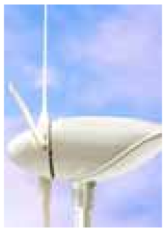
ANNUAL REPORT







2006

NIKKO
SINCE 1908

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~PROFILE of NIKKO~

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.

【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.

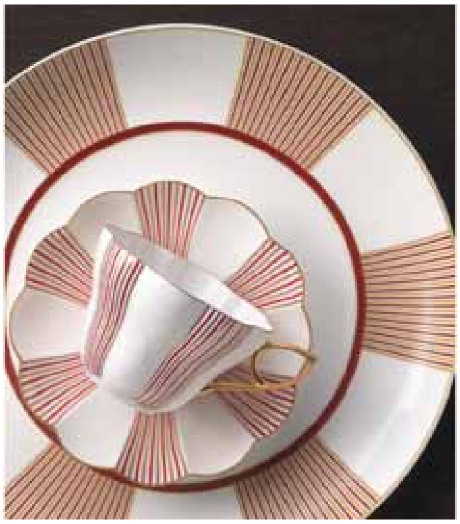
NIKKO in consistency develops, produces and sells all of the necessary parts such as blade controllers and dynamos for the NIKKO wind turbine systems.

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.

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.



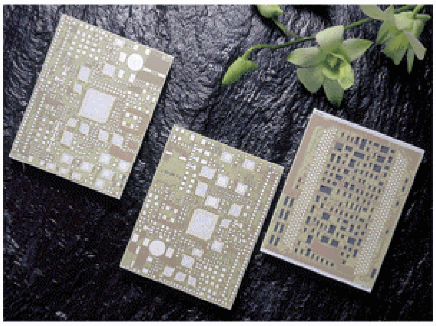
As a pioneer in the manufacture of semi-porcelain dinnerware, the company started in 1917 operations in Pusan, Korea to further upscale its production. Experiencing the ordeal of World War II, the company's technology, fostered by its long course of history, came into bloom in the early sixties. In 1961, 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 a 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 form 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.

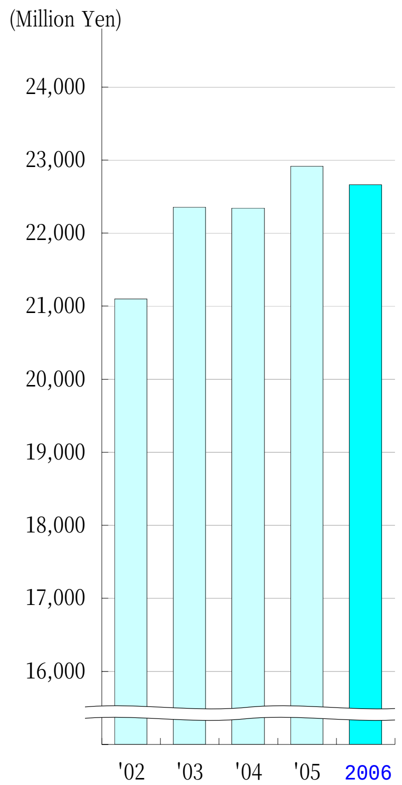
Another successful production in 1992 was of multi-layered substrates, and complete packages of product line-ups were placed in the broad market inclusive of U.S.A. Dielectric ceramic compositions in 1996 and multi-layer piezo ceramic transformers are another remarkable development, and of wide application 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.

