securities

Available-for-sale securities for which market quotations are available are stated at the valued primarily at market based on an average of the market prices for a period of one month prior to the settling date. Net unrealized gains or losses on those securities are reported as a separate component of net assets at a net-of-tax amount.

Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

(b) Hedge accounting

Gains or losses arising from changes in the fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

The derivatives designated as hedging instruments by the Company are principally interest swaps and forward exchange contracts. The related hedged items are trade accounts receivable and payable, and long-term bank loans.

The Company has a policy to utilize the forward exchange contracts in order to reduce the Company's exposure to the risk of foreign currency exchange rate fluctuation. The Company also has a policy to utilize the interest rate swaps in order to reduce the Company's exposure to the risk of interest rate fluctuation. Thus, the Company's purchases of hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges. The Company waived the opportunity to evaluate the effectiveness of its hedging activities on interest rate swaps because they were not stated at fair value.

The Company also waived the opportunity to evaluate the effectiveness of its hedging of forward exchange transactions because settlement dates, currency types, amounts and other significant conditions are the same, and because there is a high correlation between changes in forward exchange rates and spot exchange rates.

(6) Allowance for bad debts

The balance of allowance for bad debts represents the amount, measured using a historical bad debt ratio plus an amount, deemed necessary to cover possible losses estimated on an individual account basis.

(7) Inventories

Inventories are principally stated at cost determined by the moving-average method for the year ended March 31, 2006, and the total-average method for the year ended March 31, 2007.

(8) Property, plant and equipment

Depreciation of property, plant and equipment (excluding buildings) is principally computed using the declining-balance method, based on the estimated useful lives of the assets. Depreciation of buildings (excluding attachments to buildings) is principally computed using the straight-line method, based on the estimated useful lives of the assets. The range of useful lives is principally from 7 to 50 years for buildings and structures and from 6 to 12 years for machinery, equipment, furniture and tools.

(9) Accounting standards for impairment of fixed assets

On August 9, 2002, the Business Accounting Council of Japan issued new accounting standards entitled "Statement of Opinion on the Establishment of Accounting Standards for Impairment of Fixed Assets". Further, on October 31, 2003, the Accounting Standards Board of Japan issued Financial Accounting Standards Implementation Guidance No.6 - "Application Guidance on Accounting Standards for Impairment of Fixed Assets". These standards are effective from the fiscal year beginning April 1, 2005.
The Company and its subsidiaries adopted these standards in the fiscal year ended March 31, 2006. As a result, property, plant and equipment as of March 31, 2006, decreased by ¥665 million ($5,663 thousand), and income before income taxes and minority interests for the year ended March 31, 2006, decreased by the same amount, as compared with amount which would have been reported if the previous standard had been applied consistently. The accumulated impairment loss is deducted from net book value of each asset.

(10) Intangible assets

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight- line method over the useful life of the software, which is 5 years.

(11) Accrued pension and severance costs

The employees of the Company and certain consolidated subsidiaries are covered by a funded retirement plan. Benefits under this retirement plan are generally based on employees' average basic salary during the period and length of service.

Unrecognized actual differences are amortized on a straight-line basis over the period of 10 years from the next year in which they arise.
Past service liabilities are amortized on a straight-line basis over the period of 10 years.

(12) Accrued retirement benefits to directors and corporate auditors

The Company, Nichiyu Trading Co., Ltd., Nichiyu Giken Kogyo Co., Ltd., Yuka Sangyo Co., Ltd., Showa Kinzoku Kogyo Co., Ltd., Nippo Kogyo Co., Ltd., Japex Corporation, Nichiyu Solution Inc., Nippon Dacro Shamrock Co., Ltd and Nichiyu Logistics Co., Ltd., provide for a retirement allowance for directors and corporate auditors, which is calculated as the amount that would be required, based on the pertinent rules of the Companies, if all directors and corporate auditors were to retire at the balance sheet dates.

The portion of accrued retirement benefits for directors and corporate auditors subject to incumbency before the termination of the pertinent system of retirement benefits on June 29, 2004, has been included in accrued retirement benefits to directors and corporate auditors.

