



# 2007

## ANNUAL REPORT

“Making human life and society richer, more comfortable through technological innovations”

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# Profile

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## ▶ Basic Corporate Vision

NIPPON SHOKUBAI CO., LTD. has been undertaking numerous efforts to build a more solid business structure and gain a sharper competitive edge to keep pace with rapid changes in the world, under its corporate philosophy of “TechnoAmenity”, which means providing affluence and comfort to society through technology, and the following slogans:

1. Respect for humanity
2. Coexisting with society, and working in harmony with the environment
3. Pursuing futuristic technology
4. Acting from an international perspective

## ▶ Business Fields

Since the establishment in 1941, we have carried out original research and development in four major fields such as polymer synthesis, environment preservation systems, organic synthesis, and catalyst technologies.

Our major products are 1) Basic Chemicals, such as acrylic acid, acrylic ester, ethylene oxide, ethanol amine, and higher alcohol surfactants, etc., 2) Functional Chemicals, such as superabsorbent polymers, polymers for concrete admixture, resins for paints/adhesives and electronic and information materials, etc., and 3) Environment and Catalysts, such as catalysts for cleaning automobile exhaust gases, process catalysts, De-NOx catalysts and dioxins decomposition / elimination equipments, etc.

In addition, our technologies for manufacturing chemical products are appreciated in foreign countries as well as our diversified line of products. We have licensed our technologies worldwide for manufacturing various chemicals such as acrylic acids and esters.

Created through our original technologies and know-how, our products above have made various contributions to our society and daily life.

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# Financial Highlights

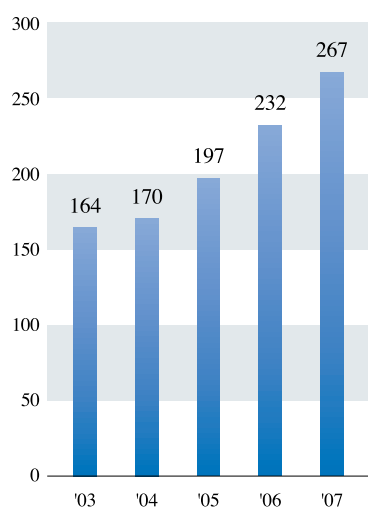
Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries  
Years ended March 31

	Millions of Yen		Change %	Thousands of U.S. dollars
	2006	2005	2007/2006	2007
<b>For the Year</b>				
Net sales	¥ 266,513	¥ 232,441	14.7%	\$ 2,257,628
Operating Income	19,429	23,228	(16.4)	164,582
Ordinary Income	22,754	26,148	(13.0)	192,749
Net Income	13,988	16,257	(14.0)	118,492
<b>At Year End</b>				
Total Assets	¥ 323,675	¥ 291,564	11.0	\$ 2,741,847
Total Net Assets	179,368	168,704	6.3	1,519,424
<b>Per Share Amounts</b>				
Net Income	¥ 74.92	¥ 85.89	(12.8)	\$ 0.63
Cash Dividends	16.00	16.00	—	0.14

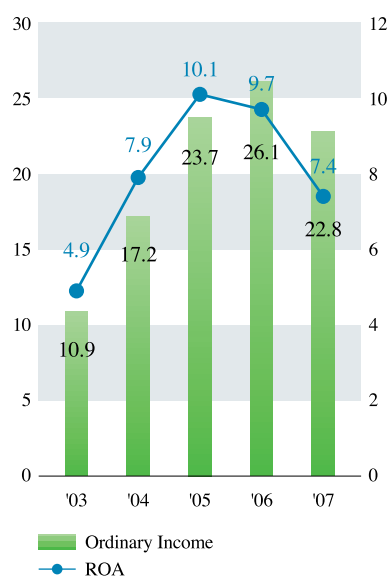
Foreign Exchange Rate: US\$ 1.00 = ¥118.05

Notes: Sections under "Total Net Assets" are newly provided to conform Japanese accounting regulations.  
The fiscal 2006 figures have also been restated to reflect this change.  
See Note 2 of the Management Indices (Page 14-15) for details.

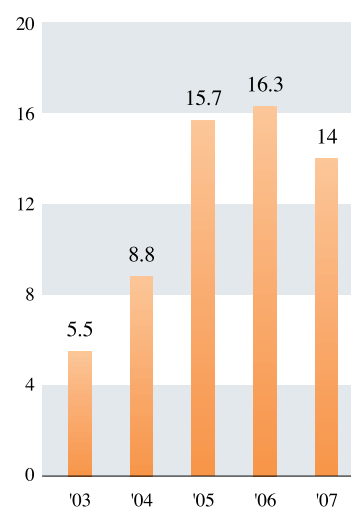
**Net Sales**  
(Billions of yen)



**Ordinary Income (Billions of yen)**  
**ROA (%)**



**Net Income**  
(Billions of yen)



# To Our Shareholders

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It gives me great pleasure to report on the performance of NIPPON SHOKUBAI GROUP (the “Company”) for the fiscal year ended March 31, 2007 (Fiscal 2006).

## ► Overview

During the fiscal year ended March 31, 2007, the Japanese economy expanded at a moderate pace backed by growth in corporate earnings and increased capital spending, although crude oil price movements and currency market fluctuations remained a source of instability.

The chemical industry outlook, meanwhile, was clouded by soaring raw material prices and international market trends.

Against this backdrop, consolidated net sales of the Company increased by ¥34,072 million (14.7%), to ¥266,513 million, compared with the previous year. This was mainly due to an increase in sales volume of Functional Chemicals in particular, and revised selling prices reflecting a sharp rise in raw material prices.

Operating income decreased by ¥3,799 million (16.4%) year on year, to ¥19,429 million, due to the weakened market conditions for some of basic chemicals, and an increase in fixed costs including higher depreciation expenses resulting from expansion of facilities, though exhaustive efforts were made to expand sales volumes and revise selling prices in the face of a steep rise in raw material prices.

Ordinary income decreased by ¥3,393 million (13.0%), to ¥22,754 million, due to a significant decline in operating income, although non-operating income/loss was improved by ¥406 million from a year earlier because the combined impact of an increase in investment profit based on the equity method, and a decrease in costs of disposal and removal of fixed assets outweighed the negative impact of a deterioration in the financial balance. Net income also declined by ¥2,269 million (14.0%) year on year, to ¥13,988 million.

Net income per share was ¥74.92, while ROA (ordinary income to total assets) and ROE (net income to shareholders' equity) declined by 2.3 percentage points to 7.4% and to 8.2% respectively, from a year earlier.

On a non-consolidated basis, net sales were ¥192,177 million, operating income, ¥16,008 million, ordinary income, ¥20,378 million, and net income, 12,378.

Taking into consideration the business environment and our performance, we decided to hold the year end dividend per share on ¥8.0. Together with the interim dividend, the annual dividend per share for the fiscal 2006 amounts ¥16.

We would like to express our sincere appreciation and ask all of our shareholders for their continued support and guidance as we move forward.

June 2007

近藤忠夫

Tadao Kondo, President

## Performance Highlights

(million yen)

	Fiscal Year		Change	
	2006	2005	Amount	%
Net sales	266,513	232,441	34,072	14.7%
Operating income	19,429	23,228	(3,799)	(16.4%)
Ordinary income	22,754	26,148	(3,393)	(13.0%)
Net income	13,988	16,257	(2,269)	(14.0%)
Net income per share	¥74.92	¥85.89	(¥10.97)	(12.8%)
ROA	7.4%	9.7%	-	(2.3points)
ROE	8.2%	10.0%	-	(2.3points)
Exchange rate	\$=¥117.00 EUR=¥150.08	\$=¥113.35 EUR=¥137.85		¥ 3.65 ¥12.23
Naphtha price	¥50,000/kl	¥42,400/kl		¥7,600/kl

# Review of Operations

## ▶ Performance by Business Segment

### Basic Chemicals

Acrylic acid and acrylic ester sales went up thanks to higher sales volumes, even though the market showed signs of weakness.

Sales of ethylene oxide, ethanolamine, and higher alcohol products (trade name: SOFTANOLE®) grew, supported by brisk demand and progress made in revising selling prices.

Ethylene glycol sales declined due to a lower sales volume with a tight inventory, though the market remained strong.

As a result, the Basic Chemical Business posted net sales of ¥97,665 million, up 3.8% over the previous year.

Operating income decreased by 51.6% year on year, to ¥5,399 million, reflecting the weak market conditions for some products, significantly affected by an increase in fixed costs such as higher depreciation expenses associated with facility expansion, despite efforts to increase sales volumes and revise selling prices to properly reflect soaring raw material prices.



Polyester fiber (Ethylene glycol)

### Functional Chemicals

Superabsorbent polymer sales rose thanks to a constantly increasing volume of sales due to growing world demand, and the successful outcome of revisions to selling prices.

Sales of maleic anhydride, resins for adhesives/paints, processed adhesive products, and resin modifiers increased due to brisk domestic demand.

Sales of special esters, and polymers for concrete admixtures grew supported by strong demand at home and abroad.

Sales of raw materials for detergents increased due to steady overseas demand.

Sales of electronic and information materials grew due to an increase in sales volume including new product launches.

Sales of iodine compounds, intermediates for pharmaceuticals, and unsaturated polyester resins remained on a par with the previous year's level.

As a result, the Functional Chemicals Business posted net sales of ¥141,321 million, up 21.5% over the previous year.

Operating income increased by 17.0% year on year, to ¥10,838 million, owing to higher sales volumes and revisions to the selling prices of some products, despite the negative impact of soaring raw material prices and higher fixed costs, including depreciation expenses, associated with facility expansion.



Disposable Diapers  
(Superabsorbent Polymers)

LCD (organic and inorganic fine  
sphere particles)

## Performance by Business Groups and Regions

(unit : million of yen)

Business Group	Fiscal Year 2006			Fiscal Year 2005			Change		
	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts	Basic Chemicals	Functional Chemicals	Environment & Catalysts
Sales	97,665	141,321	27,526	94,095	116,300	22,046	3,751	25,022	5,480
Operating income	5,399	10,838	2,982	11,158	9,262	3,123	(5,759)	1,576	(141)

## Environment & Catalysts

Sales of automotive catalysts increased, due to selling prices going up in step with escalating precious metal prices.

Sales of equipment and catalysts for wastewater treatment increased due to export of large-scale equipment.

Sales of process catalysts decreased because of declining demand for replacements.

Sales of De-NOx catalysts, and equipment and catalysts for waste gas treatment remained almost unchanged from the previous year.

As a result, the Environment & Catalysts Business posted net sales of ¥27,526 million, up 24.9% over the previous year.

Operating income decreased by 4.5% year on year, to ¥2,982 million due to higher raw material prices and a change in sales mix.



Automotive catalysts / De-NOx catalysts

## ► Performance by Regions

### Japan

Net sales increased by 10.4% from a year earlier, to ¥186,288 million, due to higher sales volumes of Functional Chemicals such as superabsorbent polymers and polymers for concrete admixtures, acrylic acids, and acrylic esters.

Operating income decreased by 15.0% year-on-year, to ¥17,301 million, affected by surging raw material prices and higher fixed costs, including depreciation expenses, associated with facility expansion, even though sales actually grew.

### Europe

Net sales increased by 35.9% year on year, to ¥32,521 million thanks to brisk sales of superabsorbent polymers.