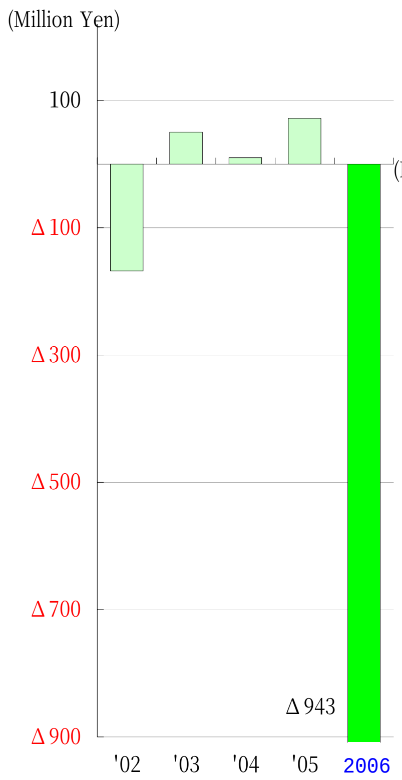
Financial Highlights

NIKKO COMPANY
Consolidated Data

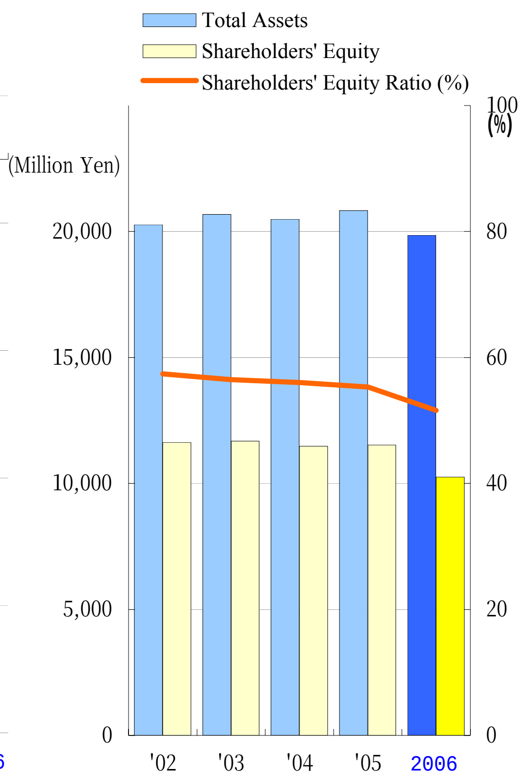
Net Sales



Net Income



Total Assets & Shareholders' Equity



	Millions of yen (except per share amounts and %)					Thousands of U. S. dollar (except per share amounts)
Consolidated Data	2002	2003	2004	2005	2006	2006
Net Sales	21,100	22,354	22,344	22,918	22,660	192,525
Net Income	(168)	50	1	72	(943)	(8,019)
Total Assets	20,265	20,677	20,490	20,833	19,854	168,685
Shareholders' Equity	11,632	11,676	11,473	11,527	10,252	87,109
Shareholders' Equity Ratio (%)	57.4	56.5	56.0	55.3	51.6	
Return on Shareholders' Equity (%)	(1.4)	0.4	0.0	0.6	(8.7)	
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	(9.93)	3.01	0.08	4.35	(57.07)	(0.485)
Shareholders' Equity	701.96	684.77	680.94	691.47	621.43	5.280
Cash Dividends	8.00	8.00	6.00	6.00	3.00	0.025

Note: ¥117.70 = U.S.$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2006 and 2005

ASSETS	Thousands of yen 2006	Thousands of yen 2005	Thousands of U. S. dollar 2006
Current Assets:			
Cash and time deposits	¥4,327,011	¥4,516,995	$36,763
Marketing securities	—	2,000	—
Notes and accounts receivable:			
Trade	4,574,430	4,468,078	38,865
Subsidiaries and affiliates	106,556	92,326	905
Allowance for doubtful accounts	(29,723)	(42,659)	(252)
Inventories	4,312,472	4,867,313	36,639
Deferred tax assets	370,209	819,993	3,145
Prepaid expenses and other current assets	146,624	164,496	1,245
Total current assets	13,807,582	14,888,544	117,311
Investments and Other Assets:			
Investment securities	889,629	893,189	7,558
Investment in and advances to subsidiaries and affiliates	199,642	199,642	1,696
Deferred tax assets	772,626	221,218	6,564
Other	362,984	439,937	3,083
Allowance for doubtful accounts	(32,941)	(34,944)	(279)
Total investments and other assets	2,191,941	1,719,042	18,623
Property, plant and equipment, at cost:			
Land	1,026,248	1,048,339	8,719
Buildings	5,838,788	5,799,749	49,607
Machinery and equipment	7,472,203	7,995,388	63,485
Construction in progress	980	22,306	8
Accumulated depreciation	(10,516,658)	(10,664,222)	(89,351)
Net property, plant and equipment	3,821,561	4,201,561	32,468
Intangible Assets and other	33,197	24,685	282
Total Assets	¥19,854,284	¥20,833,834	$168,685

