

ANNUAL REPORT



2004



NIKKO

since 1908

Contents

Profile of NIKKO	1
Financial Highlights	4
Consolidated Balance Sheets	5
Consolidated Statement of Income	7
Consolidated Statement of Shareholders' Equity	8
Consolidated Statement of Cash Flows	9
Notes to the Consolidated Financial Statements	10
Board of Directors and Statutory Auditors	19
Corporate Data	20

~PROFILE of NIKKO~

Key Concept

NIKKO's oval shape in brown as a symbol expresses 'Earth' and 'Ware'. 'Earth' brought up human beings, and 'Ware' is what our remote ancestors created by being attached to the earth.

The oval shape is derived from a conception of tableware that a round shape always be seen at an angle in our daily life. We borrow, through the history of mankind, an oval shape to expect human communications of heart and mind which are hardly embodied in words.

The oval shape symbolizes NIKKO continuously moving on toward a perfect circle and round.

TABLETOP DIVISION

In 1905, in the city of Kanazawa, production of semi-porcelain dinnerware was attempted for the first time in Japan. Nihon Koshitsu Toki Co., Ltd. was established in 1908 by the former feudal lord family, Maeda and some prominent members of community.

As a pioneer in the manufacture of semi-porcelain dinnerware, the company started in 1917 operations in Pusan, Korea to further upscale its production. Experiencing the ordeal of World War II, the company's technology, fostered by its long course of history, came into bloom in the early sixties. In 1961, the company moved its head office and plant to the present location to set the integrated production line with modern equipment and facilities, securing a position as a leading semi-porcelain dinnerware maker. Anticipating the trend of the times, the company has developed various kinds of materials such as fine bone china, fine vitrified china, fine porcelain, oven ware and decoration tile helped by its innovative technology. Entering successfully into the hotel and restaurant ware market in the 80's was another stride of the company. Continuous development of products always satisfies various requirements of hoteliers and caterers in the world.



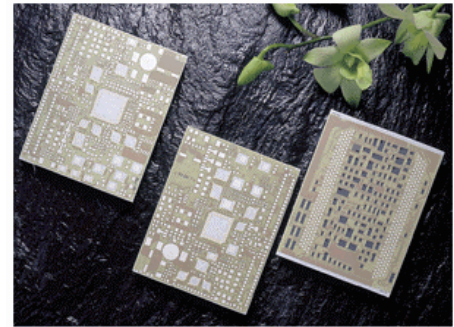
In an attempt to expand its global business, established in 1968 were Nikko Ceramics, Inc. in New York, a joint-venture factory in 1973 in Malaysia and another joint venture in 1991 in Thailand. The company freshened up in 1983 under the name of NIKKO COMPANY.

During the recent several years, NIKKO has dramatically been spreading out its reputation for manufacturing technology into the field of OEM trade. Discerning the rapidly changing market, NIKKO always makes efforts to stay in the course of a company to sell overall performances both in product quality and services.

ELECTRO-CERAMICS DIVISION

Based on this long experience in ceramics technology, Nikko has established in 1982 an Electro-Ceramics Division to make a start with alumina substrates and hybrid IC. This was to take the lead in the electronics industry with a three-step development of core products meeting an increasing demand from the market.

A gas-firing kiln for large-sized alumina substrates was put into practical use for the first time in the industry. Then, thick film substrates enabled a successful application of precision printing technique onto electronic circuit, which was helped by the peculiar know-how cultivated for many years in the ceramics manufacturing. Hybrid IC has followed with flexible production on a basis of 'customized development' policy to meet various demands for mainly industrial devices from time to time.



Another successful production in 1992 was of multi-layered substrates, and complete packages of product line-ups were placed in the broad market inclusive of U.S.A. Dielectric ceramic compositions in 1996 and multi-layer piezo ceramic transformers are another remarkable development, and of wide application to today's personal computers, cellular or mobile phones and many more of electronic units.

With a background of the down-sizing and high-functioning trend, Nikko positively discerns the move of the electronics field expected to grow with speed especially in the field of communication apparatus, in contrast to the tableware division making a strenuous efforts in the crucial market status.

【Wind turbine system】



NIKKO has performed establishment in installation, as its new business footing, of over 1,000 units through out the nation in a surge of global interest in the preservation of the earth environment.

NIKKO in consistency develops, produces and sells all of the necessary parts such as blade controllers and dynamos for the NIKKO wind turbine systems.

Applied to the manufacture of blades is the F.R.P. production technology of Housing & Environmental Equipment division at the Saitama factory, and to the manufacture of controllers and dynamos is the advanced technology of Electro-Ceramics division.