Operating income decreased by 66.3% from the period a year earlier, to ¥70 million, because the impact of escalating raw material prices and higher fixed costs, including depreciation expenses, associated with facility expansion, was more than offset by the effects of higher sales and selling price revisions.

### Asia

Acrylic acid and acrylic ester sales increased in volume but slightly decreased in value reflecting the weak market conditions. Net sales in this region, however, increased by 10.2% over the previous year, to ¥30,194 million, due to a significant increase in the sales volume of superabsorbent polymers.

Operating income decreased by 76.4% year on year, to ¥864 million, affected by the weak market conditions for acrylic acids and acrylic esters against a backdrop of a steep rise in raw material prices, although sales of superabsorbent grew.

### Other Regions

Net sales increased by 42.0% year on year, to ¥17,510 million due to higher sales volumes of Functional Chemicals such as superabsorbent polymers and raw materials for detergents.

Operating loss stood at ¥285 million, though this result showed a substantial improvement over that for the previous year, thanks to boosted sales and revisions to selling prices amid escalating raw material prices.

(unit : million of yen)

Region	Fiscal Year 2006				Fiscal Year 2005				Change			
	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions	Japan	Europe	Asia	Other Regions
Sales	186,288	32,521	30,194	17,510	168,773	23,953	27,405	12,329	17,515	8,586	2,790	5,181
Operating income	17,301	70	864	(285)	20,350	207	3,663	(1,318)	(3,050)	(137)	(2,800)	1,033

# Medium- and Long-term Business Plans

The Company drew up a long-term business plan, “TechnoAmenity V3,” which sets out the management vision for the five years since fiscal 2006 to fiscal 2010, together with a medium-term business plan as its action program, in a bid to deliver further growth.

## ► Challenges and Medium- and Long-term Management Strategies

The Company seeks further growth under the long-term business plan “TechnoAmenity V3” (for fiscal 2006 to 2010), which sets out a long-term management vision, coupled with the Medium-

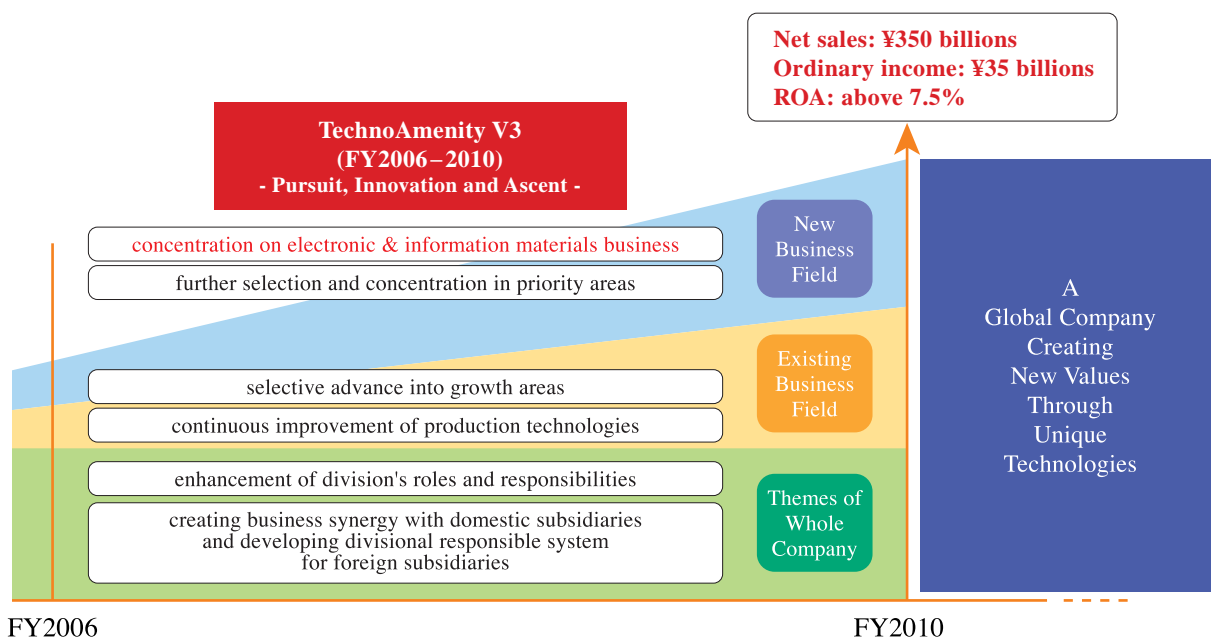
term Business Plan (for fiscal 2006 to 2008), which provides a concrete action plan to realize the long-term business plan.

### 1) Outline of the Long-term Business Plan “TechnoAmenity V3”

1. Vision for the future: “A global company creating new values through unique technologies”

2. Slogan: “Pursuit” to our strength such as key technologies and key materials  
 “Innovation” of way of marketing and research  
 “Ascent” to be realized through “Pursuit” and “Innovation”

3. Target for FY 2010: Net Sales: ¥350 billions  
 Ordinary Income: ¥35 billions  
 ROA: above 7.5%





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## 2) Outline of the Medium-term Business Plan

The Company seeks to enter into growth areas (fields; overseas) outside the domain of its existing business, and at the same time, continue to pursue innovative production technologies in order to enhance its cost competitiveness. As for new lines of business, the Company will concentrate its management resources on the electronic and information materials business as the top priority for

the “TechnoAmenity V3” plan, while searching for more sharply focused next-generation business themes.

Through the execution of these measures, the Company aims to attain the fiscal 2008 target for net sales of ¥300 billions (including ¥40 billions of new products), ordinary income of ¥30 billions, and ROA of 7.5% or higher.

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### ▶ Progress on the Medium-term Business Plan

#### (1) Existing business

The construction of superabsorbent polymer manufacturing plants was completed at Nippon Shokubai Europe N.V. (Belgium) and the Himeji Plant, adding 30,000 tons to annual capacity at both sites, with commercial operations starting in spring 2006. A manufacturing plant with an annual capacity of 60,000 tons is also scheduled to be completed at the Himeji Plant, and go into commercial operation in summer 2007. With the completion of these plants, the annual production capacity of superabsorbent polymers will expand to 410,000 tons, allowing the Company to maintain its leadership position in the global market.

For the acrylic acid business, a manufacturing plant with an annual production capacity of 160,000 tons completed at the Himeji Plant has been operating since December 2006, enabling the Company to achieve an annual production capacity of 620,000 tons for acrylic acids.

For the ethylene oxide business, the Company seeks to establish a solid business foundation less susceptible to market fluctuations, by boosting sales of ethylene oxide and its derivative products up to the target ratio of 80% or higher for non-EG (ethylene glycol) products.

The Company also acquired a new site with the intention of consolidating the manufacture of ethylene oxide and its derivative products into the Kawasaki area.

For other businesses, the Company seeks to further expand global operations for its

internationally competitive functional chemicals. To this end, a new manufacturing plant with an annual capacity of 10,000 tons for polymers for concrete admixtures is under construction at NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD., and is due for completion in autumn 2007.

#### (2) New Business

For the electronic and information materials business, the Company newly formed the E&I Materials Business Division in April 2006, and has been making steady progress toward the development and commercialization of new products. Among other things, the production facilities for acrylic resins for optical materials, which were constructed at the Himeji Plant and went into commercial operation at the end of 2006, are scheduled for further expansion with the aim of achieving an annual production capacity of 6,000 tons by the autumn 2007. Business development for fine spherical particles and functional pigments has also made solid progress. The Company, meanwhile, opened a new office in South Korea, a promising overseas market, pursuing further growth in the electronic and information materials business.

Meanwhile, the Company remains committed to development and commercialization initiatives in fields considered to be the next growth areas, health & medical care, and new energy, with a view to commercialization around 2010.

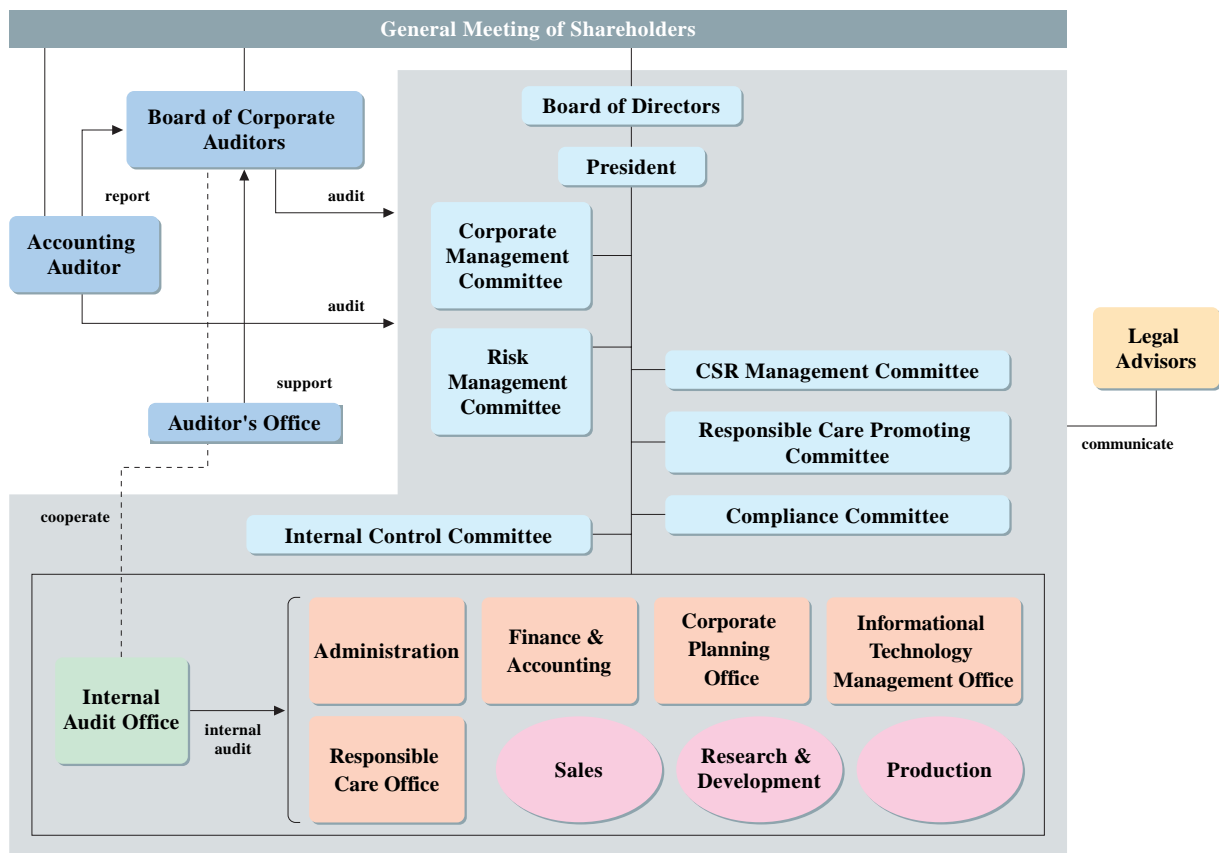
# Corporate Governance

We have strived toward reinforcing our staying power and competitive edge so that we can cope flexibly with any fluctuation of the world, and regard corporate governance as key for achieving the goal. We are taking steps to revitalize the

board of directors, strengthen the audit system, increase the efficiency and effectiveness of operation, and ensure tighter compliance.