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2006 and 2005

LIABILITIES AND SHAREHOLDERS' EQUITY	Thousands of yen 2006	Thousands of yen 2005	Thousands of U. S. dollar 2006
Current liabilities:			
Notes and accounts payable:			
Trade	¥4,432,058	¥3,856,882	$37,655
Subsidiaries and affiliates	334,794	584,714	2,844
Other	20,276	51,984	172
Short-term borrowings	2,376,016	2,280,000	20,187
Construction notes payable	37,809	21,096	321
Accrued expenses	670,007	651,503	5,692
Accrued income taxes	35,406	428,311	300
Other	705,177	682,565	5,991
Total current liabilities	8,611,547	8,557,057	73,165
Long-term liabilities:			
Accrued directors' and statutory auditors' retirement benefits	69,435	55,649	589
Allowance for operating loss of subsidiaries	56,000	27,000	475
Liabilities for retirement benefits	732,546	589,844	6,223
Other	131,911	76,883	1,120
Total long-term liabilities	989,893	749,377	8,410
Total Liabilities	9,601,440	9,306,434	81,575
Minority Interests	—	—	—
Shareholders' Equity:			
Common stock, ￥50 par value per share Authorized-60,000,000 shares; Issued-17,072,000 shares in 2006 and 17,072,000 shares in 2005	2,800,000	2,800,000	23,789
Additional paid-in capital (Capital reserve)	3,240,208	3,240,208	27,526
Retained earnings	4,657,321	5,684,125	39,569
Unrealized profit (Loss) on securities	(28,669)	119,260	(243)
Adjustment on foreign currency statement translation	(165,796)	(156,863)	(1,408)
Treasury stocks 573,210 shares in 2006 and 401,140 shares in 2005	(250,220)	(159,331)	(2,125)
Total shareholders' equity	10,252,843	11,527,399	87,109
Total Liabilities, Minority Interests and Shareholders' Equity	¥19,854,284	¥20,833,834	$168,685

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY
Years ended October 31, 2006 and 2005

	Thousands of yen		Thousands of U. S. dollar
	2006	2005	2006
Net Sales	¥22,660,241	¥22,918,918	$192,525
Cost of Sales	17,040,471	17,268,541	144,778
Gross profit	5,619,770	5,650,377	47,746
Selling, General and Administrative Expenses	5,800,778	5,434,780	49,284
Operating income	(181,007)	215,597	(1,537)
Other (Income) Expenses:			
Interest expenses	14,081	21,024	119
Interest and dividend income	(2,402)	(1,627)	(20)
(Gain) on sale or loss on disposal of property, net	84,128	19,772	714
Other, net	627,714	191,760	5,333
Income before taxes	(904,530)	(15,332)	(7,685)
Income and enterprise tax	40,781	414,037	346
Income taxes adjustment (by tax effect accounting)	(1,424)	(502,180)	(12)
Income taxes	39,356	(88,142)	334
Net income	¥(943,887)	¥72,810	$(8,019)

	Yen	Yen	U. S. dollar
	2006	2005	2006
Amounts Per Share of Common Stock:			
Net Income	¥(57.07)	¥4.35	$(0.485)
Cash dividends	3.00	6.00	0.025

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Shareholders' Equity

NIKKO COMPANY

Years ended October 31, 2006 and 2005

	Number of shares of common stock (thousands)	Thousands of yen		
		Common stock	Capital surplus	Retained earnings
Balance, October 31, 2005	17,072	¥2,800,000	¥3,240,208	¥5,684,125
Net income for the year	—	—	—	(943,887)
Cash dividends	—	—	—	(82,916)
Balance, October 31, 2006	17,072	¥2,800,000	¥3,240,208	¥4,657,321

	Thousands of U. S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance, October 31, 2005	$24,190	$27,990	$49,106
Net income for the year	—	—	(8,019)
Cash dividends	—	—	(704)
Balance, October 31, 2006	$23,789	$27,529	$39,569

