



ANNUAL REPORT 2010

NIKKO
SINCE 1908



WIND



WATER



EARTH



NIKKO
SINCE 1908

Business Units

陶磁器

POTTERY &
PORCELAIN



住設環境機器

HOUSING &
ENVIRONMENTAL
EQUIPMENT



電子セラミック

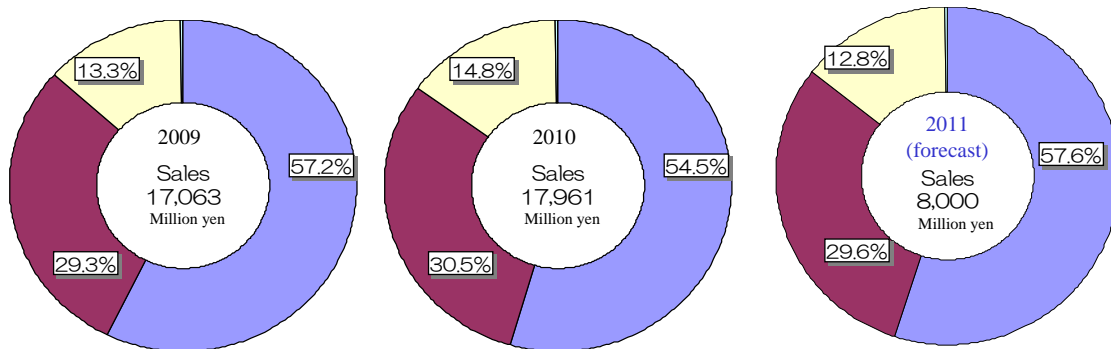
ELECTRO—
CERAMICS



環境エネルギー
機器

ENVIRONMENTAL
ENERGY
EQUIPMENT

Sales by Segment Information



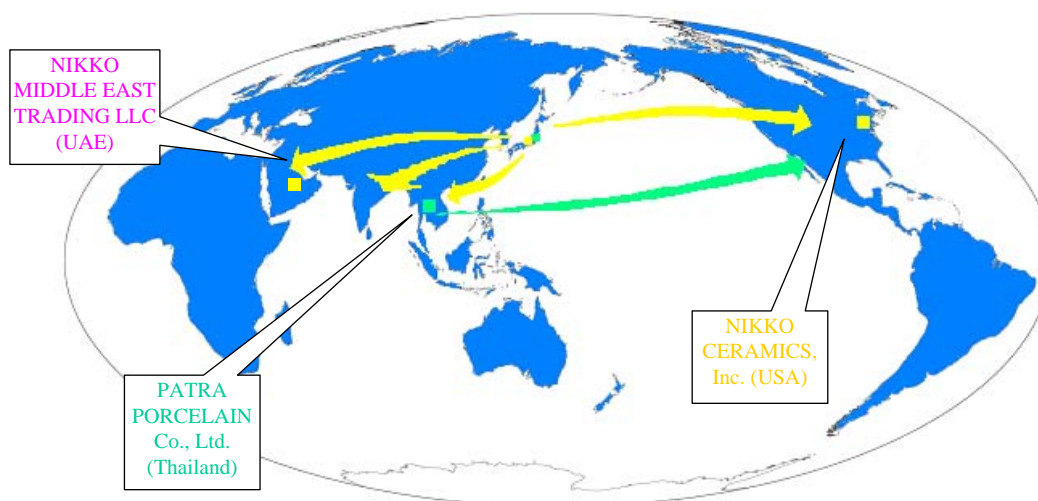
Business Segment	2009	2010		2011
million ¥	'08.11-'09.10	'09.11-'10.10	against previous year	'10.11-'11.3
Housing & Environmental Equipment	9,756	9,780	24	4,400
Tabletop	5,007	5,482	475	2,460
Electro-Ceramics	2,268	2,656	388	1,140
Others	30	42	12	20

(About 2011)
Forecast at Dec.10 2010

Due to the change in fiscal year end to March 31, the forecast figures for the full year are for 5-month period from November 1,

2010 to March 1, 2011 and comparisons with the previous year are not provided.