(13) Leases

Leases that transfer substantially all the risks and rewards of ownership of the assets are accounted for as capital leases, and leases that do not transfer ownership of the assets at the end of the lease term are accounted for as operating leases, in accordance with accounting principles and practices generally accepted in Japan.

(14) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(15) Consumption tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is shown in the accompanying consolidated balance sheets as "Other current liabilities".

(16) Net income and dividends per share

Net income per share of common stock is based upon the weighted average number of shares outstanding during each fiscal period.

Cash dividends per share shown for each fiscal period in the accompanying consolidated statements of income represent dividends declared as applicable to the respective years.

Basis for calculating net income per share:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Net income per share | | | |
| Net income | ¥ 6,457 | ¥ 7,227 | $ 61,221 |
| Amount not available to shareholders | | | |
| Earnings appropriated for directors' bonuses | (75) | - | - |
| Net income related to common stock | 6,382 | 7,227 | 61,221 |
| Average number of shares outstanding (1,000 shares) | 199,438 | 203,308 | 203,308 |
| Net income per share (fully diluted) | | | |
| Interest expenses (net of tax) | 27 | - | - |
| Others | 5 | - | - |
| Net income adjustment | 32 | - | - |
| Convertible bonds (1,000 shares) | 13,768 | - | - |
| Stock options (1,000 shares) | 267 | 195 | 195 |
| Increase in number of shares (1,000 shares) | 14,035 | 195 | 195 |
| Shares not included in fully diluted net income per share calculation due to lack of dilution effect. (1,000 shares) | - | - | - |

(17) Accounting Changes

Accounting Standard for Net Assets of Balance Sheet

"Accounting Standard for Net Assets of Balance Sheet" (The 5th Accounting Standards on December 9, 2005) and "Guidance for the application of Accounting Standards for Net Assets of Balance Sheet" (The 8th Application Principle of the Accounting Standards on December 9, 2005) have been adopted from the current term.

The equivalent total amount of shareholders' equity under the previous presentation method as of March 31, 2007 was 98,114 million yen. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and the consolidated statements of shareholders' equity as of March 31, 2006 have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Accounting Standard for Directors' Bonuses

"Accounting Standard for Directors' Bonuses" (The 4th Accounting Standards on November 29, 2005) has been adopted form the current term. Though Directors' Bonuses had been accounted for as a decrease of unappropriated retained earnings by appropriation of earnings after a resolution of shareholders' meeting, it is expensed when incurred since the current term.

The effect on operating income, ordinary income and net income before taxes of the adoption of this standard was not material.

Accounting Standard for Inventories Valuation

In the fiscal year ended March 31, 2007, the Company changed the method of valuation for inventory items from the moving-average method to the total-average method. This change was made in order to standardize the business process and compute more appropriate periodic income, by means of introduction of enterprise resource planning (ERP).

The effect of this change on operating income, ordinary income and income before taxes was not material.

(18) Reclassification of accounts

Certain prior year amounts have been reclassified to conform to the current year's presentation.

3. United States dollar amounts

The Company maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥118.05 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2007. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥118.05 = U.S.$1 or at any other rate.

4. Supplementary cash flow information

The relationship between cash and cash equivalents as of March 31, 2006 and 2007 and the accounts booked in the balance sheet is as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Cash and time deposits | ¥ 8,888 | ¥ 8,012 | $ 67,872 |
| Time deposits with maturity periods exceeding three months | (260) | (293) | (2,481) |
| Cash and cash equivalents | ¥ 8,628 | ¥ 7,719 | $ 65,391 |

The significant components of non-cash transactions

Non-cash transactions: Substitution treasury stock as newly issued stock due to conversion.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2006 | |
| Decrease of treasury stock | ¥ 3,558 | $ - |
| Gain on conversion of treasury stock | ¥ 642 | $ - |
| Increase of common stock due to conversion | ¥ 1,747 | $ - |
| Increase of capital surplus due to conversion | ¥ 1,741 | $ - |
| Decrease of convertible bond | ¥ 7,688 | $ - |