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY

Years ended October 31, 2006 and 2005

	Thousands of yen		Thousands of U. S. dollar
	2006	2005	2006
Cash Flows from Operating Activities:			
Income (Loss) before income taxes	¥(904,530)	¥(15,332)	$(7,685)
Depreciation	440,874	492,055	3,745
Allowance for doubtful receivables	(14,940)	(11,060)	(126)
Impairment loss on fixed assets	502,861	—	4,272
Allowance for bonus	23,500	1,500	199
Allowance for investment for subsidiaries	41,263	50,000	350
Allowance for operating loss of subsidiaries	29,000	(25,000)	246
Liability for employee's retirement benefits	142,701	189,936	1,212
Interest and dividend income	(10,304)	(1,627)	(87)
Loss on disposal of property	61,541	22,499	522
Loss (Gain) on sales of investments in securities	(150,535)	(81,380)	(1,278)
Loss (Gain) on sales of investments in subsidiaries	(5,370)	—	(45)
Loss (Gain) on devaluation of investments in securities	38,333	100,343	325
Loss (Gain) on devaluation of golf club membership	1,060	1,240	9
Loss (Gain) on sales of other memberships	2,250	2,500	19
Loss (Gain) from valuation of derivative instruments	14,534	(254,642)	123
Interest expenses	14,081	21,024	119
(Increase) Decrease in notes and accounts receivables	(112,241)	505,750	(953)
(Increase) Decrease in receivables	29,384	181,226	249
(Increase) Decrease in inventories	554,841	541,165	4,714
(Increase) Decrease in payables	325,256	(361,998)	2,763
	1,023,561	1,358,199	8,696
Receipt of interest and dividend income	10,304	1,627	87
Payment of interest expenses	(14,081)	(21,024)	(119)
Payment of income taxes	(433,685)	(39,534)	(3,684)
Cash Flows from Operating Activities	¥586,098	¥1,299,268	$4,979
Cash Flows from Investing Activities:			
Acquisition of investments in securities	(452,084)	(3,859)	(3,840)
Proceeds from sales of investments in securities	309,900	241,420	2,632
Acquisition of investments in affiliates	15,187	(527)	129
Acquisition of property, plant and equipment	(505,095)	(415,125)	(4,291)
Other	(64,956)	(207,629)	(551)
Cash Flows from Investing Activities	¥(697,048)	¥(385,721)	$(5,922)
Cash Flows from Financing Activities:			
Borrowing short-term bank loans-net	96,016	220,000	815
Acquisition of treasury stocks	(90,888)	(74,701)	(772)
Payments of cash dividends	(83,238)	(100,753)	(707)
Cash Flows from Operating Activities	¥(78,109)	¥44,544	$(663)
Exchange difference of cash and cash equivalents	(8,933)	(19,387)	(75)
Net increase (decrease) in cash	(197,992)	938,704	(1,682)
Cash at beginning of period	4,251,747	3,313,043	36,123
Cash at end of period	¥4,053,754	¥4,251,747	$34,441

See Notes to the Consolidated Financial Statements.

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 ¥117.70=U.S.$1 the approximate rate of exchange at October 31, 2006, 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, 2006 and 2005. 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, 2006	
	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Nikko Ceramics, Inc.	100.00 %	$4,000
Nikko Hanbai Co., Ltd.	94.85 %	¥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, 2006, 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.

(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 ¥208,095 thousand ($1,768 thousand) and ¥202,083 thousand ($1,745 thousand) for the years ended October 31, 2006 and 2005, respectively.

(15) Impairment of Fixed Assets

As permitted by "Accounting Standard for Impairment of Fixed Assets" ("Opinion Concerning Establishment of Accounting Standard for Impairment of Fixed Assets" (Business Accounting Deliberation Council, August 9, 2002)) and "Guidelines on Implementation of Accounting Standard for Impairment of Fixed Assets" (the Accounting Standards Board of Japan ("ASBJ") Guidelines No. 6, October 31, 2003), effective the fiscal year beginning November 1, 2006, the impairment accounting was adopted in accordance with these standard and guidelines. As a result, loss before income taxes increased by ¥502,672 thousand ($4,270 thousand).