NETWORK



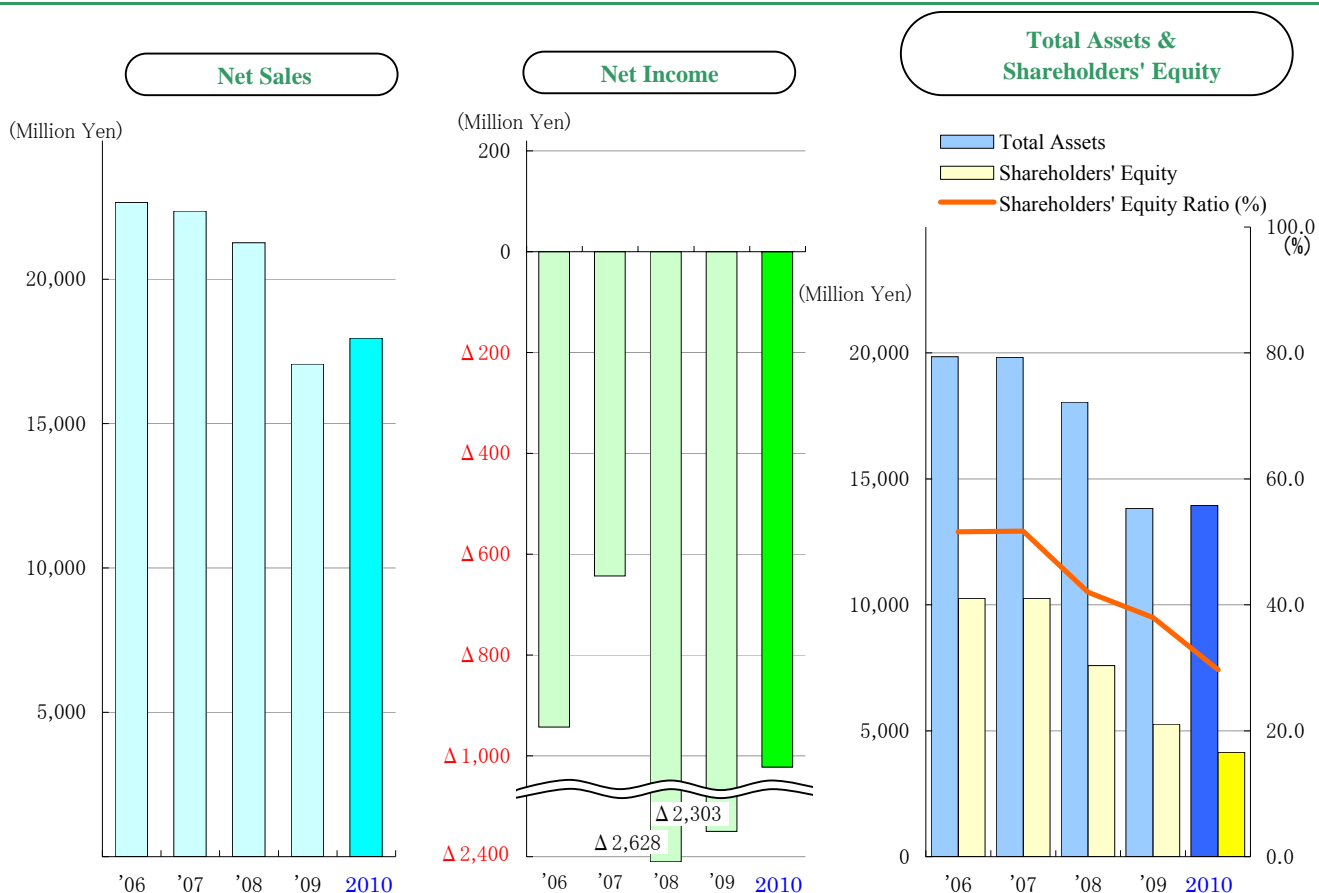
- ...Product Activities
- ...Sales Activities

Overseas Customers

USA, Korea, China, South-East Asia (Taiwan, Singapore, Vietnam etc.), India, UAE

Financial Highlights

NIKKO COMPANY
Consolidated Data



Consolidated Data	Millions of yen					Thousands of U. S. dollar
	2006	2007	2008	2009	2010	2010
	(except per share amounts and %)					(except per share amounts)
Net Sales	22,660	22,359	21,267	17,063	17,961	222,054
Net Income	(943)	(643)	(2,628)	(2,303)	(1,022)	(12,635)
Total Assets	19,854	19,826	18,046	13,828	13,939	172,332
Shareholders' Equity	10,252	10,251	7,586	5,258	4,143	51,225
Shareholders' Equity Ratio (%)	51.6	51.7	42.0	38.0	29.7	
Return on Shareholders' Equity (%)	(8.7)	(6.3)	(29.5)	(35.9)	(21.7)	
Number of Shares	17,072,000	19,572,000	19,572,000	19,572,000	19,572,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	(57.07)	(38.79)	(139.46)	(122.84)	(54.54)	(0.674)
Shareholders' Equity	621.43	541.89	403.55	280.59	221.13	2.733
Cash Dividends	3.00	4.00	1.00	—	—	—