In addition to the range from a compact type of 200W model to a grid interconnected system type of 4KW model with saleable electricity, NIKKO has newly developed to launch a 10KW model into the market.

NIKKO is expected to achieve further growth in contribution to the global protection of environment in the future.

HOUSING & ENVIRONMENTAL EQUIPMENT DIVISION

The division has started with an applied study of organic materials for Fiberglass-Reinforced-Plastics (FRP) , while both Tableware division and Electro-Ceramics Division are based on inorganic materials.

Established of the division in 1962 was on the opportunity of newly developed FRP bath-tubs being recognized to be in the product range authorized by Tokyo Gas Co., Ltd. Its FRP factory was set up in 1966 near Tokyo to produce environmental equipment such as single bath-tubs, bathroom units, septic tanks and water treatment facilities.



Not later than any other brand, Nikko introduced high-leveled technology for FRP press-forming method when others still applied a manual forming method, and its production capacity of septic tanks has reached a top in the industry.

In the marketing aspect, a wide network system of sales is spread throughout the nation together with some showrooms as well. Close services and market exploration are efficiently performed to lead new developments.

Nikko always takes the position that product development be done from the viewpoint of amenities in a human life and global protection of environment.

Financial Highlights

NIKKO COMPANY
Consolidated Data



Consolidated Data	Millions of yen					Thousands of U. S. dollar
	2000	2001	2002	2003	2004	2004
	(except per share amounts and %)					
Net Sales	24,143	21,611	21,100	22,354	22,344	210,440
Net Income	71	(697)	(168)	50	1	12
Total Assets	21,876	20,186	20,265	20,677	20,490	192,979
Shareholders' Equity	13,074	12,078	11,632	11,676	11,473	108,060
Shareholders' Equity Ratio (%)	59.8	59.8	57.4	56.5	56.0	
Return on Shareholders' Equity (%)	0.5	(5.5)	(1.4)	0.4	0.0	
Number of Shares	17,072,000	17,072,000	17,072,000	17,072,000	17,072,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	4.17	(40.86)	(9.93)	3.01	0.08	0.001
Shareholders' Equity	766.13	707.58	701.96	684.77	680.94	6.413
Cash Dividends	10.00	4.00	8.00	8.00	6.00	0.057

Note: ¥ 106.18 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2004 and 2003

ASSETS	Thousands of yen		Thousands of U. S. dollar
	2004	2003	2004
Current Assets:			
Cash and time deposits	¥3,378,282	¥3,907,319	\$31,816
Marketing securities	4,000	-	37
Notes and accounts receivable:			
Trade	4,965,794	4,953,425	46,767
Subsidiaries and affiliates	92,037	100,336	866
Allowance for doubtful accounts	(53,433)	(52,987)	(503)
Inventories	5,408,479	5,135,873	50,936
Deferred tax assets	408,155	408,231	3,843
Prepaid expenses and other current assets	271,721	153,368	2,559
Total current assets	14,475,035	14,605,567	136,325
Investments and Other Assets:			
Investment securities	857,579	806,100	8,076
Investment in and advances to subsidiaries and affiliates	199,642	194,115	1,880
Deferred tax assets	249,382	229,948	2,348
Other	323,725	306,018	3,048
Allowance for doubtful accounts	(35,231)	(29,454)	(331)
Total investments and other assets	1,595,099	1,506,728	15,022
Property, plant and equipment, at cost:			
Land	1,052,526	1,052,526	9,912
Buildings	5,769,740	5,739,851	54,339
Machinery and equipment	7,970,317	8,168,694	75,064
Construction in progress	23,953	30,404	225
Accumulated depreciation	(10,428,952)	(10,466,271)	(98,219)
Net property, plant and equipment	4,387,585	4,525,205	41,322
Intangible Assets and other	32,813	40,379	309
Total Assets	¥20,490,533	¥20,677,880	\$192,979