The diagram below shows the frame of our corporate governance system.

## Corporate Governance System



**Board of Directors**, comprised of 16 directors as of March 31, 2007, deliberates and resolves the matters relating to the execution of business operations, and supervises each director's execution of operation. In principle, the Board of Directors convenes once a month, chaired by the president, at which four corporate auditors, including two from outside, are in attendance. The corporate auditors present statements when deemed necessary.

**Corporate Management Committee**, as an advisory organ to the president, deliberates basic management policies, the matters related to the policies, and the execution of important business operations by individual divisions. Agenda items that come up to this Committee and are regarded as important will be forwarded to the Board of Directors for deliberation.

The member of the Corporate Management Committee are the president, senior managing directors managing directors and directors nominated by the president.

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**Board of Corporate Auditors** is comprised of four corporate auditors, including two from outside. In principle, the Board convenes once a month to report, discuss and resolve important matters. In addition to attending the Board of Directors, the corporate auditors attend the Corporate Management Committee and other important meetings to monitor the decision-making process, and grasp the execution of directors' operation, receive reports from the accounting auditors, directors and others, and put forward an audit opinion following due consultation.

The two current Corporate Auditors from outside have no personal or any other relationship through investments that could create a conflict of interest in the performance of their duties.

**Risk Management Committee**, chaired by the president, explores and analyzes the risks surrounding the Company. On the basis of the analysis, the Committee discusses the preventive measures or countermeasures for the risks.

**CSR (Corporate Social Responsibility) Management Committee**, chaired by the president, discusses and decides the CSR policy and activities that would make all the stakeholders beneficial, in cooperation with the other committees such as Risk Management Committee or the Compliance Committee.

**Responsible Care Promoting Committee**, chaired by the president, discusses and decides the policy and plans of activities for "Responsible Care (RC)" placing a special emphasis on environmental preservation, safety and quality throughout the entire life cycle of our products from the development to disposal. In March 2006, the Committee established the "5th Medium-term RC promotion Basic Plan" to reinforce our RC more active.

**Compliance Committee**, chaired by the president, discusses and decides measures to enhance our company-wide compliance management.

**The Internal Control Committee** concerning financial reporting, chaired by the president, discusses and prepares for the highly efficient Internal Control System enforced by Financial Instruments and Exchange Law as of April 1st 2008, not only aim to ensure the reliability of the company's financial reporting, but also to ensure the effectiveness and efficiency of the company's business activities.

**Legal Advisers** provide their opinions for us when solicited. None of the Legal Advisers is involved in the management of the Company.

**Accounting Auditors** perform their services under the Commercial Code and Securities and Exchange Law of Japan, and provide their opinions when we call for it to make decisions on accounting issues. None of the Accounting Auditors is involved in the management of the Company.

**Internal Audit Office** carries out internal audits (verify the adequacy and effectiveness of the business process in each division and report the results to the directors) in cooperation with the Board of Corporate Auditors.

**Responsible Care Office** carries out internal audits on responsible care activities in each division.

# Nippon Shokubai Corporate Behavior Charter

In the belief that it is our social responsibility to conduct business based upon the principles of compliance and self-responsibility for the sake of proper social development, we have set forth the

following basic corporate behavior guidelines in the “Nippon Shokubai Corporate Behavior Charter.”

1. Guided by our Corporate Philosophy of “TechnoAmenity,” we will conduct all of our actions as a good corporate citizen.
2. We will comply with relevant laws both inside and outside of Japan, and act in accordance with in-house regulations.
3. We will create and nurture a sound, vibrant workplace, where each individual can hone their professional competence and find fulfillment in their career.
4. We will develop and market products and services that are both safe and useful, based upon an accurate understanding of social demands.
5. We will commit ourselves to eliminating labor hazards and accidents, and constantly strive to protect the global environment.
6. We will conduct business based on fair and open competition.
7. We will take a firm stance when dealing with unlawful or antisocial groups.
8. We will ensure frequent communications with our shareholders and members of society in general, and guarantee the appropriate disclosure of corporate information.
9. With respect for the culture and customs of every nation/region we serve, we will contribute to their development and wellbeing through community-based business undertakings.
10. We will ensure the solid and sustainable development of the company through business undertakings based soundly upon the above action guidelines.

To ensure and realize the principles of the Charter above, the Compliance Committee issued “The Nippon Shokubai Compliance Guidebook” for ongoing compliance training for all the managers and the employees.



# Topics

## ▶ Himeji Plant: Completion of Superabsorbent Polymer Plant

The construction of a new superabsorbent polymer (SAP) manufacturing plant with an annual capacity of 60,000 tons, which started last year with the aim of reinforcing the SAP business as the Company's core operation, and responding to growing SAP demand, has been completed.

The facilities are designed to cut costs including reducing construction costs per unit capacity by scaling up annual capacity from the current 30,000 tons to 60,000 tons.

With the new facilities coming into operation, the Company has now a total annual SAP production capacity of 410,000 tons at four sites around the world.

The Company will strive to maintain its leadership position in the global market, and seek to make further advances, capitalizing on its strength as an integrated manufacturer of acrylic-based products.



## ▶ Awards

“Development of New Production Process for N-vinyl-2-pyrrolidone” was awarded The CSJ(\*) Award for Technical Development (2006).

( \* The Chemical Society of Japan )



“Development of Environmental Friendly Acrylic Emulsion for Paints” was awarded The Kinka Chemical Society Award for Environmental Technology.



# Responsible Care

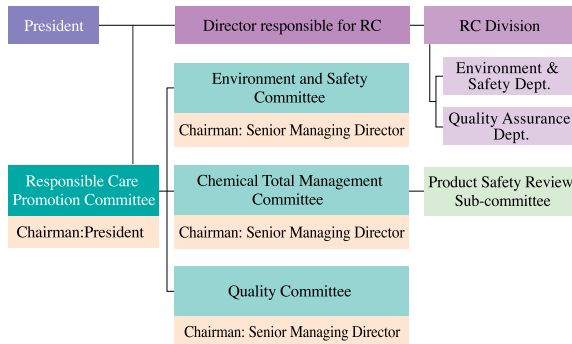
## 1. Our Fundamental Policy on Environment, Safety and Quality

The Company has set the corporate philosophy as “*TechnoAmenity: providing affluence and comfort to society through technology*”. Adhering to the philosophy, the Company has defined the four priorities regarding Environment, Safety and Quality, which will bring our business activities into harmony with global environmental preservation and conservation:

1. Acknowledging environmental preservation throughout the entire life cycle of a product, from development to disposal
2. Aiming for zero accidents and disasters and keeping society, including our employees, safe
3. Confirming the safety of chemical materials, intermediates and products, and considering the health of respective people such as our customers, employees of logistics, and our employees, etc.
4. Stably supplying products and associated services that meet customer satisfaction and inspire their trust

## 2. RC Promotion Organization

### (1) RC Promotion Organization



### (2) RC Management System

#### ISO 14001(EMS)

Registration of all operations completed in July 2001. Up grading to improved 2004 standards completed in 2005.

#### ISO 9001(QMS)

Registration of all operations completed. Up grading to improved 2000 standards completed in 2003.

## 3. The 5th Medium-Term RC Promotion Basic Plan(FY2006-FY2008)



### Goals

#### (1) Voluntarily pursuing goals in each of the related areas within the company

##### Environmental Preservation

- 6% reduction of energy per unit of production on FY2008 (vs.FY2005)  
(3% reduction of CO<sub>2</sub> emission per unit of production on FY2008 (vs.FY2005))
- Accession to zero emission\* and its maintenance
- 40% reduction of emission of PRTR\* chemical substances (vs.FY2005)
- Establishment of eco-friendly product design system
- \*Zero emission is defined as less quantity of final off-site landfill than 0.1% of total amount of waste generated.

##### Process Safety and Disaster Prevention

- Zero disasters ·Zero accidents

##### Occupational Safety and Health

- Zero industrial injuries with lost workdays (including contractors)
- Zero industrial injuries without lost workdays (including contractors)

##### Chemical Safety

- Zero problem on chemical safety (legal or social)

##### Quality

- Zero serious claims

##### Communication with Society

- Promotion of dialogue with stake holders and adequate disclosure of the information regarding RC

#### (2) Group RC activities in domestic and overseas

·Attainment of common targets to all NIPPON SHOKUBAI GROUP  
<Group common targets>

##### 1)Environmental preservation

- Promotion of energy saving activities
- Reduction of emission of PRTR chemical substances
- Reduction of amount of waste generated

##### 2)Process Safety and Disaster Prevention

- Zero disasters ·Zero accidents

##### 3)Occupational Safety and Health

- 50% reduction of industrial injuries with lost workdays (vs.FY2004 - FY2005)

##### 4)Chemical Safety

- Zero problems on chemical safety(legal or social)

##### 5)Quality

- Zero serious claims

##### 6)Communication with Society

- Promotion of dialogue to stakeholders and adequate disclosure of the information

##### 7)Management System

- Introduction of ISO14001 and risk assessment of OHSAS18001.



#### 4. RC Performance in FY 2006

##### (1) Environmental Preservation

- Energy saving
- Reduction of emission of PRTR\* chemical substances
- Reduction of industrial wastes

##### (2) Process Safety and Disaster Prevention

- Implementation of safety assessment by HAZOP\*
- Reduction of change risk through Management of Changes\*
- Training for emergency
- Logistic safety using Yellow Card\* system and training for transportation emergency

##### (3) Occupational Safety and Health

- Reduction of risk in workspace through Occupational Safety and Health Management System
- Prevention of injuries caused by unsafe action

##### (4) Chemical Safety

- Safety assessment of new products through Stage Gate System
- Global Product Stewardship for REACH\* and GHS\*

##### (5) Quality

- Prevention of quality complaint by improving Quality Management System
- Disclosing information concerning green procurement to the customers

##### (6) Communication with Society

Regional activities such as conserving local chrysanthemum “Noji-Giku” in danger of extinction, and inviting children to potato digging in Himeji Plant.



“Noji-Giku” and Himeji Plant



Potato digging (Himeji Plant)

##### (7) RC activities of the Company in Japan & overseas

- Reduction of environmental emission, labor accident, equipment trouble and quality claim & nonconformity
- Information sharing for RC activity

Affiliated companies in Japan:

- RC audit and case study workshop about quality carried out by the Group companies
- ISO 9001 certification (Tokyo Fine Chemical Co., Ltd.)

Overseas affiliated companies:

- ISO 14001 certification (NA Industries, Inc.)
- RC meeting in Himeji Plant



RC meeting (Himeji Plant)

#### **PRTR:Pollutant Release and Transfer Register**

A regulatory system which requires reporting of emission volumes of wastes. Data compiled to the government bodies are disclosed to the public.

#### **HAZOP:Hazard and Operability Studies**

An execution to estimate the safety of plants.

#### **Management of Changes:**

Program to ensure that proposed changes to plant operations are evaluated changes are prevented so as to public, and the environmental, etc.

#### **Yellow Card:**

A card stating the producers to be taken and contact information for transporters, fire squads, and police in the event of an accident during the road transport of chemicals.