5. Marketable securities and investments in securities

(1) The book value and aggregate fair market value of the securities classified as held-to-maturity debt securities for which market quotations at March 31, 2007 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2007 | | |
| Description | Book value | Fair market Value | Unrealized gain or loss |
| Fair market value does not exceed Book value | | | |
| Government and municipal bond | ¥ 5 | ¥ 5 | ¥ 0 |
| Total | ¥ 5 | ¥ 5 | ¥ 0 |

| | Thousands of U.S. dollars (Note 3) | | |
|---|---|---|---|
| | 2007 | | |
| Description | Book value | Fair market value | Unrealized gain or loss |
| Fair market value does not exceed Book value | | | |
| Government and municipal bond | $ 40 | $ 40 | $ 0 |
| Total | $ 40 | $ 40 | $ 0 |

(2) The cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2006 and 2007 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2006 | | |
| Description | Acquisition cost | Book value (fair market value) | Unrealized gain or loss |
| Fair market value exceeds acquisition cost | | | |
| Shares | ¥ 11,077 | ¥ 44,009 | ¥ 32,932 |
| Bonds | 551 | 559 | 8 |
| Others | 15 | 24 | 9 |
| Sub total | 11,643 | 44,592 | 32,949 |
| Fair market value does not exceed acquisition cost | | | |
| Shares | ¥ 288 | ¥ 256 | ¥ (32) |
| Others | 46 | 36 | (10) |
| Sub total | 334 | 292 | (42) |
| Total | ¥ 11,977 | ¥ 44,884 | ¥ 32,907 |

| | Millions of yen | | |
|---|---|---|---|
| | 2007 | | |
| Description | Acquisition cost | Book value (fair market value) | Unrealized gain or loss |
| Fair market value exceeds acquisition cost | | | |
| Shares | ¥ 12,124 | ¥ 41,813 | ¥ 29,689 |
| Others | 60 | 71 | 11 |
| Sub total | 12,184 | 41,884 | 29,700 |
| Fair market value does not exceed acquisition cost | | | |
| Shares | ¥ 900 | ¥ 793 | ¥ (107) |
| Sub total | 900 | 793 | (107) |
| Total | ¥ 13,084 | ¥ 42,677 | ¥ 29,593 |

| | Thousands of U.S. dollars (Note 3) | | |
|---|---|---|---|
| | 2007 | | |
| Description | Acquisition cost | Book value (fair market value) | Unrealized gain or loss |
| Fair market value exceeds acquisition cost | | | |
| Shares | $ 102,707 | $ 354,201 | $ 251,494 |
| Others | 510 | 600 | 90 |
| Sub total | 103,217 | 354,801 | 251,584 |
| Fair market value does not exceed acquisition cost | | | |
| Shares | $ 7,618 | $ 6,713 | $ (905) |
| Sub total | 7,618 | 6,713 | (905) |
| Total | $ 110,835 | $ 361,514 | $ 250,679 |

(3) Available-for-sale securities sold during the years ended March 31, 2006 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Proceeds from sale of available-for-sale securities | ¥ 1,726 | ¥ 2,581 | $ 21,866 |
| Realized gain | 1,123 | 854 | 7,232 |
| Realized loss | 3 | 8 | 64 |

(4) The book value of major securities without fair value as of March 31, 2006 and 2007 was as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Unlisted stocks | ¥ 673 | ¥ 650 | $ 5,509 |
| Preferred stocks | 1,000 | - | - |
| Preferred fund certificates | 1,000 | 1,000 | 8,471 |
| Fund certificates | 16 | 9 | 79 |

(5) Schedule for redemption of available-for-sale securities with maturity as of March 31, 2007.

| | Millions of yen | | | |
|---|---|---|---|---|
| | Within a year | 1 to 5 years | 5 to 10 years | Over 10 years |
| Government and municipal bond | ¥ 3 | ¥ 0 | ¥ - | ¥ - |
| | 3 | 0 | - | - |

| | Thousands of U.S. dollars (Note 3) | | | |
|---|---|---|---|---|
| | Within a year | 1 to 5 years | 5 to 10 years | Over 10 years |
| Government and municipal bond | $ 30 | $ 3 | $ - | $ - |
| | 30 | 3 | - | - |

6. Short-term bank loans and long-term debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks with a weighted average interest rate of 1.27% at March 31, 2007.