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2004 and 2003

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen		Thousands of U. S. dollar
	2004	2003	2004
Current liabilities:			
Notes and accounts payable:			
Trade	¥4,323,476	¥3,941,024	\$40,718
Subsidiaries and affiliates	480,118	331,523	4,521
Other	39,668	65,185	373
Short-term borrowings	2,060,000	2,924,553	19,401
Construction notes payable	138,111	75,460	1,300
Accrued expenses	646,129	623,587	6,085
Accrued income taxes	18,363	46,154	172
Other	627,433	529,205	5,909
Total current liabilities	8,333,300	8,536,694	78,482
Long-term liabilities:			
Accrued directors' and statutory auditors' retirement benefits	51,850	86,642	488
Allowance for operating loss of subsidiaries	52,000	52,000	489
Liabilities for retirement benefits	399,908	228,765	3,766
Other	179,632	96,920	1,691
Total long-term liabilities	683,391	464,328	6,436
Minority Interests	-	-	-
Shareholders' Equity:			
Common stock, ¥ 50 par value per share			
Authorized-60,000,000 shares;			
Issued-17,072,000 shares in 2004			
and 17,072,000 shares in 2003	2,800,000	2,800,000	26,370
Additional paid-in capital (Capital reserve)	3,240,208	3,240,208	30,516
Retained earnings	5,712,106	5,847,118	53,796
Unrealized profit (Loss) on securiteis	(56,368)	(84,966)	(530)
Adjustment on foreign currency statement translation	(137,475)	(120,944)	(1,294)
Treasury stocks	(84,630)	(4,557)	(797)
221,953 shares in 2004 and 19,866 shares in 2003			
Total shareholders' equity	11,473,841	11,676,857	108,060
Total Liabilities, Minority Interests and Shareholders' Equity	¥20,493,533	¥20,677,880	\$192,979

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY

Years ended October 31, 2004 and 2003

	Thousands of yen		Thousands of U. S. dollar
	2004	2003	2004
Net Sales	¥22,344,580	¥22,354,069	\$210,440
Cost of Sales	17,000,627	16,980,163	160,111
Gross profit	5,343,952	5,373,905	50,329
Selling, General and Administrative Expenses	5,265,703	5,061,227	49,592
Operating income	78,249	312,678	736
Other (Income) Expenses:			
Interest expenses	32,333	47,220	304
Interest and dividend income	(5,434)	(691)	(51)
(Gain) on sale or loss on disposal of property, net	32,492	10,824	306
Other, net	15,619	152,571	147
Income before taxes	3,238	102,753	30
Income and enterprise tax	40,547	46,366	381
Income taxes adjustment (by tax effect accounting)	(38,624)	14,305	(363)
Income taxes	1,923	60,672	18
Minority interest in net income of Consolidated Subsidiaries	-	(8,309)	-
Net income	¥1,315	¥50,390	\$12

	Yen	Yen	U. S. dollar
	2004	2003	2004
Amounts Per Share of Common Stock:			
Net Income	¥0.08	¥3.01	\$0.001
Cash dividends	6.00	8.00	0.057

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

NIKKO COMPANY

Years ended October 31, 2004 and 2003

	Number of shares of common stock (thousands)	Thousands of yen		
		Common stock	Capital surplus	Retained earnings
Balance, October 31, 2003	17,072	¥2,800,000	¥3,240,208	¥5,847,118
Net income for the year	-	-	-	1,315
Cash dividends	-	-	-	(136,326)
Balance, October 31, 2004	17,072	¥2,800,000	¥3,240,208	¥5,712,106

	Thousands of U. S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance, October 31, 2003	\$25,735	\$29,781	\$53,741
Net income for the year	-	-	12
Cash dividends	-	-	(1,283)
Balance, October 31, 2004	\$26,370	\$30,516	\$53,796

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY

Years ended October 31, 2004 and 2003

	Thousands of yen		Thousands of U. S. dollar
	2004	2003	2004
Cash Flows from Operating Activities:			
Income before income taxes	¥3,238	¥102,753	\$30
Depreciation	476,665	512,268	4,489
Provision for doubtful receivables	6,223	(78,092)	58
Provision for bonus	—	7,000	—
Liability for employee's retirement benefits	171,142	155,594	1,611
Interest and dividend income	(5,434)	(691)	(51)
Loss on disposal of property	32,492	10,824	306
Loss (Gain) on sales of investments in securities	9	(5,357)	0
Loss (Gain) on devaluation of investments in securities	—	38,433	—
Loss (Gain) on sales of golf club membership	—	2,400	—
Loss (Gain) on sales of other memberships	2,510	—	23
Interest expenses	32,333	47,220	304
(Increase) Decrease in notes and accounts receivables	(200)	(34,653)	(1)
(Increase) Decrease in receivables	74,393	(11,399)	700
(Increase) Decrease in inventories	(272,605)	256,446	(2,567)
(Increase) Decrease in payables	455,586	281,751	4,290
	976,355	1,284,497	9,195
Receipt of interest and dividend income	5,434	691	51
Payment of interest expenses	(32,333)	(47,220)	(304)
Payment of income taxes	(68,338)	(34,739)	(643)
Cash Flows from Operating Activities	¥881,118	¥1,203,228	\$8,298
Cash Flows from Investing Activities:			
Acquisition of investments in securities	(13,217)	(56,229)	(124)
Proceeds from sales of investments in securities	67	21,450	0
Acquisition of investments in affiliates	(583)	(2,319)	(5)
Acquisition of property, plant and equipment	(333,317)	(286,660)	(3,139)
Other	26,678	45,918	251
Cash Flows from Investing Activities	¥(320,372)	¥(277,840)	\$(3,017)
Cash Flows from Financing Activities:			
Borrowing short-term bank loans-net	(864,553)	(67,501)	(8,142)
Acquisition of treasury stocks	(72,568)	(3,986)	(683)
Proceeds from treasury stocks	—	112,500	—
Payments of cash dividends	(136,140)	(132,606)	(1,282)
Cash Flows from Financing Activities	¥(1,073,261)	¥(91,593)	\$(10,107)
Exchange difference of cash and cash equivalents	(16,530)	4,736	(155)
Net increase (decrease) in cash	(529,047)	838,530	(4,982)
Cash at beginning of period	3,842,090	3,003,559	36,184
Cash at end of period	¥3,313,043	¥3,842,090	\$31,202