Note: ¥80.89 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2010 and 2009

ASSETS	Millions of yen		Thousands of U. S. dollar
	2010	2009	2010
Current Assets:			
Cash and deposits	¥1,431	¥1,580	\$17,698
Notes and accounts receivable:			
Trade	3,306	2,911	40,880
Subsidiaries and affiliates	33	30	413
Other	0	0	6
Allowance for doubtful accounts	(269)	(198)	(3,332)
Inventories	3,635	3,619	44,945
Deferred tax assets	1	4	21
Prepaid expenses and other current assets	149	148	1,848
Total current assets	8,289	8,096	102,480
Investments and Other Assets:			
Investment securities	486	557	6,012
Stocks of affiliates	37	218	459
Other	432	450	5,342
Allowance for loss on valuation of investments of subsidiaries and affiliates	—	(157)	—
Allowance for doubtful accounts	(285)	(298)	(3,530)
Total investments and other assets	670	770	8,284
Property, plant and equipment, at cost:			
Land	1,261	1,261	15,589
Buildings and structures	6,726	6,633	83,150
Machinery, equipment and vehicles	5,863	5,874	72,482
Tools, furniture and fixtures	1,315	1,362	16,264
Construction in progress	4	1	52
Lease Assets	341	342	4,220
Accumulated depreciation	(10,890)	(10,763)	(134,632)
Net property, plant and equipment	4,621	4,711	57,127
Intangible Assets:			
Lease Assets	237	162	2,937
Other	121	87	1,502
Intangible Assets and other	359	249	4,439
Total Assets	¥13,939	¥13,828	\$172,332

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2010 and 2009

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U. S. dollar
	2010	2009	2010
Current liabilities:			
Notes and accounts payable:			
Trade	¥3,251	¥2,919	\$40,198
Subsidiaries and affiliates	249	196	3,089
Other	49	40	609
Short-term loans payable	446	422	5,524
Current portion of long-term loans payable	172	100	2,126
Lease obligations	126	101	1,566
Construction notes payable	136	44	1,682
Accrued expenses	176	181	2,187
Income taxes payable	60	42	748
Provision for bonuses	203	306	2,510
Provision for product warranties	86	105	1,063
Other	1,101	965	13,616
Total current liabilities	6,060	5,427	74,925
Noncurrent liabilities:			
Long-term loans payable	1,778	1,350	21,980
Lease obligations	346	362	4,286
Provision for directors' retirement benefits	104	88	1,295
Provision for retirement benefits	1,368	1,196	16,913
Other	137	144	1,705
Total noncurrent liabilities	3,735	3,141	46,181
Total Liabilities	9,796	8,569	121,106
Shareholders' Equity:			
Capital stock, ¥50 par value per share			
Authorized-60,000,000 shares;			
Issued-19,572,000 shares in 2010			
and 19,572,000 shares in 2009	3,200	3,200	39,559
Capital surplus	3,045	3,620	37,644
Retained earnings	(1,454)	(1,007)	(17,976)
Treasury stocks	(334)	(333)	(4,130)
833,316 shares in 2010 and 831,026 shares in 2009			
Valuation difference on available-for-sale securities	(180)	(109)	(2,237)
Foreign currency translation adjustment	(132)	(111)	(1,633)
Total shareholders' equity	4,143	5,258	51,225
Total Liabilities			
and Shareholders' Equity	¥13,939	¥13,828	\$172,332

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY

Years ended October 31, 2010 and 2009

	Millions of yen		Thousands of U. S. dollar
	2010	2009	2010
Net Sales	¥17,961	¥17,063	\$222,054
Cost of Sales	13,445	13,589	166,215
Gross profit	4,516	3,473	55,839
Selling, General and Administrative Expenses	5,471	5,796	67,635
Operating income (loss)	(954)	(2,322)	(11,796)
Other (Income) Expenses:			
Interest expenses	52	36	651
Interest and dividend income	(1)	(3)	(15)
(Gain) on sale or loss on disposal of noncurrent assets, net	11	(20)	146
Other, net	(42)	(73)	(519)
Income before taxes (loss)	(975)	(2,262)	(12,059)
Income taxes-current	44	41	548
Income taxes-deferred	2	0	26
Income taxes	46	41	575
Net income (loss)	¥(1,022)	¥(2,303)	\$(12,635)