#### **REACH:Registration, Evaluation, and Authorization of Chemicals**

A new EU regulatory framework for the Registration, Evaluation and Authorization of Chemicals aiming to improve the protection of human health and the environment through the better and earlier identification of the properties of chemical substances.

#### **GHS:Globally Harmonized System of Classification and Labeling of Chemicals**

A system for classification and labeling of chemicals hazard according to the globally harmonized rule.

# Management Indices

## (1) Consolidated Management Indices

Year ended March 31 (Fiscal Year)	2003 (2002)	2004 (2003)	2005 (2004)	2006 (2005)	2007 (2006)
	<i>(Millions of Yen)</i>				
<b>Net Sales</b>	163,514	169,733	197,222	232,441	266,513
<b>Ordinary Income</b>	10,971	17,212	23,709	26,148	22,754
<b>Net Income</b>	5,516	8,822	15,705	16,257	13,988
<b>Total Assets</b>	216,756	220,185	249,349	291,564	323,675
<b>Total Shareholders' Equity</b>	121,297	131,685	144,660	164,631	—
<b>Total Net Assets</b>	—	—	—	168,704	179,368
	<i>(Yen)</i>				
<b>Net Assets per Share</b>	631.12	685.20	757.72	875.00	948.34
<b>Net Income per Share</b>	27.97	45.37	81.37	85.89	74.92
<b>Fully Diluted Net Income per Share</b>	—	—	—	—	—
<b>Capital Ratio(%)</b>	56.0	59.8	58.0	56.5	54.1
<b>Return on Equity(%)</b>	4.6	7.0	11.4	10.5	8.2
<b>Price Earning Ratio(times)</b>	20.4	18.0	11.9	16.3	17.0
	<i>(Millions of Yen)</i>				
<b>Cash Flow from Operating Activities</b>	23,117	16,399	22,161	17,468	16,087
<b>Cash Flow from Investing Activities</b>	(8,751)	(9,161)	(16,934)	(20,663)	(23,109)
<b>Cash Flow from Financing Activities</b>	(15,956)	(9,506)	(861)	(2,562)	4,037
<b>Cash and Cash Equivalents at Year-end</b>	21,217	18,654	24,160	19,856	16,991
<b>Number of Employees</b>	2,967	2,658	2,721	2,806	2,841

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.



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**(2) Non-consolidated Management Indices**

<b>Year ended March 31 (Fiscal Year)</b>	<b>2003 (2002)</b>	<b>2004 (2003)</b>	<b>2005 (2004)</b>	<b>2006 (2005)</b>	<b>2007 (2006)</b>
					<i>(Millions of Yen)</i>
<b>Net Sales</b>	126,612	132,622	146,789	170,510	192,177
<b>Ordinary Income</b>	10,879	14,228	17,795	23,008	20,378
<b>Net Income</b>	3,094	5,966	11,063	14,502	12,378
<b>Capital</b>	16,529	16,529	16,529	16,529	16,529
<b>Issued and Outstanding Shares (Thousands shares)</b>	194,881	194,881	194,881	194,881	194,881
					<i>(Millions of Yen)</i>
<b>Total Assets</b>	176,155	182,806	207,303	237,571	262,059
<b>Total Shareholders' Equity</b>	115,593	124,417	133,100	148,283	—
<b>Total Net Assets</b>	—	—	—	148,283	151,266
					<i>(Yen)</i>
<b>Net Assets per Share</b>	601.48	647.41	697.19	788.11	819.47
<b>Dividend per Share</b>	7.00	9.00	13.00	16.00	16.00
<b>(Interim Dividend per Share)</b>	(3.50)	(4.00)	(5.00)	(7.50)	(8.00)
<b>Net Income per Share</b>	15.55	30.56	57.20	76.61	66.30
<b>Fully Diluted Net Income per Share</b>	—	—	—	—	—
<b>Capital Ratio(%)</b>	65.6	68.1	64.2	62.4	57.7
<b>Return on Equity(%)</b>	2.7	5.0	8.6	10.3	8.3
<b>Price Earning Ratio(times)</b>	36.7	26.7	17.0	18.3	19.2
<b>Dividend Payout Ratio(%)</b>	45.0	29.5	22.7	20.9	24.1
<b>Number of Employees</b>	1,881	1,774	1,731	1,730	1,742

Note 1: Net Sales do not include consumption taxes.

Note 2: Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Note 3: The dividend per share for the fiscal year ended March 31, 2005 (fiscal 2004) include a ¥2 memorial dividend our 65<sup>th</sup> anniversary of the company's foundation.

Note 4: Fully diluted Net Income per Share is not recorded because no dilutive shares exist.

**Nippon Shokubai Co., Ltd.**  
**Consolidated Financial Statements**

*Years ended March 31, 2007 and 2006*

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# Report of Independent Auditors

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## Report of Independent Auditors

The Board of Directors  
Nippon Shokubai Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nippon Shokubai Co., Ltd. and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shokubai Co., Ltd. and consolidated subsidiaries at March 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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 2.

Osaka, Japan  
June 20, 2007

*Ernst & Young Shin Nihon*

A MEMBER OF ERNST & YOUNG GLOBAL

# Consolidated Balance Sheets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31,		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Assets</b>			
Current assets:			
Cash and cash equivalents.....	¥ 16,991	¥ 19,856	\$ 143,931
Time deposits (Note 7).....	165	223	1,398
Notes and accounts receivable (Note 4):			
Unconsolidated subsidiaries and affiliates.....	11,147	7,091	94,424
Trade.....	59,855	50,353	507,033
Allowance for doubtful receivables.....	(568)	(94)	(4,812)
Inventories (Note 6).....	45,941	38,705	389,166
Deferred income taxes (Note 9).....	3,172	3,368	26,870
Other current assets.....	8,742	6,412	74,053
Total current assets.....	145,445	125,914	1,232,063
Property, plant and equipment (Note 7):			
Land.....	27,609	25,636	233,875
Buildings and structures.....	68,383	63,972	579,272
Machinery and equipment.....	255,592	227,941	2,165,117
Construction in progress.....	6,778	16,958	57,416
Accumulated depreciation.....	(240,715)	(229,418)	(2,039,094)
Property, plant and equipment, net.....	117,647	105,089	996,586
Investments and other assets:			
Investments in securities (Notes 5 and 7).....	31,456	35,610	266,463
Investments in and advances to			
unconsolidated subsidiaries and affiliates.....	16,507	11,138	139,831
Deferred income taxes (Note 9).....	901	925	7,632
Prepaid pension cost.....	2,997	2,730	25,388
Other assets.....	8,722	10,158	73,884
Total investments and other assets.....	60,583	60,561	513,198
Total assets.....	¥ 323,675	¥ 291,564	\$2,741,847

	March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars) (Note 2)</i>
<b>Liabilities and Net Assets</b>			
Current liabilities:			
Short-term bank loans <i>(Note 7)</i> .....	¥ 18,177	¥ 11,538	\$ 153,977
Current portion of long-term debt <i>(Note 7)</i> .....	5,887	5,317	49,869
Notes and accounts payable <i>(Note 4)</i> :			
Unconsolidated subsidiaries and affiliates .....	7,403	6,207	62,707
Trade .....	47,056	33,936	398,615
Construction .....	18	262	152
Accrued bonuses to employees .....	2,061	2,151	17,459
Accrued bonuses to directors and corporate auditors .....	130	139	1,101
Reserve for periodic repairs .....	2,742	2,667	23,228
Accrued income taxes <i>(Note 9)</i> .....	4,018	5,657	34,036
Other current liabilities .....	12,293	12,833	104,134
Total current liabilities .....	99,785	80,707	845,278
Long-term liabilities:			
Long-term debt <i>(Note 7)</i> .....	33,668	28,363	285,201
Accrued retirement benefits for employees <i>(Note 8)</i> .....	6,791	6,754	57,526
Deferred income taxes <i>(Note 9)</i> .....	2,647	5,429	22,423
Other <i>(Note 10)</i> .....	1,416	1,607	11,995
Total long-term liabilities .....	44,522	42,153	377,145
Contingent liabilities <i>(Note 14)</i>			
Net assets <i>(Note 11)</i> :			
Shareholders' equity:			
Common stock:			
Authorized – 424,000,000 shares			
Issued – 194,881,287 shares in 2007 and 2006 .....	16,529	16,529	140,017
Capital surplus .....	13,567	13,565	114,926
Retained earnings .....	140,350	125,684	1,188,903
Less treasury stock, at cost .....	(10,079)	(5,345)	(85,379)
Total shareholders' equity .....	160,367	150,433	1,358,467
Valuation and translation adjustments:			
Net unrealized holding gain on securities .....	10,686	12,259	90,521
Translation adjustments .....	4,000	1,939	33,884
Total valuation and translation adjustments .....	14,686	14,198	124,405
Minority interests .....	4,315	4,073	36,552
Total net assets .....	179,368	168,704	1,519,424
Total liabilities and net assets .....	¥ 323,675	¥ 291,564	\$ 2,741,847

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales (Note 17) .....	¥ 266,513	¥ 232,441	\$2,257,628
Cost of sales (Note 12) .....	212,468	176,253	1,799,814
Gross profit .....	54,045	56,188	457,814
Selling, general and administrative expenses (Note 12).....	34,616	32,960	293,232
Operating income (Note 17).....	19,429	23,228	164,582
Other income (expenses):			
Interest and dividend income .....	1,021	1,458	8,649
Interest expense .....	(1,014)	(733)	(8,590)
Royalty income .....	916	1,022	7,759
Equity in earnings of unconsolidated subsidiaries and affiliates .....	1,358	961	11,504
Loss on liquidation of an affiliate .....	(452)	–	(3,829)
Other, net.....	1,044	212	8,845
Income before income taxes and minority interests ...	22,302	26,148	188,920
Income taxes (Note 9):			
Current .....	6,857	10,331	58,086
Deferred .....	1,279	(594)	10,834
Income before minority interests .....	8,136	9,737	68,920
Income before minority interests .....	14,166	16,411	120,000
Minority interests in earnings of consolidated subsidiaries ...	(178)	(154)	(1,508)
Net income (Note 15) .....	¥ 13,988	¥ 16,257	\$ 118,492

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at March 31, 2006 .....	¥ 16,529	¥ 13,565	¥ 125,684	¥ (5,345)	¥ 150,433
Movements during the year:					
Cash dividends .....	—	—	(3,092)	—	(3,092)
Net income .....	—	—	13,988	—	13,988
Purchases of treasury stock .....	—	—	—	(4,737)	(4,737)
Disposition of treasury stock .....	—	2	—	3	5
Adjustments due to increase in affiliates accounted for by the equity method .....	—	—	3,770	—	3,770
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total movements during the year .....	—	2	14,666	(4,734)	9,934
Balance at March 31, 2007 .....	¥ 16,529	¥ 13,567	¥ 140,350	¥ (10,079)	¥ 160,367

	Valuation and translation adjustments				
	Net unrealized gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
	(Millions of yen)				
Balance at March 31, 2006 .....	¥ 12,259	¥ 1,939	¥ 14,198	¥ 4,073	¥ 168,704
Movements during the year:					
Cash dividends .....	—	—	—	—	(3,092)
Net income .....	—	—	—	—	13,988
Purchases of treasury stock .....	—	—	—	—	(4,737)
Disposition of treasury stock .....	—	—	—	—	5
Adjustments due to increase in affiliates accounted for by the equity method .....	—	—	—	—	3,770
Net changes in items other than shareholders' equity .....	(1,573)	2,061	488	242	730
Total movements during the year .....	(1,573)	2,061	488	242	10,664
Balance at March 31, 2007 .....	¥ 10,686	¥ 4,000	¥ 14,686	¥ 4,315	¥ 179,368

## Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				Total shareholders' equity
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	
	<i>(Millions of yen)</i>				
Balance at March 31, 2005 .....	¥ 16,529	¥ 13,565	¥ 112,496	¥ (2,505)	¥ 140,085
Movements during the year:					
Cash dividends .....	—	—	(2,945)	—	(2,945)
Bonuses to directors and corporate auditors .....	—	—	(124)	—	(124)
Net income .....	—	—	16,257	—	16,257
Purchases of treasury stock .....	—	—	—	(2,844)	(2,844)
Disposition of treasury stock .....	—	0	—	4	4
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total movements during the year .....	—	0	13,188	(2,840)	10,348
Balance at March 31, 2006 .....	¥ 16,529	¥ 13,565	¥ 125,684	¥ (5,345)	¥ 150,433

	Valuation and translation adjustments				
	Net unrealized holding gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
	<i>(Millions of yen)</i>				
Balance at March 31, 2005 .....	¥ 5,632	¥ (1,057)	¥ 4,575	¥ 3,494	¥ 148,154
Movements during the year:					
Cash dividends .....	—	—	—	—	(2,945)
Bonuses to directors and corporate auditors .....	—	—	—	—	(124)
Net income .....	—	—	—	—	16,257
Purchases of treasury stock .....	—	—	—	—	(2,844)
Disposition of treasury stock .....	—	—	—	—	4
Net changes in items other than shareholders' equity .....	6,627	2,996	9,623	579	10,202
Total movements during the year .....	6,627	2,996	9,623	579	20,550
Balance at March 31, 2006 .....	¥ 12,259	¥ 1,939	¥ 14,198	¥ 4,073	¥ 168,704



	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	<i>(Thousands of U.S. dollars)</i>				
Balance at March 31, 2006 .....	\$ 140,017	\$ 114,909	\$1,064,668	\$ (45,277)	\$1,274,317
Movements during the year:					
Cash dividends .....	—	—	(26,192)	—	(26,192)
Net income .....	—	—	118,492	—	118,492
Purchases of treasury stock .....	—	—	—	(40,127)	(40,127)
Disposition of treasury stock .....	—	17	—	25	42
Adjustments due to increase in affiliates accounted for by the equity method .....	—	—	31,935	—	31,935
Net changes in items other than shareholders' equity .....	—	—	—	—	—
Total movements during the year .....	—	17	124,235	(40,102)	84,150
Balance at March 31, 2007 .....	\$ 140,017	\$ 114,926	\$1,188,903	\$ (85,379)	\$1,358,467

	Valuation and translation adjustments				
	Net unrealized gain on securities	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
	<i>(Thousands of U.S. dollars)</i>				
Balance at March 31, 2006 .....	\$ 103,846	\$ 16,425	\$ 120,271	\$ 34,502	\$1,429,090
Movements during the year:					
Cash dividends .....	—	—	—	—	(26,192)
Net income .....	—	—	—	—	118,492
Purchases of treasury stock .....	—	—	—	—	(40,127)
Disposition of treasury stock .....	—	—	—	—	42
Adjustments due to increase in affiliates accounted for by the equity method .....	—	—	—	—	31,935
Net changes in items other than shareholders' equity .....	(13,325)	17,459	4,134	2,050	6,184
Total movements during the year .....	(13,325)	17,459	4,134	2,050	90,334
Balance at March 31, 2007 .....	\$ 90,521	\$ 33,884	\$ 124,405	\$ 36,552	\$1,519,424

# Consolidated Statements of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 2)</i>
<b>Operating activities:</b>			
Income before income taxes and minority interests .....	¥ 22,302	¥ 26,148	\$ 188,920
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization .....	12,951	9,349	109,708
Loss on liquidation of an affiliate .....	452	—	3,829
Increase (decrease) in accrued retirement benefits .....	37	(89)	313
Interest and dividend income .....	(1,021)	(1,458)	(8,649)
Interest expense .....	1,014	733	8,590
Equity in earnings of unconsolidated subsidiaries and affiliates .....	(1,358)	(961)	(11,504)
Loss on disposal of property, plant and equipment .....	317	315	2,685
Other, net .....	(4,887)	1,133	(41,397)
Changes in operating assets and liabilities:			
Notes and accounts receivable .....	(13,146)	(3,646)	(111,360)
Inventories .....	(6,666)	(8,012)	(56,468)
Notes and accounts payable .....	13,492	2,719	114,291
Other current liabilities .....	(14)	(28)	(119)
Subtotal .....	23,473	26,203	198,839
Interest and dividends received .....	1,959	1,571	16,595
Interest paid .....	(949)	(709)	(8,039)
Income taxes paid .....	(8,396)	(9,597)	(71,122)
Net cash provided by operating activities .....	16,087	17,468	136,273
<b>Investing activities:</b>			
Purchases of property, plant and equipment .....	(22,527)	(22,105)	(190,826)
Proceeds from sales of property, plant and equipment .....	4	11	34
Purchases of marketable securities and investments in securities .....	(1,850)	(1,017)	(15,672)
Proceeds from sales of short-term investments and investments in securities .....	455	176	3,854
Increase in loans receivable .....	(110)	(215)	(932)
Collection of loans receivable .....	1,191	1,375	10,089
Other, net .....	(272)	1,112	(2,303)
Net cash used in investing activities .....	(23,109)	(20,663)	(195,756)

	Year ended March 31,		
	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
<b>Financing activities:</b>			
Increase in short-term bank loans, net .....	6,546	4,448	55,451
Proceeds from long-term debt .....	10,700	7,609	90,640
Repayment of long-term debt .....	(5,370)	(8,815)	(45,489)
Cash dividends paid .....	(3,092)	(2,945)	(26,192)
Purchases of treasury stock .....	(4,737)	(2,844)	(40,127)
Other, net .....	(10)	(15)	(86)
Net cash provided by (used in) financing activities .....	4,037	(2,562)	34,197
Effect of exchange rate changes on cash and cash equivalents .....	120	866	1,017
Decrease in cash and cash equivalents .....	(2,865)	(4,891)	(24,269)
Cash and cash equivalents at beginning of year .....	19,856	24,160	168,200
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation .....	—	587	—
Cash and cash equivalents at end of year .....	¥ 16,991	¥ 19,856	\$ 143,931

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries March 31, 2007

## 1. Summary of Significant Accounting Policies

### (a) Basis of presentation

Nippon Shokubai Co., Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas subsidiaries maintain their accounts in conformity with the requirements of their respective countries of domicile.

The accompanying consolidated financial statements of 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 are compiled from the consolidated financial statements prepared by the Company as required by the Securities and Exchange Law 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.

Effective the year ended March 31, 2007, the Company has adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended March 31, 2007, the Company is required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of March 31, 2006 and consolidated statement of shareholders' equity for the year then ended have been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended March 31, 2007.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2006 to the 2007 presentation. Such reclassifications had no effect on consolidated net income or net assets.

### (b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany items have been eliminated in consolidation.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these overseas consolidated subsidiaries and the year end of the Company.

Investments in significant affiliates are accounted for by the equity method.

Investments in an unconsolidated subsidiary and an affiliate not accounted for by the equity method are carried at cost.

Goodwill and negative goodwill arising from the difference of cost and underlying net assets at the date of acquisition are amortized over a period of five years on a straight-line basis, except that immaterial amounts are charged to income as incurred.

### (c) Foreign currency translation

The financial statements 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 (shareholders' equity 2006) which are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of net income but are reported as translation adjustments and minority interests in separate components of net assets in the consolidated balance sheets at March 31, 2007 and 2006.

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.

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 and the gain or loss on each translation is credited or charged to income.

### (d) 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.

### (e) Inventories

Inventories of the Company and its consolidated subsidiaries are stated principally at the lower of cost or market, cost being determined by the moving average method.

### (f) Property, plant and equipment

Property, plant and equipment are stated on the basis of cost. Depreciation is computed principally by the declining-balance method over the estimated useful lives of the respective assets, except that the overseas consolidated subsidiaries compute depreciation by the straight-line method over the estimated useful lives of the respective assets.

### (g) Leases

Non-cancelable leases of the Company and its domestic consolidated subsidiaries are accounted for as operating leases (whether such leases are classified as operating or finance leases), except that leases which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases. However, leases of the overseas consolidated subsidiaries are generally classified and accounted for as either finance or operating leases.

#### **(h) Investments in securities**

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are charged to income. Held-to-maturity debt securities are carried at 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 net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

#### **(i) Research and development costs and computer software**

Research and development costs are charged to income when incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective useful lives, generally a period of 5 years.

#### **(j) Income taxes**

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

#### **(k) Accrued bonuses to employees**

Accrued bonuses to employees are provided based on estimated bonuses to be paid to employees which are charged to income in the current year.

#### **(l) Accrued bonuses to directors and corporate auditors**

Accrued bonuses to directors and corporate auditors are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

#### **(m) Reserve for periodic repairs**

The Company provides a reserve for the costs of periodic repairs of production facilities at plants.

#### **(n) Retirement benefits**

The Company's employees are covered by an employees' retirement benefit plan and an employees' pension plan. The employees' retirement benefit plan provides for lump-sum payments determined by reference to their basic salary, years of service and certain other factors. The domestic consolidated subsidiaries have either

unfunded employees' retirement benefit plans and/or pension plans which are noncontributory and funded and which cover substantially all their employees. These plans provide for lump-sum payments and/or annuity payments payable upon termination of employment.

Accrued retirement benefits for employees have been provided, in general, based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

Prior service cost is amortized principally by the straight-line method over 5 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over 10 years, which is within the estimated average remaining years of service of the eligible employees.

#### **(o) Appropriation of retained earnings**

Under the new Corporation Law of Japan, the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such appropriations (see Note 19).

## **2. U.S. Dollar Amounts**

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥118.05 = U.S.\$1.00, the approximate rate of exchange in effect on March 31, 2007. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

## **3. Accounting Change**

Effective the year ended March 31, 2007, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Presentation of Net Assets in the Balance Sheet" (Accounting Standards Board of Japan (ASBJ) Statement No. 5 issued on December 9, 2005) and "Guidance on Accounting Standard for Presentation of Net Assets in the Balance Sheet" (ASBJ Guidance No. 8 issued on December 9, 2005).

## **4. Notes Receivable and Notes Payable**

The balance sheet date of the year ended March 31, 2007 fell on a bank holiday. Consequently notes receivable, trade of ¥570 million (\$4,828 thousand) and notes payable, trade of ¥372 million (\$3,151 thousand) with a maturity date of March 31, 2007 were included in the respective balances and were settled on the next business day.