See Notes to the Consolidated Financial Statements.

Notes to the Consolidated Financial Statements

NIKKO COMPANY

1. Basis of Presenting Consolidated Financial Statements

(1) Accounting Principles and Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nikko Company (the "Company") and its consolidated subsidiaries (the "Companies") in accordance with the provisions set forth in the Japanese Commercial Code and other countries' regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥106.18=U.S.\$1 the approximate rate of exchange at October 31, 2004, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

(2) Scope of Consolidation

The Company had 2 subsidiaries as at October 31, 2004 and 2003. The consolidated financial statements include the accounts of the Company and 2 of its subsidiaries. The major consolidated subsidiaries are listed below:

	As at October 31, 2004	
	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Nikko Ceramics, Inc.	100.00 %	\$4,000
Nikko Hanbai Co., Ltd.	94.11 %	¥470,000

(3) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

The cost of investments in the common stock of consolidated subsidiaries is eliminated with the underlying equity in net assets of such subsidiaries. The material difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiary is deferred and amortized over a reasonable period within 5 years on a straight-line basis.

(4) Investments in Unconsolidated Subsidiaries and Affiliates

At October 31, 2004, the Company had 5 affiliates. They have not been accounted for by the equity method for the following reasons: insignificant amount of net income and retained earnings. The investments in affiliates are stated at cost.

2. Summary of Significant Accounting Policies

(1) Valuation of Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair market value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

(2) Inventories

Inventories held by the Company and the domestic consolidated subsidiary are stated at cost. Cost is determined by the periodic average method for finished goods and goods in process, by the moving average method for raw materials and supplies, and by the specific identification method for construction in process. Inventories held by the overseas consolidated subsidiary are valued at lower cost, which is determined by the FIFO method.

(3) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for buildings of the Company is computed on the declining-balance method and depreciation of buildings is computed on the straight-line method, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of the domestic consolidated subsidiary is computed on the declining-balance method and buildings (except for structures attached to the buildings) acquired on and after April 1, 1998 have been depreciated by the straight-line method. The estimated useful lives are based on the prescribed by the Japanese income tax laws. The overseas consolidated subsidiary has computed by the straight-line method. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

(4) Foreign Currency Translation

Foreign currency amounts except for those covered by forward exchange contracts are translated into Japanese yen on the basis of the rates of exchange in effect at the balance sheet date for monetary current assets and current liabilities, and at historical rates for other assets and liabilities unless they have accrued significant exchange losses. Foreign currency amounts covered by forward exchange contracts are translated into Japanese yen at the relevant contract rates. Historical rates are used for translation of income and expenses.

(5) Recognition of Income Taxes

The Companies adopted deferred tax accounting, whereby tax effects on temporary differences are adequately reflected and recognized as additions to or deductions from "Income Taxes" in the accompanying Consolidated Statements of Income.

(6) Translation of Foreign Currency Financial Statements

(Accounts of Overseas Subsidiaries and Affiliates)

Financial statements of foreign subsidiary is translated into Japanese yen at the current exchange rates as of the balance sheet date for all balance sheet accounts except for shareholders' equity accounts, which is translated at the historical exchange rate. The annual average rate is used for revenue and expense accounts.

(7) Amortization

The amortization of intangible assets of the Company and the domestic consolidated subsidiary are computed by the straight-line method, at rates based on the prescribed by the Japanese income tax laws. the overseas consolidated subsidiary has computed by the straight-line method.