	Yen		U. S. dollar
	2010	2009	2010
Amounts Per Share of Common Stock:			
Net Income (loss)	¥(54.54)	¥(122.84)	\$(0.674)
Cash dividends	—	—	—

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

NIKKO COMPANY

Years ended October 31, 2010 and 2009

	Number of shares of common stock (thousands)	Millions of yen				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance, October 31, 2008	19,572	¥3,200	¥3,620	¥1,296	¥(319)	¥7,796
Net income (loss) for the year	—	—	—	(2,303)	—	(2,303)
Purchase of treasury stock	—	—	—	—	(14)	(14)
Other	—	—	—	—	—	—
Balance, October 31, 2009	19,572	¥3,200	¥3,620	(1,007)	¥(333)	¥5,479
Deficit disposition	—	—	(575)	575	—	—
Net income (loss) for the year	—	—	—	(1,022)	—	(1,022)
Purchase of treasury stock	—	—	—	—	(0)	(0)
Other	—	—	—	—	—	—
Balance, October 31, 2010	19,572	¥3,200	¥3,045	¥(1,454)	¥(334)	¥4,456

	Millions of yen			
	Valuation difference on available- for-sale securities	Foreign Currency Translation Adjustments	Total valuation and translation adjustments	Total net assets
Balance, October 31, 2008	¥(116)	¥(94)	¥(210)	¥7,586
Net income (loss) for the year	—	—	—	(2,303)
Purchase of treasury stock	—	—	—	(14)
Other	7	(17)	(10)	(10)
Balance, October 31, 2009	¥(109)	¥(111)	¥(220)	¥5,258
Deficit disposition	—	—	—	—
Net income (loss) for the year	—	—	—	(1,022)
Purchase of treasury stock	—	—	—	(0)
Other	(71)	(20)	(92)	(92)
Balance, October 31, 2010	¥(180)	¥(132)	¥(313)	¥4,143

	Thousands of dollars				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance, October 31, 2009	\$39,559	\$44,754	\$(12,451)	\$(4,125)	\$67,737
Deficit disposition	—	(7,110)	7,110	—	—
Net income (loss) for the year	—	—	(12,635)	—	(12,635)
Purchase of treasury stock	—	—	—	(5)	(5)
Other	—	—	—	—	—
Balance, October 31, 2010	\$39,559	\$37,644	\$(17,976)	\$(4,130)	\$55,096

	Thousands of dollars			
	Valuation difference on available- for-sale securities	Foreign Currency Translation Adjustments	Total valuation and translation adjustments	Total net assets
Balance, October 31, 2009	\$(1,348)	\$(1,381)	\$(2,730)	\$65,007
Deficit disposition	—	—	—	—
Net income (loss) for the year	—	—	—	(12,635)
Purchase of treasury stock	—	—	—	(5)
Other	(888)	(252)	(1,141)	(1,141)
Balance, October 31, 2010	\$(2,237)	\$(1,633)	\$(3,871)	(51,225)