Long-term debt as of March 31, 2006 and 2007 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Loans, principally from banks and insurance companies, due fiscal 2007 to 2023 with average interest rates of 1.48% | ¥ 23,643 | ¥ 18,378 | $ 155,676 |
| Less: Current maturities of: | | | |
| Long-term loans | 9,684 | 5,824 | 49,333 |
| | ¥ 13,959 | ¥ 12,554 | $ 106,343 |

Aggregate annual maturities of long-term debt subsequent to March 31, 2007 are as follows:

| Year ending March 31 | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| 2009 | ¥ 1,095 | $ 9,278 |
| 2010 | 5,439 | 46,071 |
| 2011 | 439 | 3,716 |
| 2012 | 4,739 | 40,142 |
| 2013 and thereafter | 842 | 7,136 |
| | ¥ 12,554 | $ 106,343 |

The Company's assets pledged as collateral for long-term loans from banks and other financial institutions (including current maturity) of ¥2,358 million (US$19,978 thousand) at March 31, 2007 is summarized as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Property, plant and equipment at book value | ¥ 16,004 | $ 135,572 |
| | ¥ 16,004 | $ 135,572 |

7. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2006 and 2007 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Delivery expenses | ¥ 4,563 | ¥ 4,119 | $ 34,892 |
| Salaries and bonuses | 8,291 | 8,401 | 71,165 |
| Accrued pension and severance costs | 579 | 495 | 4,193 |
| Accrued retirement benefits to directors and corporate auditors | 98 | 41 | 345 |
| Research and development costs | 4,816 | 5,002 | 42,375 |
| Amortization of goodwill | 76 | 13 | 108 |

8. Research and development costs

The charges to income for the research and development activities of the Group for the years ended March 31, 2006 and 2007 were as follows:

| Millions of yen | | |
|---|---|---|
| 2006 | | |
| Selling, general and administrative expenses | Cost of sales | Total |
| ¥ 4,816 | ¥ 665 | ¥ 5,481 |

| Millions of yen | | |
|---|---|---|
| 2007 | | |
| Selling, general and administrative expenses | Cost of sales | Total |
| ¥ 5,002 | ¥ 556 | ¥ 5,558 |

| Thousands of U.S. dollars (Note 3) | | |
|---|---|---|
| 2007 | | |
| Selling, general and administrative expenses | Cost of sales | Total |
| $ 42,375 | $ 4,707 | $ 47,082 |

## 9. Impairment loss on fixed assets

The Company and its consolidated subsidiaries have recognized impairment loss on fixed assets for the following group of assets as of March 31, 2006.

| Use | Classification | Location |
|---|---|---|
| Non-performing assets | Land | Tsukuba-City, Ibaragi and others |

The Company and its consolidated subsidiaries assessed impairment have recognized impairment loss on fixed assets for the following group of assets.
The Company and its consolidated subsidiaries group their fixed assets for business by the minimum cash-generating unit. Non-performing assets are assessed individually. The Company reduced the book value of non-performing land which had significantly depreciated to recoverable value and recorded ¥665 million in "Other income (expenses)". Recoverable value of non-performing assets is net selling price, which was calculated based on the valuation amount of real estate appraisal.

## 10. Stock option

Stock Option Plan
The stock options outstanding as of March 31, 2007 are as follows:

| Name | | Stock Option 2000 | Stock Option 2002 | Stock Option 2003 |
|---|---|---|---|---|
| Position and number of grantee | Directors of the Company: | 9 | 8 | 9 |
| | Employees of the Company: | 24 | 23 | 17 |
| Number of options | Common stocks of the Company: | 1,150,000 | 560,000 | 525,000 |
| Date of grant | | August 1, 2000 | July 29, 2002 | July 28, 2003 |
| Vesting period | | From August 1, 2000 to June 30, 2002 | From July 29, 2002 to July 31, 2004 | From July 28, 2003 to July 31, 2005 |