## Notes to Consolidated Financial Statements (continued)

### 5. Investments in Securities

Marketable securities classified as other securities at March 31, 2007 and 2006 are summarized as follows:

	2007					
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>		
	Cost	Book value (Fair market value)	Unrealized gain (loss)	Cost	Book value (Fair market value)	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:						
Equity securities.....	¥ 14,158	¥ 29,422	¥ 15,264	\$119,932	\$ 249,233	\$129,301
Subtotal .....	14,158	29,422	15,264	119,932	249,233	129,301
Securities whose cost exceeds their fair market value:						
Equity securities.....	693	588	(105)	5,870	4,981	(889)
Subtotal .....	693	588	(105)	5,870	4,981	(889)
Total .....	¥ 14,851	¥ 30,010	¥ 15,159	\$125,802	\$ 254,214	\$128,412
	2006					
	<i>(Millions of yen)</i>					
	Cost	Book value (Fair market value)	Unrealized gain (loss)			
Securities whose fair market value exceeds their cost:						
Equity securities.....	¥ 13,164	¥ 33,882	¥ 20,718			
Subtotal .....	13,164	33,882	20,718			
Securities whose cost exceeds their fair market value:						
Equity securities.....	593	585	(8)			
Subtotal .....	593	585	(8)			
Total .....	¥ 13,757	¥ 34,467	¥ 20,710			

The proceeds and gross realized gain and loss on sales of securities classified as other securities for the years ended March 31, 2007 and 2006 were as follows:

2007			2006			2007		
<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>					
Proceeds	Gross realized gain	Gross realized loss	Proceeds	Gross realized gain	Gross realized loss	Proceeds	Gross realized gain	Gross realized loss
¥ 121	¥ 83	¥ –	¥ 176	¥ 56	¥ –	\$ 1,025	\$ 703	\$ –

A breakdown of other securities whose market value was not determinable at March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Held-to-maturity			
bonds .....	¥ 200	¥ –	\$ 1,694
Other securities .....	1,246	1,143	10,555

## 6. Inventories

Inventories at March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and			
finished goods.....	¥ 22,152	¥ 19,505	\$ 187,649
Raw materials .....	11,959	9,255	101,305
Work in process .....	8,649	7,657	73,266
Supplies .....	3,181	2,288	26,946
	<u>¥ 45,941</u>	<u>¥ 38,705</u>	<u>\$ 389,166</u>

## 7. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2007 and 2006 were 1.95% and 2.65%, respectively.

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

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
0.81% unsecured bonds			
due October 2009 .....	¥ 5,000	¥ 5,000	\$ 42,355
Unsecured loans from			
banks and insurance			
companies, payable in			
yen, at rates from 0.49%			
to 5.60%, due through			
2013 .....	24,930	17,459	211,182
Unsecured loans from			
banks, payable in U.S.			
dollars, at rates from			
1.03% to 5.83%, due			
through 2011 .....	4,455	5,663	37,738
Unsecured loans from			
banks, payable in Euro,			
at rates from 2.55% to			
3.17%, due through			
2009 .....	4,225	3,775	35,790
Secured loans from banks			
and insurance			
companies, payable in			
yen, at rates from 1.14%			
to 4.84%, due through			
2010 .....	945	1,783	8,005
Subtotal .....	39,555	33,680	335,070
Less current portion .....	(5,887)	(5,317)	(49,869)
Total .....	<u>¥ 33,668</u>	<u>¥ 28,363</u>	<u>\$ 285,021</u>

The aggregate annual maturities of long-term debt subsequent to March 31, 2007 are summarized below:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2008 .....	¥ 5,887	\$ 49,869
2009 .....	6,370	53,960
2010 .....	16,718	141,618
2011 .....	1,919	16,256
2012 and thereafter .....	8,661	73,367
	<u>¥ 39,555</u>	<u>\$ 335,070</u>



## Notes to Consolidated Financial Statements (continued)

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Time deposits .....	¥ 8	¥ 8	\$ 68
Land .....	293	293	2,482
Buildings and structures ..	183	197	1,550
Machinery and equipment ..	345	250	2,922
Investments in securities ..	6	1,179	51
	<u>¥ 835</u>	<u>¥ 1,927</u>	<u>\$ 7,073</u>

### 8. Retirement Benefits

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the consolidated balance sheets at March 31, 2007 and 2006 for the Company's and the consolidated subsidiaries' defined benefit plans:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit obligation at end of year ..	¥ (30,108)	¥ (29,937)	\$ (255,044)
Fair value of plan assets at end of year .....	26,159	25,406	221,592
Unfunded retirement benefit obligation .....	(3,949)	(4,531)	(33,452)
Unrecognized actuarial loss ..	726	1,269	6,150
Unrecognized past service cost .....	(571)	(762)	(4,837)
Net retirement benefit obligation .....	(3,794)	(4,024)	(32,139)
Prepaid pension cost .....	2,997	2,730	25,387
Accrued retirement benefits .....	¥ (6,791)	¥ (6,754)	\$ (57,526)

The components of retirement benefit expenses for the years ended March 31, 2007 and 2006 are outlined as follows:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service cost .....	¥ 1,080	¥ 1,007	\$ 9,149
Interest cost .....	539	537	4,566
Expected return on plan assets ..	(560)	(458)	(4,744)
Amortization:			
Past service cost .....	(180)	(322)	(1,525)
Actuarial loss .....	487	936	4,125
Retirement benefit expenses ..	<u>¥ 1,366</u>	<u>¥ 1,700</u>	<u>\$ 11,571</u>

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2007 and 2006 were as follows:

	2007	2006
Discount rate .....	Principally 1.9%	Principally 1.9%
Expected rate of return on plan assets .....	Principally 3.0%	Principally 3.0%

### 9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2007 and 2006 was, in the aggregate, approximately 40.6%. The effective tax rates reflected in the consolidated statements of income for the years ended March 31, 2007 and 2006 differed from the above statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate .....	40.6 %	40.6 %
Effect of:		
Valuation allowance .....	3.9	4.0
Tax credit for research and development costs .....	(3.9)	(3.9)
Equity in earnings of an unconsolidated subsidiary and affiliates .....	(2.5)	(1.5)
Other, net .....	(1.6)	(2.0)
Effective tax rates .....	<u>36.5 %</u>	<u>37.2 %</u>



Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2007 and 2006 are summarized as follows:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>Deferred tax assets:</b>			
Accrued retirement benefits ..	¥ 1,641	¥ 1,989	\$ 13,901
Intercompany profit on inventories and property, plant and equipment .....	1,166	1,215	9,877
Tax loss carryforwards ..	1,512	1,152	12,808
Reserve for repairs .....	1,104	1,081	9,352
Depreciation and amortization .....	816	693	6,912
Impairment loss on fixed assets .....	1,461	1,507	12,376
Accrued employees' bonuses ..	769	819	6,514
Impairment of investments in securities and other ...	1,870	1,866	15,841
Accrued enterprise tax ..	351	481	2,973
Other .....	1,067	1,477	9,039
Gross deferred tax assets ..	11,757	12,280	99,593
Less: Valuation allowance ..	(3,025)	(2,211)	(25,624)
Total deferred tax assets ..	8,732	10,069	73,969
<b>Deferred tax liabilities:</b>			
Equity in earnings of an overseas' affiliate ..	1,297	1,152	10,987
Net unrealized holding gain on securities .....	4,426	8,407	37,493
Depreciation and amortization .....	848	852	7,183
Deferred capital gain on property .....	393	340	3,329
Reserve for depreciation for tax purposes .....	165	293	1,398
Other .....	177	161	1,500
Total deferred tax liabilities .....	7,306	11,205	61,890
Net deferred tax assets (liabilities) .....	¥ 1,426	¥(1,136)	\$ 12,079

## 10. Negative goodwill

Negative goodwill included in long-term liabilities-other, at March 31, 2007 was computed as follows:

	2007	
	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Goodwill .....	¥ 540	\$ 4,574
Negative goodwill .....	(549)	(4,651)
Total .....	¥ (9)	\$ (77)

## 11. Shareholders' Equity

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan (the "Code"), went into effect on May 1, 2006. 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.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥3,920 million (\$33,206 thousand) at March 31, 2007 and 2006.

### Common stock and treasury stock

Movements in issued common stock and treasury stock during the year ended March 31, 2007 are summarized as follows:

	Number of shares			
	<i>(Thousands)</i>			
	March 31, 2006	Increase	Decrease	March 31, 2007
Common stock .....	194,811	-	-	194,881
Treasury stock .....	6,732	3,563	4	10,291

## Notes to Consolidated Financial Statements (continued)

### 12. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2007 and 2006 totaled ¥11,123 million (\$94,223 thousand) and ¥10,120 million, respectively.

### 13. Leases

The following pro forma amounts represent the acquisition costs (including the interest portion), accumulated depreciation/amortization and net book value of the leased assets at March 31, 2007 and 2006, which would have been reflected in the balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	2007	2006	2007
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Machinery and equipment and software:			
Acquisition costs .....	¥ 357	¥ 536	\$ 3,024
Accumulated depreciation/amortization ..	(238)	(388)	(2,016)
Net book value .....	<u>¥ 119</u>	<u>¥ 148</u>	<u>\$ 1,008</u>

Lease payments relating to finance leases accounted for as operating leases amounted to ¥77 million (\$652 thousand) and ¥110 million for the years ended March 31, 2007 and 2006, respectively. Depreciation/amortization of the leased assets calculated by the straight-line method over the respective lease terms amounted to ¥77 million (\$652 thousand) and ¥110 million for the years ended March 31, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2007 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2008.....	¥ 48	\$ 407
2009 and thereafter .....	71	601
	<u>¥ 119</u>	<u>\$ 1,008</u>

### 14. Contingent Liabilities

At March 31, 2007, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of affiliates in the aggregate amount of ¥2,673 million (\$22,643 thousand).

In addition, at March 31, 2007, two consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed in the aggregate amount of ¥933 million (\$7,903 thousand).

## 15. Amounts per Share

	<u>2007</u>	2006	<u>2007</u>
	(Yen)		(U.S. dollars)
Net income .....	<b>¥ 74.92</b>	¥ 85.89	<b>\$0.63</b>
Cash dividends.....	<b>16.00</b>	16.00	<b>0.14</b>
Net assets .....	<b>948.34</b>	875.00	<b>8.03</b>

Net income per share has been computed based on the net income available to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has not been presented for the years ended March 31, 2007 and 2006 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2007 and 2006.

The amounts per share of net assets have been computed based on the net assets available for distribution to shareholders of common stock and the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of net income per share for the years ended March 31, 2007 and 2006 is summarized as follows:

	<u>2007</u>	2006	<u>2007</u>
	(Millions of yen)		(Thousands of U.S. dollars)
Net income .....	<b>¥ 13,988</b>	¥ 16,257	<b>\$118,492</b>
Deductions from net income .....	—	—	—
Adjusted net income available to shareholders of common stock .....	<b>¥ 13,988</b>	¥ 16,257	<b>\$118,492</b>
Weighted-average number of shares of common stock outstanding during the year (Thousands of shares) ..	<b>186,703</b>	189,287	<b>186,703</b>

## 16. Derivatives

Derivative financial instruments are utilized by the Company and its consolidated subsidiaries principally to reduce the risk arising from fluctuation in interest rates and foreign exchange rates. The Company has established a control environment which includes policies and procedures for risk assessment and for the approval, reporting and monitoring of transactions involving derivatives. The Company and its consolidated subsidiaries do not hold or issue derivatives for speculative trading purposes.