(8) Derivatives

Derivatives are valued at fair value if hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings. Certain transactions classified as hedging transactions such as commodity swap are accounted for under a deferral method, whereby unrealized gains or losses on hedging instruments are carried as assets or liabilities on the balance sheet until the gains and losses on the hedged items are realized.

(9) Accounting for Leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(10) Net Income and Dividends per Share

"Net income per share" of common stock is based upon the weighted average number of shares of common stock outstanding during each year. Cash dividends per share shown for each year in the Consolidated Statements of Income represent dividends declared as applicable to the respective year, rather than those paid in each year.

(11) Cash Equivalents

Cash Equivalents are short-term investments that are readily convertible into cash and that are exposed to in significant risk of changes in value. Cash equivalents include time deposits and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

(12) Allowance for Doubtful Accounts

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

(13) Shareholders' Equity

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the statutory financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors subject to certain limitations imposed by the Commercial Code.

(14) Research and Development Costs

Expenses relating to research and development activities are charged to income as incurred. Such research and development expenses were included in cost of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥199,791 thousand (\$1,881 thousand) and ¥136,520 thousand (\$1,254 thousand) for the years ended October 31, 2004 and 2003, respectively.

3. Short-term Bank Loans

Short-term bank loans of subsidiaries are secured by the Company, at an annual weighted average interest rate of 1.59% at October 31, 2004, and 1.93% at October 31, 2003.

	Thousands of yen		Thousands of U.S. dollars
	2004	2003	2004
Short-term bank loans	¥2,060,000	¥2,924,553	\$19,401

4. Pledged Assets

The carrying amounts of assets pledged as fixed collateral at October 31, 2004 and 2003, the Company had no liabilities.

	Thousands of yen		Thousands of U.S. dollars
	2004	2003	2004
Property, plant and equipment – net of accumulated depreciation	¥239,704	¥248,755	\$2,257

5. Contingent Liabilities

As at October 31, 2004, contingent liabilities in respect of trade notes discounted in ordinary course of business, guarantees of indebtedness of employees, and guarantees of subscription or that of reservation amounted to ¥130,000thousand (\$1,224thousand) and ¥11,433thousand (\$107thousand), ¥25,552thousand (\$240thousand), respectively. As at October 31, 2003, they amounted to ¥252,746thousand (\$2,323thousand) and ¥11,690thousand (\$107thousand), ¥61,045thousand (\$561thousand), respectively.

6. Retirement Plans and Severance Indemnities

(1) The Company and its domestic consolidated subsidiaries have defined benefit plans, tax-qualified pension plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheet as of October 31, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2004 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollar
	2004	2003	2004
Retirement benefit obligation at end of year	¥(3,294,596)	¥(2,952,278)	\$ (31,028)
Plan assets	1,411,461	1,362,549	13,293
Unfunded retirement benefit obligation	(1,883,135)	(1,589,729)	(17,735)
Unrecognized net retirement benefit obligation at transition	752,344	820,739	7,085
Unrecognized actuarial loss	730,883	540,224	6,883
Unrecognized prior service cost			
Net amount recognized on the balance sheet	(399,908)	(228,765)	(3,766)
Prepaid pension expenses			
Accrued retirement benefits	(399,908)	(228,765)	(3,766)

A consolidated subsidiary use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2004 and 2003 are as follows

	Thousands of yen		Thousands of U.S. dollar
	2004	2003	2004
Service cost	¥178,008	¥192,405	\$1,676
Interest cost	70,585	56,670	664
Expected return on plan assets	(26,273)	(26,273)	(247)
Amortization of transition obligation	64,169	64,169	604
Amortization of actual loss	44,654	29,042	420
Amortization of prior service cost	14,886	17,347	140
Retirement benefit expenses	346,030	333,362	3,258

Retirement expenses under the simplified method are included in service cost.

(4) Assumptions used for calculation of retirement benefits for the year ended October 31, 2004 and 2003 are as follows:

	2004	2003
Method of attributing the project benefits to periods of service	Straight-line method	
Discount rate	2.0 %	2.5 %
Expected return on plan assets	2.0 %	2.0 %
Amortization period of unrecognized actuarial gains or losses	13 years	
Amortization period of net transition obligation	15 years	

7. Deferred Tax

Deferred tax assets and liabilities (both current and non-current) consisted of the following elements:

	Thousands of yen		Thousands of U.S. dollar
	2004	2003	2004
Deferred tax assets:			
Allowance for bonuses not deductible until paid	¥168,775	¥143,676	\$1,589
Allowance for doubtful accounts	35,976	37,148	338
Loss on valuation of inventories	339,371	286,362	3,196
Accrued directors' and statutory auditors' retirement benefits	20,947	35,003	197
Liabilities for retirement benefits	161,562	92,421	1,521
Loss on valuation of investments in memberships	19,513	18,499	183
Allowance for operating loss of subsidiaries	21,008	21,008	197
Unrealized loss on securities	38,258	57,595	360
Unrealized intercompany profit of inventory	8,070	41,539	76
Tax loss carried forward	507,438	488,245	4,779
Other	51,929	70,209	489
Subtotal	1,372,851	1,291,708	12,929
Allowance for valuation	(707,076)	(644,927)	(6,659)
Net deferred tax assets	¥665,775	¥646,781	\$6,270
Deferred tax liabilities:			
Deferred gains on sales of property	(8,237)	(8,600)	(77)
Net deferred tax liabilities	¥(8,237)	¥(8,600)	\$(77)
Reconciliation of actual tax rate is shown below:			
Effective statutory tax rate	40.4%	41.0%	
Adjustments:			
Entertainment expenses and other not deductible	843.7%	25.3%	
Dividends income and other not taxable	(51.2)%	(1.0)%	
Taxation on per capita basis	1,070.2%	33.1%	
Valuation allowance change		(65.1)%	
Loss of subsidiaries	4,069.0%	96.0%	
Unrealized intercompany profit of inventory		(46.1)%	
Tax recognition on intercompany profit of inventory	1,374.3%		
Unrecognized deferred income taxes at subsidiaries		(17.7)%	
Elimination of loss on devaluation of investment securities	(7,938.7)%	(7.8)%	
Changes in tax rate		3.3%	
Other factor	651.7%	(1.8)%	
Actual tax rate	59.4%	59.0%	

The statutory tax rate used for calculation of deferred income tax assets and liabilities was 41% for the year ended October 31, 2003. Effective for the year commencing on November 1, 2003, or later, according to the revised local tax law, income tax rates for enterprise taxes will be reduced as a result of introducing the assessment by estimation on the basis of the size of business. Based on the change of income tax rates, for calculation of deferred tax assets and liabilities, the Company and consolidated domestic subsidiaries used the statutory tax rates of 41.0% and 40.4% for current items and non-current items, respectively, at October 31, 2003.

As the result of the change in the statutory tax rates, deferred income tax assets decreased by ¥4,270thousand (\$39thousand), income taxes-deferred increased by ¥3,415thousand (\$31thousand) and net unrealized holding losses on securities increased by ¥855thousand (\$7thousand) compared with what would have been recorded under the previous local tax law

8. Accounting for Leases

The following pro forma information of leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the years ended October 31, 2004 and 2003, was as follows.

	Thousands of yen		Thousands of
	2004	2003	U.S. dollars
			2004
Acquisition cost			
Machinery and equipment	¥559,073	¥544,333	\$5,265
Other assets	630,342	646,777	5,936
	¥1,189,415	¥1,191,110	\$11,201
Accumulated depreciation			
Machinery and equipment	¥310,951	¥232,441	\$2,928
Other assets	446,133	378,354	4,201
	¥757,085	¥610,796	\$7,130
Net book value			
Machinery and equipment	¥248,121	¥311,891	\$2,336
Other assets	184,208	268,422	1,734
	¥432,330	¥580,314	\$4,071

Obligations under finance leases as of October 31, 2004 and 2003, are as follows:

	Thousands of yen		Thousands of
	2004	2003	U.S. dollars
			2004
Due within one year	¥188,652	¥213,571	\$1,776
Due after one year	267,781	392,683	2,521
	¥456,434	¥606,254	\$4,298

The imputed interest expenses portion which is computed using the interest method is excluded from the above obligations under finance leases.

Depreciation expenses and interest expenses under finance leases as of 2004 and 2003, were as follows:

	Thousands of yen		Thousands of
	2004	2003	U.S. dollars
			2004
Lease expenses for the year	¥245,860	¥231,846	\$2,315
Depreciation expense	222,653	209,442	2,096
Interest expense	21,370	27,511	201

Depreciation expenses and interest expense, which are not reflected in the accompanying consolidated statement of income, computed by the straight-line method and the interest method.

9. Investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other, of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to available-for-sale securities and held-to-maturities at October 31, 2004 and 2003 were as follows.