3. Short-term Bank Loans

Short-term bank loans of subsidiaries are secured by the Company, at an annual weighted average interest rate of 1.81% at October 31, 2006.and 1.61% at October 31, 2005.

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Short-term bank loans	¥2,376,016	¥2,280,000	$20,187

4. Pledged Assets

The carrying amounts of assets pledged as fixed collateral at October 31, 2006 and 2005, the Company had no liabilities.

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Property, plant and equipment – net of accumulated depreciation	¥217,665	¥229,967	$1,849

5. Contingent Liabilities

As at October 31, 2006, 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 ¥70,000thousand ($594thousand) and ¥6,146thousand ($52thousand), ¥38,213thousand ($324thousand), respectively. As at October 31, 2005, they amounted to ¥110,363thousand ($953thousand) and ¥10,328thousand ($89thousand), ¥57,500thousand ($496thousand), 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, 2006 and 2005 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2006 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollar
	2006	2005	2006
Retirement benefit obligation at end of year	¥(3,071,414)	¥(3,213,007)	$(26,095)
Plan assets	1,642,811	1,648,094	13,957
Unfunded retirement benefit obligation	(1,428,602)	(1,564,912)	(12,137)
Unrecognized net retirement benefit obligation at transition	615,554	683,949	5,229
Unrecognized actuarial loss	80,502	291,118	683
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(732,546)	(589,844)	(6,223)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(732,546)	(589,844)	(6,223)

A consolidated subsidiary use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2006 and 2005 are as follows

	Thousands of yen		Thousands of U.S. dollar
	2006	2005	2006
Service cost	¥173,231	¥186,529	$1,471
Interest cost	61,259	63,142	520
Expected return on plan assets	(31,453)	(27,069)	(267)
Amortization of transition obligation	64,169	64,169	545
Amortization of actual loss	33,754	62,755	286
Amortization of prior service cost	14,051	13,651	119
Retirement benefit expenses	315,013	363,178	2,676

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, 2006 and 2005 are as follows:

	2006	2005
Method of attributing the project benefits to periods of service	Straight-line method	
Discount rate	2.0 %	2.0 %
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
	2006	2005	2006
Deferred tax assets:			
Allowance for bonuses not deductible until paid	¥178,164	¥168,670	$1,513
Allowance for doubtful accounts	29,571	37,603	251
Loss on valuation of inventories	280,903	326,968	2,386
Loss on disposal of inventories	21,782	186,264	185
Impairment loss on fixed assets	203,079	—	1,725
Accrued directors' and statutory auditors' retirement benefits	28,051	22,482	238
Liabilities for retirement benefits	295,948	238,297	2,514
Loss on valuation of investments in memberships	21,933	21,024	186
Allowance for operating loss of subsidiaries	332,896	10,908	2,828
Accrued business taxes	—	42,420	—
Unrealized profit on securities	20,023	—	170
Unrealized intercompany profit of inventory	—	225,055	—
Tax loss carried forward	764,404	523,147	6,494
Other	108,241	87,692	919
Subtotal	2,285,000	1,890,535	19,413
Allowance for valuation	(1,134,654)	(761,273)	(9,640)
Net deferred tax assets	¥1,150,345	¥1,129,261	$9,773
Deferred tax liabilities:			
Unrealized profit on securities	—	(80,175)	—
Deferred gains on sales of property	(7,509)	(7,873)	(63)
Net deferred tax liabilities	¥(7,509)	¥(88,048)	$(63)

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the year ended October 31, 2006 and 2005 are not shown since the operating result for the year was a loss before provision for income taxes.

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, 2006 and 2005, was as follows.