## 11. Income taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2006 and 2007 was 41.0%. At March 31, 2006 and 2007, significant components of deferred tax assets and liabilities were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Deferred tax assets: | | | |
| Accrued bonus | ¥ 1,084 | ¥ 1,095 | $ 9,278 |
| Accrued retirement benefits | 1,233 | 861 | 7,292 |

| | | | |
|---|---|---|---|
| Unrealized earnings | 266 | 235 | 1,987 |
| Accrued enterprise tax | 267 | 240 | 2,037 |
| Accrued retirement benefits to directors and corporate auditors | 267 | 150 | 1,268 |
| Valuation differences | 714 | - | - |
| Others | 1,499 | 1,542 | 13,062 |
| | 5,330 | 4,123 | 34,924 |
| Valuation allowance | (845) | (966) | (8,180) |
| Total deferred tax assets | 4,485 | 3,157 | 26,744 |
| Deferred tax liabilities: | | | |
| Unrealized gain on other securities | (13,445) | (12,134) | (102,784) |
| Reserve for advanced depreciation of property plant and equipment | (3,182) | (3,065) | (25,963) |
| Valuation differences | (2,313) | (2,012) | (17,048) |
| Gain on revaluation of assets trusted for retirement benefit | (838) | (838) | (7,100) |
| Others | (293) | (166) | (1,408) |
| Total deferred tax liabilities | (20,071) | (18,215) | (154,303) |
| Deferred income taxes, net | ¥ (15,586) | ¥ (15,058) | $ (127,559) |

At March 31, 2006 and 2007, as the difference between the statutory tax rate and the Group's effective income tax rate was not significant. As it was below five percent, no reconciliation between those rates is provided.

12. Accrued pension and severance costs

The Company has a pension plan (funded and non-contributory) to cover the employees (excluding directors and corporate auditors) of the Company. The benefits under this plan are determined generally by reference to the employees' average rate of pay, length of service and the conditions under which retirement occurs. The pension plan of the Company provides for a lump-sum payment or annuity payments for a 10-year period after retirement, if they retire with at least 20 years of participation in the plan and at the age of 50 or older. Employees retiring with less than 20 years of participation are entitled to a lump-sum payment.

Accrued pension and severance costs as of March 31, 2006 and 2007 are analyzed as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Projected benefit obligations | ¥ (20,165) | ¥ (19,733) | $ (167,155) |
| Plan assets | 22,692 | 22,581 | 191,280 |
| Unfunded projected benefit obligations | 2,527 | 2,848 | 24,125 |
| Unrecognized actuarial differences | (1,011) | (331) | (2,806) |
| Unrecognized prior service costs | (294) | (258) | (2,184) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Book value – net | | 1,222 | | 2,259 | | 19,135 |
| Prepaid pension expenses | | (4,714) | | (5,946) | | (50,370) |
| Accrued pension and severance costs | ¥ | (3,492) | ¥ | (3,687) | $ | (31,235) |

Net pension expenses related to retirement benefits for the years ended March 31, 2006 and 2007 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars (Note 3) | |
|---|---|---|---|---|---|---|
| | 2006 | | 2007 | | 2007 | |
| Service costs *1 | ¥ | 1,075 | ¥ | 1,090 | $ | 9,236 |
| Interest costs | | 434 | | 365 | | 3,092 |
| Expected return on plan assets | | (291) | | (516) | | (4,372) |
| Amortization of actual differences | | 590 | | 197 | | 1,666 |
| Amortization of prior service costs | | (36) | | (36) | | (305) |
| Net pension expenses | ¥ | 1,772 | ¥ | 1,100 | $ | 9,317 |

Notes:

*1 The pension expenses of consolidated subsidiaries which applied the expediency method are included in "Service costs".