Available-for-sale securities

Securities with book values exceeding

Thousands of yen

2004		
Acquisition cost	Book value	Difference
¥19,454	¥20,175	¥721

Thousands of U.S. dollars

2004		
Acquisition cost	Book value	Difference
\$183	\$190	\$6

Other securities

Thousands of yen

2004		
Acquisition cost	Book value	Difference
¥817,755	¥722,335	¥(95,419)

Thousands of U.S. dollars

2004		
Acquisition cost	Book value	Difference
\$7,701	\$6,802	\$(898)

Available-for-sale securities

Securities with book values exceeding

Thousands of yen

2003		
Acquisition cost	Book value	Difference
¥323,383	¥344,073	¥20,689

Other securities

Thousands of yen

2003		
Acquisition cost	Book value	Difference
¥509,811	¥346,558	¥(163,252)

The sales amounts of available-for-sale securities sold, gains and losses, in the years ended October 31, 2004 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2004	2003	2004
Sales amount	¥67	¥21,450	\$0
Gains		5,897	
Losses	9	539	0

Available-for-sale securities whose fair value is not readily available as of October 31, 2004 and 2003 comprise following:

	Thousands of yen		Thousands of U.S. dollars
	2004	2003	2004
Unlisted stocks	¥113,068	¥109,468	\$1,064
Others	6,000	6,000	56
Total	119,068	115,468	1,121

The carrying values of debt securities by contractual maturities classified as available-for-sale and held-to-maturity for the years subsequent to October 31, 2004 and 2003 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2004	2003	2004
Within one year	¥4,000		\$37
Over 1 year but within 5 years	2,000	¥6,000	18
Over 5 years but within 10 years			
Over 10 years			

10. Segment Information

(1) Industry Segment Information

The Companies operate principally in the following three industrial segments:

Tabletop	Fine bone china, Fine vitrified china, Fine porcelain, Oven ware
Electro-Ceramics	Alumina substrates, Hybrid IC, LTCC substrates, Dielectric ceramics, Wind turbine system
Housing & Environmental Equipment	FRP bath-tubs, Bathroom units, Septic tanks, Water treatment facilities, Tiles

The segment information of the Companies ended October 31, 2004 and 2003 are presented below:

	Thousands of yen					
	2004					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/Corporate	Consolidated
Sales:						
Sales to customers	¥11,314,828	¥5,274,152	¥5,755,600	¥22,344,580		¥22,344,580
Intersegment sales						
Total sales	11,314,828	5,274,152	5,755,600	22,344,580		22,344,580
Operating expenses	10,558,569	5,157,548	5,969,096	21,685,215	581,116	22,266,331
Operating income (loss)	756,258	116,603	(213,496)	659,365	(581,116)	78,249
Total assets:	¥5,008,026	¥4,332,069	¥5,958,043	¥15,298,140	¥5,192,393	¥20,490,533
Depreciation:	118,330	252,219	94,520	465,070	5,970	471,040
Capital expenditure:	56,407	227,372	86,977	370,757	5,926	376,683

	Thousands of U.S. dollars					
	2004					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/Corporate	Consolidated
Sales:						
Sales to customers	\$106,562	\$49,671	\$54,206	\$210,440		\$210,440
Intersegment sales						
Total sales	106,562	49,671	54,206	210,440		210,440
Operating expenses	99,440	48,573	56,216	204,230	5,472	209,703
Operating income (loss)	7,122	1,098	(2,010)	6,209	(5,472)	736
Total assets:	\$47,165	\$40,799	\$56,112	\$144,077	\$48,901	\$192,979
Depreciation:	1,114	2,375	890	4,380	56	4,436
Capital expenditure:	531	2,141	819	3,491	55	3,547

	Thousands of yen					
	2003					
	Housing & Environmental Equipment	Electro-Ceramics	Tabletop	Total	Eliminations/Corporate	Consolidated
Sales:						
Sales to customers	¥11,282,878	¥5,084,236	¥5,986,954	¥22,354,069		¥22,354,069
Intersegment sales						
Total sales	11,282,878	5,084,236	5,986,954	22,354,069		22,354,069
Operating expenses	10,520,745	4,826,602	6,184,737	21,532,085	509,305	22,041,390
Operating income (loss)	762,132	257,634	(197,783)	821,983	(509,305)	312,678
Total assets:	¥4,977,225	¥4,067,499	¥7,010,361	¥16,055,087	¥4,622,793	¥20,677,880
Depreciation:	136,788	254,189	112,919	503,896	8,867	512,763
Capital expenditure:	60,939	149,268	104,116	314,323	6,268	320,592

(2) Information by Geographic Segment

As more than 90% of the consolidated net sales for the two years in the period ended October 31, 2004 and 2003 were made in Japan, the disclosure of geographic segment information has been omitted.