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Acquisition cost			
Machinery and equipment	¥472,048	¥564,205	$4,010
Other assets	205,602	230,669	1,746
	¥677,650	¥794,874	$5,757
Accumulated depreciation			
Machinery and equipment	¥288,957	¥352,038	$2,455
Other assets	122,760	141,170	1,042
	¥411,718	¥493,208	$3,498
Fair loss			
Machinery and equipment	¥104,649	—	$889
Other assets	—	—	—
	¥104,649	—	$889
Net book value			
Machinery and equipment	¥78,441	¥212,166	$666
Other assets	82,841	89,499	703
	¥161,282	¥301,666	$1,370

Obligations under finance leases as of October 31,2006 and 2005, are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Due within one year	¥59,196	¥132,391	$502
Due after one year	102,086	186,700	867
	¥161,282	¥319,092	$1,370

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 2006 and 2005, were as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Lease expenses for the year	¥147,022	¥213,639	$1,249
Depreciation expense	147,022	192,438	1,249
Interest expense	—	15,932	—

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, 2006 and 2005 were as follows.

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2006		
Acquisition cost	Book value	Difference
¥396,209	¥417,936	¥21,726

Thousands of U.S. dollars		
2006		
Acquisition cost	Book value	Difference
$3,366	$3,550	$184

Other securities

Thousands of yen		
2006		
Acquisition cost	Book value	Difference
¥453,289	¥382,869	¥(70,419)

Thousands of U.S. dollars		
2006		
Acquisition cost	Book value	Difference
$3,851	$3,252	$(598)

Available-for-sale securities

Securities with book values exceeding

Thousands of yen		
2005		
Acquisition cost	Book value	Difference
¥515,434	¥716,535	¥201,100

Other securities

Thousands of yen		
2005		
Acquisition cost	Book value	Difference
¥65,285	¥63,620	¥(1,665)

The sales amounts of available-for-sale securities sold, gains and losses, in the years ended October 31, 2006 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Sales amount	¥309,900	¥241,420	$2,632
Gains	150,535	81,632	1,278
Losses	—	252	—

Available-for-sale securities whose fair value is not readily available as of October 31, 2006 and 2005 comprise following:

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Unlisted stocks	¥98,639	¥113,033	$838
Others	—	2,000	—
Total	98,639	115,033	838

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, 2006 and 2005 are as follows:

	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Within one year	¥ —	¥2,000	$—
Over 1 year but within 5 years	—	—	—
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:

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

The segment information of the Companies ended October 31, 2006 and 2005 are presented below:

	Thousands of yen						
	2006						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/ Corporate	Consolidated
Sales:							
Sales to customers	¥11,807,745	¥6,705,705	¥4,107,304	¥39,485	¥22,660,241	—	¥22,660,241
Intersegment sales	—	—	—	—	—	—	—
Total sales	11,807,745	6,705,705	4,107,304	39,485	22,660,241	—	22,660,241
Operating expenses	11,201,498	6,501,518	4,478,618	56,649	22,238,285	602,964	22,841,249
Operating income (loss)	606,247	204,186	(371,313)	(17,163)	421,956	(602,964)	(181,007)
Total assets:	¥4,607,442	¥5,505,648	¥3,197,450	¥19,051	¥13,329,592	¥6,524,691	¥19,854,284
Depreciation:	110,299	98,516	215,796	398	425,010	9,824	434,835
Capital expenditure:	100,612	166,333	220,968	—	487,914	38,355	526,270

	Thousands of U.S. dollars						
	2006						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/ Corporate	Consolidated
Sales:							
Sales to customers	$100,320	$56,972	$34,896	$335	$192,525	—	$192,525
Intersegment sales	—	—	—	—	—	—	—
Total sales	$100,320	$56,972	$34,896	$335	$192,525	—	$192,525
Operating expenses	95,169	55,238	38,051	481	188,940	5,122	194,063
Operating income (loss)	5,150	1,734	(3,154)	(145)	3,585	(5,122)	(1,537)
Total assets:	$39,145	$46,776	$27,166	$161	$113,250	$55,434	$168,685
Depreciation:	937	837	1,833	3	3,610	83	3,694
Capital expenditure:	854	1,413	1,877	—	4,145	325	4,471