Assumptions used in the calculation of the above information were as follows:

| | 2006 | 2007 |
|---|---|---|
| Discount rate | 2.0% | 2.0% |
| Expected rate of return on plan assets | 2.5% | 3.5% |
| Method of attributing the projected benefits to periods of services | mainly point basis | mainly point basis |
| Amortization of unrecognized prior service costs | 10 years | 10 years |
| Amortization of unrecognized actuarial differences | 10 years | 10 years |

13. Leases

The Group leases certain machinery and equipment, and other assets. Total lease payments under these leases were ¥525 million and ¥229 million (US$1,944 thousand) for the years ended March 31, 2006 and 2007, respectively.

Information relating to acquisition costs, accumulated depreciation and future minimum payments for assets held under finance leases which do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended March 31, 2006 and 2007, is as follows:

| | Millions of yen | | |
|---|---|---|---|
| | 2006 | | |
| | Furniture and fixtures | Others | Total |
| Acquisition costs | ¥ 1,768 | ¥ 402 | ¥ 2,170 |
| Accumulated depreciation | 1,117 | 258 | 1,375 |
| Net leased assets | ¥ 651 | ¥ 144 | ¥ 795 |

| | Millions of yen | | |
|---|---|---|---|
| | 2007 | | |
| | Furniture and fixtures | Others | Total |
| Acquisition costs | ¥ 539 | ¥ 272 | ¥ 811 |
| Accumulated depreciation | 284 | 160 | 444 |
| Net leased assets | ¥ 255 | ¥ 112 | ¥ 367 |

| | Thousands of U.S. dollars (Note 3) | | |
|---|---|---|---|
| | 2007 | | |
| | Furniture and fixtures | Others | Total |
| Acquisition costs | $ 4,569 | $ 2,306 | $ 6,875 |
| Accumulated depreciation | 2,405 | 1,361 | 3,766 |
| Net leased assets | $ 2,164 | $ 945 | $ 3,109 |

Future minimum lease payments under finance leases as of March 31, 2006 and 2007 are as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Due within one year | ¥ 407 | ¥ 153 | $ 1,300 |
| Due over one year | 388 | 214 | 1,809 |
| Total | ¥ 795 | ¥ 367 | $ 3,109 |

The acquisition costs and future minimum lease payments under finance leases include the interest expense portion because the amount of accrued lease payments was immaterial to the balance of property, plant and equipment as of March 31, 2006 and 2007

The depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed using the straight-line method, would have been ¥525 million and ¥229 million (US$1,944 thousand) for the years ended March 31, 2006 and 2007, respectively.

Obligations under non-cancelable operating leases as of March 31, 2006 and 2007 were as follows:

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Due within one year | ¥ 69 | ¥ 80 | $ 677 |
| Due after one year | 124 | 389 | 3,294 |
| Total | ¥ 193 | ¥ 469 | $ 3,971 |

14. Derivative financial instruments

The Group uses derivative financial instruments, which comprise principally forward exchange contracts and interest rate swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Group has established a control environment, which includes policies and procedures for the approval and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest. However, the Group does not anticipate non-performance by any of these counterparties all of whom are domestic financial institutions with high credit ratings.

15. Contingent liabilities and commitment

(1) As of March 31, 2007, the Group was contingently liable for guarantees of loans as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| As a guarantor of indebtedness of: | | |
| Amagasaki Utility Services | ¥ 324 | $ 2,743 |
| Others | 6 | 56 |
| | ¥ 330 | $ 2,799 |

(2) As of March 31, 2007, the Company was contingently liable for the conditional assignment of ¥1,972million (US$16,701 thousand) of trade notes and accounts

receivable with recourse obligation.

(3) As of March 31, 2007, the Company has unused commitment agreements amounting to ¥10,000 million (US$84,710 thousand) with banks and other financial institutions.

16. Subsequent events

(1) The appropriation of retained earnings including cash dividends in respect of the year ended March 31, 2007 was approved at the shareholders' meeting held on 28 June 2007 as follows:

| | Millions of yen | Thousands of U.S. dollars (Note 3) |
|---|---|---|
| Appropriations: | | |
| Cash dividends (¥7.0 per share) | ¥ 1,412 | $ 11,965 |

17. Segment information

(1) Industry segments

As of March 31, 2006 and 2007, the Group operates principally in the following industry segments categorized based on similarity of products and markets.