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

## Notes to Consolidated Financial Statements (continued)

### 17. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in Japan and overseas.

#### Business Segments

The business segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is outlined as follows:

	Year ended March 31, 2007					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
<i>(Millions of yen)</i>						
<b>I. Sales and operating income</b>						
Sales to third parties .....	¥ 97,665	¥ 141,321	¥ 27,527	¥ 266,513	¥ –	¥ 266,513
Intergroup sales and transfers ...	21,672	854	1,800	24,326	(24,326)	–
Total sales .....	119,337	142,175	29,327	290,839	(24,326)	266,513
Operating expenses .....	113,938	131,337	26,345	271,620	(24,536)	247,084
Operating income .....	¥ 5,399	¥ 10,838	¥ 2,982	¥ 19,219	¥ 210	¥ 19,429
<b>II. Total assets, depreciation and amortization, and capital expenditures</b>						
Total assets .....	¥ 104,262	¥ 156,625	¥ 28,160	¥ 289,047	¥ 34,628	¥ 323,675
Depreciation and amortization ..	5,304	8,163	421	13,888	–	13,888
Capital expenditures .....	9,309	15,118	371	24,798	–	24,798
 Year ended March 31, 2006						
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
<i>(Millions of yen)</i>						
<b>I. Sales and operating income</b>						
Sales to third parties .....	¥ 94,095	¥ 116,300	¥ 22,046	¥ 232,441	¥ –	¥ 232,441
Intergroup sales and transfers ....	17,063	460	1,302	18,825	(18,825)	–
Total sales .....	111,158	116,760	23,348	251,266	(18,825)	232,441
Operating expenses .....	100,000	107,498	20,226	227,724	(18,511)	209,213
Operating income .....	¥ 11,158	¥ 9,262	¥ 3,122	¥ 23,542	¥ (314)	¥ 23,228
<b>II. Total assets, depreciation and amortization, and capital expenditures</b>						
Total assets .....	¥ 94,753	¥ 133,032	¥ 23,309	¥ 251,094	¥ 40,470	¥ 291,564
Depreciation and amortization ..	3,448	6,693	504	10,645	–	10,645
Capital expenditures .....	11,923	13,617	394	25,934	–	25,934
 Year ended March 31, 2007						
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Eliminations or corporate	Consolidated
<i>(Thousands of U.S. dollars)</i>						
<b>I. Sales and operating income</b>						
Sales to third parties .....	\$ 827,319	\$ 1,197,128	\$ 233,181	\$ 2,257,628	\$ –	\$ 2,257,628
Intergroup sales and transfers ....	183,583	7,235	15,247	206,065	(206,065)	–
Total sales .....	1,010,902	1,204,363	248,428	2,463,693	(206,065)	2,257,628
Operating expenses .....	965,167	1,112,554	223,168	2,300,889	(207,843)	2,093,046
Operating income .....	\$ 45,735	\$ 91,809	\$ 25,260	\$ 162,804	\$ 1,778	\$ 164,582
<b>II. Total assets, depreciation and amortization, and capital expenditures</b>						
Total assets .....	\$ 883,202	\$ 1,326,768	\$ 238,543	\$ 2,448,513	\$ 293,334	\$ 2,741,847
Depreciation and amortization ..	44,930	69,149	3,566	117,645	–	117,645
Capital expenditures .....	78,856	128,064	3,144	210,064	–	210,064

### Geographical Segments

The geographical segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2007 and 2006 is outlined as follows:

Year ended March 31, 2007							
	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
<i>(Millions of yen)</i>							
<b>I. Sales and operating income</b>							
Sales to third parties ..	¥ 186,288	¥ 32,521	¥ 30,194	¥ 17,510	¥ 266,513	¥ -	¥ 266,513
Intergroup sales and transfers .....	21,979	71	1,219	492	23,761	(23,761)	-
Total sales .....	208,267	32,592	31,413	18,002	290,274	(23,761)	266,513
Operating expenses ...	190,966	32,522	30,549	18,288	272,325	(25,241)	247,084
Operating income (loss).....	¥ 17,301	¥ 70	¥ 864	¥ (286)	¥ 17,949	¥ 1,480	¥ 19,429
<b>II. Total assets</b> .....	¥ 222,114	¥ 20,547	¥ 38,112	¥ 13,760	¥ 294,533	¥ 29,142	¥ 323,675

Year ended March 31, 2006							
	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
<i>(Millions of yen)</i>							
<b>I. Sales and operating income</b>							
Sales to third parties ..	¥ 168,773	¥ 23,935	¥ 27,405	¥ 12,328	¥ 232,441	¥ -	¥ 232,441
Intergroup sales and transfers .....	19,061	61	934	81	20,137	(20,137)	-
Total sales .....	187,834	23,996	28,339	12,409	252,578	(20,137)	232,441
Operating expenses ...	167,484	23,789	24,676	13,727	229,676	(20,463)	209,213
Operating income (loss).....	¥ 20,350	¥ 207	¥ 3,663	¥ (1,318)	¥ 22,902	¥ 326	¥ 23,228
<b>II. Total assets</b> .....	¥ 192,113	¥ 18,995	¥ 31,818	¥ 14,919	¥ 257,845	¥ 33,719	¥ 291,564

Year ended March 31, 2007							
	Japan	Europe	Asia	Other	Total	Eliminations or corporate	Consolidated
<i>(Thousands of U.S.dollars)</i>							
<b>I. Sales and operating income</b>							
Sales to third parties ..	\$ 1,578,043	\$ 275,485	\$ 255,773	\$ 148,327	\$ 2,257,628	\$ -	\$ 2,257,628
Intergroup sales and transfers .....	186,184	601	10,326	4,168	201,279	(201,279)	-
Total sales .....	1,764,227	276,086	266,099	152,495	2,458,907	(201,279)	2,257,628
Operating expenses ...	1,617,670	275,493	258,780	154,918	2,306,861	(213,815)	2,093,046
Operating income (loss).....	\$ 146,557	\$ 593	\$ 7,319	\$ (2,423)	\$ 152,046	\$ 12,536	\$ 164,582
<b>II. Total assets</b> .....	\$ 1,881,525	\$ 174,053	\$ 322,846	\$ 116,561	\$ 2,494,985	\$ 246,862	\$ 2,741,847

## Notes to Consolidated Financial Statements (continued)

### Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of the overseas consolidated subsidiaries, for the years ended March 31, 2007 and 2006 are summarized as follows:

	Year ended March 31, 2007				
	Asia	Europe	America	Other	Total
	<i>(Millions of yen)</i>				
Overseas sales .....	¥ 51,847	¥ 41,654	¥ 23,184	¥ 9,628	¥ 126,313
Overseas sales as a percentage of consolidated net sales .....	19.5%	15.6%	8.7%	3.6%	47.4%

	Year ended March 31, 2006				
	Asia	Europe	America	Other	Total
	<i>(Millions of yen)</i>				
Overseas sales .....	¥ 48,385	¥ 32,788	¥ 18,623	¥ 6,958	¥ 106,754
Overseas sales as a percentage of consolidated net sales .....	20.8%	14.1%	8.0%	3.0%	45.9%

	Year ended March 31, 2007				
	Asia	Europe	America	Other	Total
	<i>(Thousands of U.S. dollars)</i>				
Overseas sales .....	\$ 439,195	\$ 352,850	\$ 196,391	\$ 81,560	\$ 1,069,996

## 18. Related Party Transactions

Principal transactions between the Company and its related companies for the years ended March 31, 2007 and 2006 are summarized as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
<i>Yatagai Real Estate Co., Ltd.:</i>			
Rental expense of buildings .....	¥ 18	¥ 13	\$ 152
<i>Nippon Petrochemicals Co., Ltd.:</i>			
Rental expense of land and equipment .....	73	—	618
<i>ICT Co., Ltd.:</i>			
Sales of the Company's finished goods .....	18,813	12,753	159,365
Purchases of raw materials .....	18,561	11,018	157,230

The transaction price was determined based of fair market value.

The balances due from and due to its related companies at March 31, 2007 and 2006 were as follows:

	2007	2006	2007
	(Millions of yen)		(Thousands of U.S. dollars)
Due from			
<i>ICT Co., Ltd.</i> .....	¥ 8,580	¥ 4,884	\$ 72,681
Due to			
<i>ICT Co., Ltd.</i> .....	¥ 5,295	¥ 2,825	\$ 44,854
<i>Nippon Petrochemicals Co., Ltd.</i> .....	27	—	229

## 19. Subsequent Event

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2007, was approved at a shareholders' meeting held on June 20, 2007:

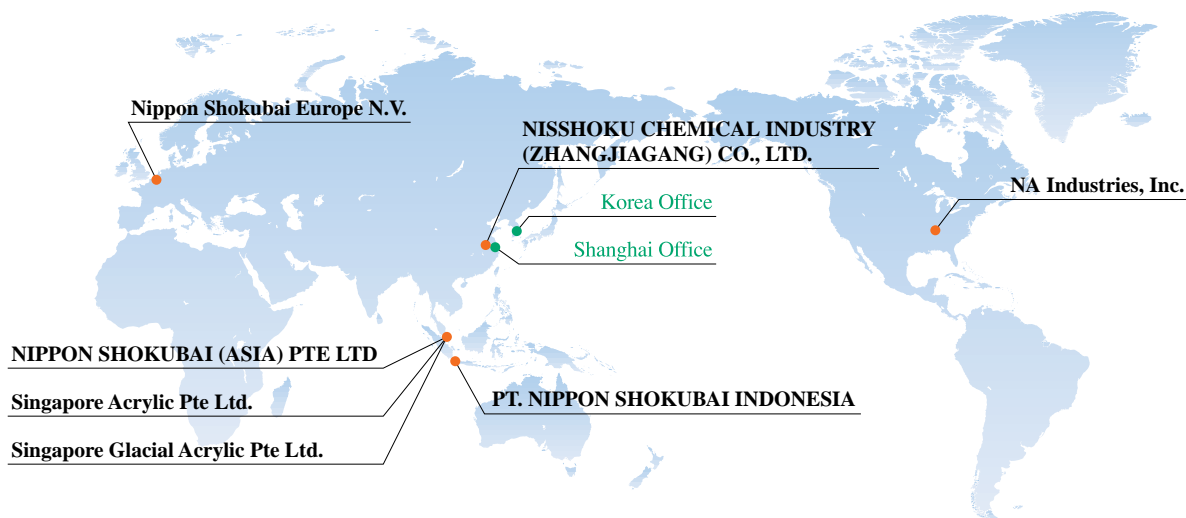
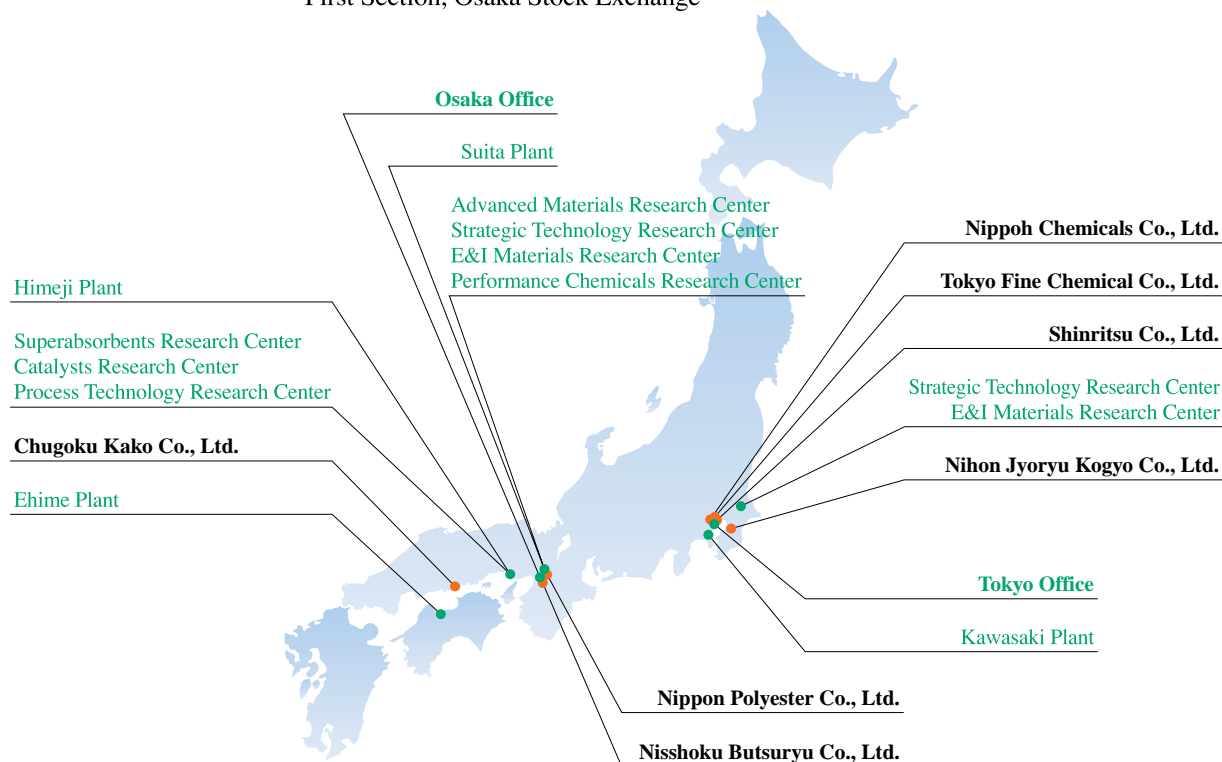
	(Millions of yen)	(Thousands of U.S. dollars)
Cash dividends (¥8.00 = \$0.07 per share) .....	¥ 1,477	\$ 12,512