(3) Export Sales and Sales by Overseas Subsidiaries

Export sales of the Companies (meaning the amounts of export made by the Company and its domestic subsidiaries plus the sales of overseas consolidated subsidiaries) ended October 31, 2004 and 2003 are presented below:

	Thousands of yen			
	2004			
<u>Export sales and sales by overseas subsidiaries:</u>	<u>Americas</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Overseas sales	¥1,249,769	¥1,323,253	¥136,469	¥2,709,492
Net sales				22,344,580
Percentage of such sales against consolidated net sales	5.9%	5.9%	0.6%	12.1%

	Thousands of U.S. dollars			
	2004			
<u>Export sales and sales by overseas subsidiaries:</u>	<u>Americas</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Overseas sales	\$11,770	\$12,462	\$1,285	\$25,517
Net sales				210,440

	Thousands of yen			
	2003			
<u>Export sales and sales by overseas subsidiaries:</u>	<u>Americas</u>	<u>Asia</u>	<u>Other</u>	<u>Total</u>
Overseas sales	¥1,313,797	¥1,474,175	¥175,287	¥2,963,260
Net sales				22,354,069
Percentage of such sales against consolidated net sales	5.9%	6.6%	0.8%	13.3%

11. Derivative Financial Instruments

The Company have entered into forward exchange contracts and currency swaps with banks as hedges against receivables denominated in foreign currencies and into commodity swap with banks as hedges against purchase price of fuel. These derivative financial transactions are utilized solely for hedging purposes under the internal control rules and the supervision by the Board of Directors.

All derivative transactions outstanding were accounted for under hedge accounting in accordance with the accounting standard for financial instruments at October 31 2003. The effectiveness of a hedge is evaluated by confirming the relationship between the hedge contract and the transaction hedged by that contract. The Company have the following derivatives contracts outstanding at October 31, 2004.

	Thousands of yen			
	2004			
	Contract amount	Due after one year	Fair value	Unrealized Gain/loss
Currency Swaps:				
U.S. dollar payment /Yen receipt	971,300		14,662	14,662

	Thousands of U.S. dollars			
	2004			
	Contract amount	Due after one year	Fair value	Unrealized Gain/loss
Currency Swaps:				
U.S. dollar payment /Yen receipt	9,147		138	138

12. Amounts Per Share Common Stock

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years.

Board of Directors and Statutory Auditors

NIKKO COMPANY
(As of January 28th, 2005)

President & Representative Director (CEO)

Akitoshi Sakai

Executive Managing Director

Yoshio Ikeno

Takeshi Kaneda

Katsuhiko Taka

(Electro-Ceramics Division, General Manager)

(Housing & Environmental Equipment Division, General Manager)

(Tabletop Division, General Manager)

Directors

Yoshiaki Iwasaki

Hisakazu Fujimoto

Hoshimitsu Takamori

Kazuto Futamata

Shigekazu Kaneda

Masatoshi Mitani

Mitsuru Mitani

Makoto Yoshida

(Tabletop Division, Factory Manager)

(Electro-Ceramics Division, Chief Operation Officer of Ceramic Business Unit)

(Electro-Ceramics Division, General Manager of Sales Department)

(Housing & Environmental Equipment Division, General Manager of Sales Department)

(Strategy Planning Division, General Manager)

Standing Statutory Auditor

Hidemi Shimizu

Nanatoshi Okuda

Statutory Auditors

Shigeru Sawa

Takao Anzai

Corporate Data

Head Office

383 Ainoki-Machi, Hakusan-City,
Ishikawa-Prefecture 924-8686 Japan

Tel : 076-276-2121

Facsimile : 076-276-3309

Japanese Stock Exchange

Nagoya Stock Exchange

Transfer Agent and Registrar

The Sumitomo Trust & Banking Co., Ltd.

5-33 Kitahama 4-chome, Chuo-ku, Osaka 541-0041
Japan

Date of Establishment

May 1st, 1908

Annual General Meeting

The annual general meeting of shareholders
is held in January each year in Ishikawa-Prefecture

Show Room

Tokyo, Ohmiya, Hakusan, Tsukuba, New York

Factories

Head Factory, Tsurugi Factory, Saitama Factory

Auditors

AZSA & CO.

Subsidiaries and Affiliates

NIKKO CERAMICS, INC. (U.S.A.)

Nikko Hanbai Co., Ltd. (Japan)

N&I ASIA PTE LTD. (Singapore)

NIKKO (Asia) Co., Ltd. (Thailand)

Oriental Ceramics, Sdn. Bhd. (Malaysia)

Nikko Service Co., Ltd. (Japan)

URL

<http://www.nikko-company.co.jp/>