	Thousands of yen						
	2005						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/ Corporate	Consolidated
Sales:							
Sales to customers	¥11,730,944	¥6,218,213	¥4,945,563	¥24,197	¥22,918,918	—	¥22,918,918
Intersegment sales	—	—	—	—	—	—	—
Total sales	11,730,944	6,218,213	4,945,563	24,197	22,918,918	—	22,918,918
Operating expenses	10,876,423	6,250,696	4,979,599	16,842	22,123,560	579,760	22,703,321
Operating income (loss)	854,521	(32,482)	(34,035)	7,355	795,358	(579,760)	215,597
Total assets:	¥4,823,879	¥5,662,144	¥3,768,906	¥15,839	¥14,270,769	¥6,563,064	¥20,833,834
Depreciation:	107,583	94,973	253,888	368	456,814	5,976	462,790
Capital expenditure:	54,464	70,437	166,638	—	291,540	13,946	305,486

(2) Information by Geographic Segment

As more than 90% of the consolidated net sales for the two years in the period ended October 31, 2006 and 2005 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, 2006 and 2005 are presented below:

	Thousands of yen			
	2006			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,815,546	¥1,031,901	¥119,756	¥2,967,204
Net sales				22,660,241
Percentage of such sales against consolidated net sales	8.0%	4.6%	0.5%	13.1%

	Thousands of U.S. dollars			
	2006			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	$15,425	$8,767	$1,017	$25,209
Net sales				192,525

	Thousands of yen			
	2005			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,480,989	¥1,038,909	¥156,353	¥2,676,251
Net sales				22,918,918
Percentage of such sales against consolidated net sales	6.5%	4.5%	0.7%	11.7%

11. Derivative Financial Instruments

The Company has 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.
The following tables summarize market value information as of October 31, 2006 and 2005, of derivatives for which hedge accounting has not been applied.

Currency Related	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Foreign Exchange Forward Contracts:			
Selling U.S. dollar			
Contract amount	¥226,413	¥194,934	$1,923
Due after one year	—	—	—
Fair value	231,767	206,145	1,969
Unrealized Gain/(loss)	(5,353)	(11,210)	(45)
Currency Swaps:			
U.S. dollar payment/Yen receipt			
Contract amount	¥829,000	¥980,300	$7,043
Due after one year	—	—	—
Fair value	4,614	(4,524)	39
Unrealized Gain/(loss)	4,614	(4,524)	39

Commodity Related	Thousands of yen		Thousands of U.S. dollars
	2006	2005	2006
Oil Swap Contracts:			
Receive floating/ Pay Fixed			
Contract amount	¥253,393	¥351,490	$2,152
Due after one year	151,599	249,697	—
Fair value	255,509	285,040	2,170
Unrealized Gain/(loss)	255,509	285,040	2,170

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 27th, 2006)

Chairman
Akitoshi Sakai

President & Representative Director (CEO)
Makoto Yoshida

Executive Managing Director

Takeshi Kaneda	(Housing & Environmental Equipment Division, General Manager)
Katsuhiro Taka	(Tabletop Division, General Manager)

Directors

Yoshiaki Iwasaki	(Tabletop Division, Head-Factory Manager)
Hisakazu Fujimoto	(Electro-Ceramics Division, General Manager)
Kazuto Futamata	(Housing & Environmental Equipment Division, Dupty General Manager, In charge of the sales activities of the entire company)
Shigekazu Kaneda	(Strategy Planning Division, General Manager)
Kazunori Tsuzuki	(Housing & Environmental Equipment Division, General Manager of Housing Equipment Division, Tsurugi-Factory Manager)
Toshio Shima	(Housing & Environmental Equipment Division, Technology&Development Manager, Environment Measurement Division Manager)
Nobuyasu Oda	(Housing & Environmental Equipment Division, Saitama-Factory Manager)
Kenji Kita	(Tabletop Division, Sales Division Manager)
Mitsuru Mitani	

Standing Statutory Auditor
Hidemi Shimizu

Statutory Auditors
Shigeru Sawa
Takao Anzai

Corporate Data

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Ishikawa-Prefecture 924-8686 Japan
Tel : 076-276-2121
Facsimile : 076-276-3309

Date of Establishment
May 1st, 1908

Show Room
Tokyo, Ohmiya, Hakusan, Tsukuba, New York

Factories
Head Factory, Tsurugi Factory, Saitama Factory

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)

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

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

Auditors
AZSA & CO.

URL
http://www.nikko-company.co.jp/