(Millions of yen)

| | 2006 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Oleo chem icals & foods | Chemicals | Explosive & propulsion | Others | Total | Elimination/ Corporate | Consolidated |
| Sales | | | | | | | |
| Sales to customers | ¥ 56,602 | ¥ 53,392 | ¥ 31,398 | ¥ 1,765 | ¥ 143,157 | ¥ - | ¥ 143,157 |
| Inter-segment | 78 | 1,238 | 113 | 5,891 | 7,320 | (7,320) | - |
| Total | 56,680 | 54,630 | 31,511 | 7,656 | 150,477 | (7,320) | 143,157 |
| Operating expenses | 55,133 | 47,180 | 29,553 | 7,466 | 139,332 | (7,317) | 132,015 |
| Operating income | ¥ 1,547 | ¥ 7,450 | ¥ 1,958 | ¥ 190 | ¥ 11,145 | ¥ (3) | ¥ 11,142 |
| Assets | ¥ 43,918 | ¥ 49,354 | ¥ 47,492 | ¥ 2,985 | ¥ 143,749 | ¥ 48,503 | ¥ 192,252 |
| Depreciation | 1,788 | 2,150 | 1,374 | 59 | 5,371 | - | 5,371 |
| Impairment on fixed assets | 189 | 208 | 268 | - | 665 | - | 665 |
| Capital expenditure | 1,679 | 4,411 | 1,191 | 256 | 7,537 | - | 7,537 |

| | 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Oleo chem icals & foods | Chemicals | Explosive & propulsion | Others | Total | Elimination/ Corporate | Consolidated |
| Sales | | | | | | | |
| Sales to customers | ¥ 57,007 | ¥ 59,974 | ¥ 31,754 | ¥ 1,474 | ¥ 150,209 | ¥ - | ¥ 150,209 |
| Inter-segment | 109 | 1,733 | 106 | 6,980 | 8,928 | (8,928) | - |
| Total | 57,116 | 61,707 | 31,860 | 8,454 | 159,137 | (8,928) | 150,209 |
| Operating expenses | 55,588 | 53,773 | 29,926 | 8,286 | 147,573 | (8,959) | 138,614 |
| Operating income | ¥ 1,528 | ¥ 7,934 | ¥ 1,934 | ¥ 168 | ¥ 11,564 | ¥ 31 | ¥ 11,595 |
| Assets | ¥ 47,548 | ¥ 52,376 | ¥ 47,569 | ¥ 2,861 | ¥ 150,354 | ¥ 44,267 | ¥ 194,621 |
| Depreciation | 1,758 | 2,539 | 1,389 | 114 | 5,800 | - | 5,800 |
| Capital expenditure | 1,746 | 5,909 | 1,419 | 123 | 9,197 | - | 9,197 |

(Thousands of U.S. dollars (Note 3)

| | 2007 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Oleo chem icals & foods | Chemicals | Explosive & propulsion | Others | Total | Elimination/ Corporate | Consolidated |
| Sales | | | | | | | |
| Sales to customers | $ 482,900 | $ 508,040 | $ 268,985 | $ 12,490 | $ 1,272,415 | $ - | $ 1,272,415 |
| Inter-segment | 925 | 14,676 | 902 | 59,127 | 75,630 | (75,630) | - |
| Total | 483,825 | 522,716 | 269,887 | 71,617 | 1,348,045 | (75,630) | 1,272,415 |
| Operating expenses | 470,886 | 455,504 | 253,503 | 70,193 | 1,250,086 | (75,894) | 1,174,192 |
| Operating income | $ 12,939 | $ 67,212 | $ 16,384 | $ 1,424 | $ 97,959 | $ 264 | $ 98,223 |
| Assets | $ 402,773 | $ 443,678 | $ 402,958 | $ 24,239 | $ 1,273,648 | $ 374,980 | $ 1,648,628 |
| Depreciation | 14,889 | 21,508 | 11,769 | 962 | 49,128 | - | 49,128 |
| Capital expenditure | 14,788 | 50,053 | 12,018 | 1,048 | 77,907 | - | 77,907 |

The Company's business are segmented into "Oleo chemicals & foods", "Chemicals"," Explosive & propulsion" and "Others" based on their similarity of the type of products and sale market.
The main products and service of each segment are as follows.