# Corporate Data (as of March 31, 2007)

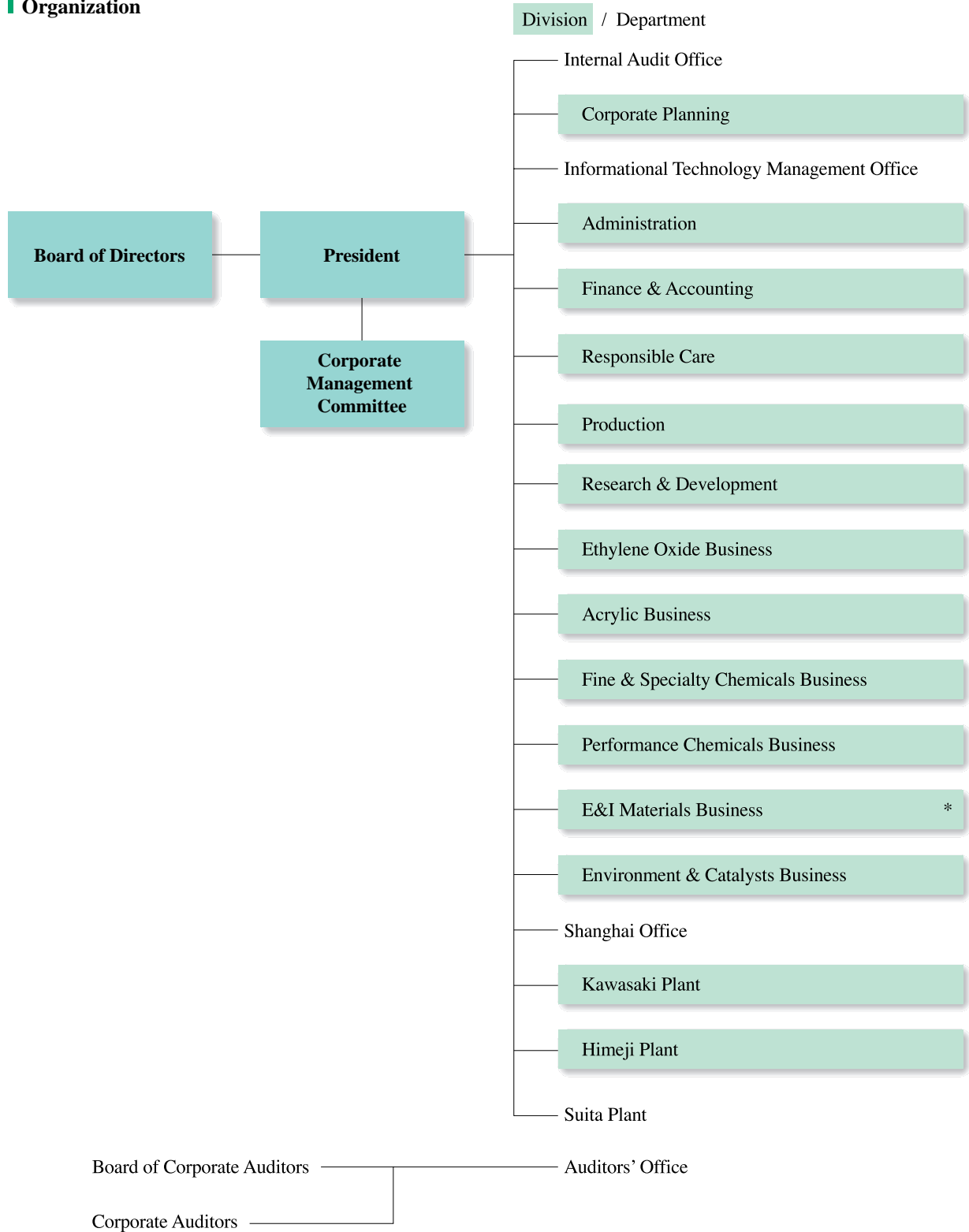
## NIPPON SHOKUBAI CO., LTD.

<b>Incorporated</b>	August 21, 1941	<b>Transfer Agent</b>	Mitsubishi UFJ Trust & Banking Corporation
<b>Common Stock</b>	Authorized: 424,000,000		4-5, Marunouchi, 1-chome, Chiyoda-ku
	Issued: 194,881,287		Tokyo, 100-8212, Japan
<b>Capital</b>	¥16,529,413,238		
<b>Number of Employees</b>	Consolidated: 2,841		
	Non-consolidated: 1,742		
<b>Stock Listings</b>	First Section, Tokyo Stock Exchange		
	First Section, Osaka Stock Exchange		





**Organization**



\* E&I : Electronic & Information

## Corporate Data

### Consolidated Subsidiaries and Affiliates

<i>Name</i>	<i>Principle Business</i>	<i>President</i>
<b>Nippoh Chemicals Co., Ltd. *</b>	Manufacture and sale of iodine, natural gas, intermediates for API and agro-chemicals and photo/electro chemicals	Shinichi Nagase
<b>Nippon Polyester Co., Ltd. *</b>	Manufacture and sale of synthetic resins and related additives	Tamotsu Okamura
<b>Nisshoku Butsuryu Co., Ltd. *</b>	Logistics	Masao Kitano
<b>Tokyo Fine Chemical Co., Ltd. *</b>	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze	Tadayoshi Honda
<b>Chugoku Kako Co., Ltd. *</b>	Manufacture and sale of adhesive tape and fine sphere particle	Tadashi Kawai
<b>Nihon Jyoryu Kogyo Co., Ltd. *</b>	Manufacture and sale of authraquinone, carbozole, and their derivatives	Yoshinori Yokoyama
<b>Shinritsu Co., Ltd. *</b>	Sale of chemical products	Masayoshi Sugimoto
<b>NA Industries, Inc. **</b>	Manufacture and sale of superabsorbent polymers, polymers for concrete admixture, water soluble polymers, Technical Liaison and business development	Hidetaka Yatagai
<b>NIPPON SHOKUBAI (ASIA) PTE LTD *</b>	Sale of chemical products	Kenjiro Komoda
<b>Nippon Shokubai Europe N.V. *</b>	Manufacture and sale of superabsorbent polymers	Keishi Tsuboi
<b>PT. NIPPON SHOKUBAI INDONESIA *</b>	Manufacture and sale of acrylic acid and acrylic esters	Yoshinao Hirano
<b>Singapore Acrylic Pte Ltd. *</b>	Manufacture and sale of crude acrylic acid	Kenji Ozeki
<b>Singapore Glacial Acrylic Pte Ltd. *</b>	Manufacture and sale of glacial acrylic acid	Kenji Ozeki
<b>NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD. *</b>	Manufacture and sale of superabsorbent polymers	Taizo Maruo
<b>ICT Co., Ltd.</b>	Sale of automobile exhaust catalyst	Yojiro Takahashi
<b>Nihon Polymer Industries Co., Ltd.</b>	Manufacture and sale of acrylic emulsions	Shigehiro Nishimura
<b>International Catalyst Technology, Inc.</b>	Manufacture and sale of automobile exhaust catalyst	William Staron
<b>Japan Composite Co., Ltd.</b>	Manufacture and sale of unsaturated polyesters resin and plastic molded materials	Tetsuyuki Matsubara
<b>LGMMA Corp.</b>	Manufacture and sale of MMA and PMMA	Han-seob KIM

\* Included in consolidation \*\* American Acryl NA LLC and American Acryl L.P. are consolidated into NA industries, Inc. by the equity method.

(as of June 30 2007)

## Directory

### HEAD OFFICES

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541-0043, Japan  
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#### *Tokyo Office*

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Tokyo 100-0011, Japan  
Telephone: 81-3-3506-7475  
Facsimile : 81-3-3506-7598

### PLANTS

#### *Kawasaki Chidori Plant*

14-1 Chidori-cho, Kawasaki-ku  
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210-0865, Japan

#### *Kawasaki Ukishima Plant*

10-12 Ukishima-cho, Kawasaki-ku  
Kawasaki, Kanagawa  
210-0862, Japan

#### *Himeji Plant*

992-1 Aza-Nishioki Okihama,  
Aboshi-ku, Himeji, Hyogo  
671-1282, Japan

#### *Ehime Plant*

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792-8521, Japan

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### LABORATORIES

#### *Advanced Materials Research Center*

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#### *Strategic Technology Research Center*

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564-8512, Japan

#### *E & I Materials Research Center*

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#### *Superabsorbents Research Center*

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#### *Performance Chemicals*

##### *Research Center*

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### OVERSEAS COMPANIES

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#### *PT. NIPPON SHOKUBAI INDONESIA*

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Facsimile : 62-254-600-657

#### *NIPPON SHOKUBAI (ASIA) PTE LTD*

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#### *Singapore Acrylic Pte Ltd.*

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627886

#### *Singapore Glacial Acrylic Pte Ltd.*

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627886

#### *Nippon Shokubai Europe N.V.*

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#### *NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.*

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**NIPPON  
SHOKUBAI**