1. Oleo chemicals & foods --- fatty acids, fatty acid derivatives, surfactants, edible oils, health-related products
2. Chemicals --- organic peroxides, polybutene, ethylene oxide and propylene oxide derivatives, functional polymers, metal anti corrosion
3. Explosive & propulsion --- industrial explosives, rocket propellant, automotive safety devices, defense-related explosives
4. Others --- logistics, real estate services

The amounts of assets included in the column "Elimination/Corporate" are ¥49,564 million and ¥45,597 million (US$386,251 thousand) for the years ended March 31, 2006 and 2007, respectively, which includes surplus working funds (cash and securities), long-term investment funds (investment in securities), and deferred tax assets.

(2) Geographic segments

Segment information classified by geographic area (inside and outside Japan) for the years ended March 31, 2006 and 2007 is as follows:

(Millions of yen)

| 2006 | Japan | Others (Note 1) | Total | Elimination/ Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| Sales to customers | ¥ 132,160 | ¥ 10,997 | ¥ 143,157 | ¥ - | ¥ 143,157 |
| Inter-segment | 1,345 | 338 | 1,683 | (1,683) | - |
| Total | 133,505 | 11,335 | 144,840 | (1,683) | 143,157 |
| Operating expenses | 123,586 | 10,152 | 133,738 | (1,722) | 132,015 |
| Operating income | ¥ 9,919 | ¥ 1,183 | ¥ 11,102 | ¥ 39 | ¥ 11,142 |
| Assets | ¥ 139,130 | ¥ 7,846 | ¥ 146,976 | ¥ 45,276 | ¥ 192,252 |

| 2007 | Japan | Others (Note 1) | Total | Elimination/ Corporate | Consolidated |
|---|---|---|---|---|---|
| Sales | | | | | |
| Sales to customers | ¥ 136,868 | ¥ 13,341 | ¥ 150,209 | ¥ - | ¥ 150,209 |
| Inter-segment | 2,495 | 266 | 2,761 | (2,761) | - |
| Total | 139,363 | 13,607 | 152,970 | (2,761) | 150,209 |
| Operating expenses | 128,804 | 12,616 | 141,420 | (2,806) | 138,614 |
| Operating income | ¥ 10,559 | ¥ 991 | ¥ 11,550 | ¥ 45 | ¥ 11,595 |
| Assets | ¥ 143,634 | ¥ 9,580 | ¥ 153,214 | ¥ 41,407 | ¥ 194,621 |

| | (Thousands of U.S. dollars (Note 3) | | | | |
|---|---|---|---|---|---|
| | 2007 | | | | |
| | Japan | Others (Note 1) | Total | Elimination/ Corporate | Consolidated |
| Sales | | | | | |
| Sales to customers | $ 1,159,402 | $ 113,013 | $ 1,272,415 | $ - | $ 1,272,415 |
| Inter-segment | 21,142 | 2,250 | 23,392 | (23,392) | - |
| Total | 1,180,544 | 115,263 | 1,295,807 | (23,392) | 1,272,415 |
| Operating expenses | 1,091,099 | 106,871 | 1,197,970 | (23,778) | 1,174,192 |
| Operating income | $ 89,445 | $ 8,392 | $ 97,837 | $ 386 | $ 98,223 |
| Assets | $ 1,216,721 | $ 81,149 | $ 1,297,870 | $ 350,758 | $ 1,648,628 |

(Note 1)
Others represents --- North America, Europe, and Asia

(3)Sales to foreign customers

| | Millions of yen | | Thousands of U.S. dollars (Note 3) |
|---|---|---|---|
| | 2006 | 2007 | 2007 |
| Overseas sales (Note 1) | ¥ 21,146 | ¥ 24,817 | $ 210,229 |
| Consolidated sales | 143,157 | 150,209 | 1,272,415 |
| Ratio | 14.77% | 16.52% | |

(Note 1)
Overseas sales represents ··· North America, Europe and Asia