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY

Years ended October 31, 2010 and 2009

	Millions of yen		Thousands of
	2010	2009	U. S. dollar
			2010
Net cash provided by (used in) operating activities			
Income (Loss) before income taxes	¥(975)	¥(2,262)	\$(12,059)
Depreciation and amortization	580	782	7,179
Increase (decrease) in allowance for doubtful accounts	59	315	740
Increase (decrease) in provision for bonuses	(103)	(124)	(1,282)
Increase (decrease) in provision for retirement benefits	171	161	2,122
Increase (decrease) in provision of allowance for loss on valuation of investments of subsidiaries and affiliates	(157)	58	(1,950)
Increase (decrease) in provision for product warranties	(19)	11	(234)
Interest and dividends income	(9)	(11)	(120)
Interest expenses	52	36	651
Loss (gain) on sales of property, plant and equipment	(5)	(41)	(70)
Loss on retirement of noncurrent assets	17	20	217
Loss (gain) on valuation of investment securities	0	1	8
Loss (gain) on valuation of derivatives	2	19	29
Decrease (increase) in notes and accounts receivable-trade	(417)	1,113	(5,155)
Decrease (increase) in claims provable in bankruptcy, claims provable in rehabilitation	10	(215)	131
Decrease (increase) in inventories	(32)	427	(402)
Increase (decrease) in notes and accounts payable-trade	403	(1,198)	4,983
Other, net	369	200	(4,566)
Subtotal	(52)	(705)	(646)
Interest and dividends income received	9	11	120
Interest expenses paid	(52)	(36)	(651)
Income taxes paid	(36)	(52)	(457)
Net cash provided by (used in) operating activities	¥(132)	¥(783)	\$(1,634)
Net cash provided by (used in) investment activities			
Payments into time deposits	(180)	(78)	(2,232)
Proceeds from withdrawal of time deposits	178	176	2,201
Purchase of property, plant and equipment	(411)	(988)	(5,086)
Proceeds from sales of property, plant and equipment	8	106	99
Purchase of investment securities	—	(1)	—
Acquisition of investments in affiliates	20	—	254
Other, net	(39)	(0)	(486)
Net cash provided by (used in) investment activities	¥(424)	¥(785)	\$(5,250)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	25	(2,111)	309
Proceeds from long-term loans payable	600	1,500	7,417
Payments into long-term loans payable	(100)	(50)	(1,236)
Repayments of lease obligations	(109)	(49)	(1,350)
Purchase of treasury stock	(0)	(14)	(5)
Cash dividends paid	(0)	(0)	(3)
Net cash provided by (used in) financing activities	¥415	¥(726)	\$5,130
Effect of exchange rate change on cash and cash equivalents	(9)	(17)	(121)
Net increase (decrease) in cash and cash equivalents	(151)	(2,311)	(1,875)
Cash and cash equivalents at beginning of period	1,402	3,714	17,340
Cash and cash equivalents at end of period	¥1,251	¥1,402	\$15,465

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 ¥80.89=U.S.\$1 the approximate rate of exchange at October 31, 2010, 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 3 subsidiaries as at October 31, 2010 and 2009. The consolidated financial statements include the accounts of the Company and 3 of its subsidiaries. The consolidated subsidiaries are listed below:

	As at October 31, 2010	
	Equity ownership percentage, including indirect ownership	Capital stock (thousands)
Nikko Ceramics, Inc.	100.00 %	\$1,250
Nikko Hanbai Co., Ltd.	94.85 %	¥470,000
Nikko ME Co., Ltd.	100.00 %	¥30,000

(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, 2010, the Company had 4 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

At the Company and its domestic consolidated subsidiaries, finished goods, semi-finished products and work in process are stated at cost, cost being determined by the period-average method, merchandise, raw materials and supplies are valued at cost being determined by the moving average (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins), costs on uncompleted construction contracts are stated at cost, cost being determined by the specific identification method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins)

Merchandise of overseas consolidated subsidiary is stated at the lower cost method determined by the first-in first-out 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) Lease Assets

Depreciation of lease assets is calculated using the straight-line method with the respective lease terms as the useful lives. The residual value is zero unless there is a residual value guarantee, in which case the amount of the guarantee is the residual value. For finance lease transactions where there is no transfer of ownership beginning prior to the fiscal year when these standards are first applied, the Company uses an accounting method that is based on the method used for ordinary lease transactions.

(5) 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.

(6) 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.

(7) 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.

(8) 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.

Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (5 years).

The overseas consolidated subsidiary has computed by the straight-line method.

(9) 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.

(10) Reserve for guarantee for after-care of products

As warranty expenses for certain products sold by the Company are subsequently realized, a provision for product warranty has been recorded in order to reflect the results of their operations more accurately.

(11) 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.

(12) 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.

(13) 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.

(14) 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.

(15) 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 ¥335million (\$4,146 thousand) and ¥263million (\$2,882 thousand) for the years ended October 31, 2010 and 2009, respectively.

3. Short-term and Long-term Bank Loans

Short-term loans and Long-term loans are consisted mainly of borrowing from banks.

The composition of Short and Long-term loans maturing and lease obligations due within one year as of October 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Short-term loans payable (1.38%)	¥446	¥422	\$5,524
Current portion of long-term loans payable (2.17%)	172	100	2,126
Lease obligations	126	101	1,566

Percentages show the annual weighted average interest rate at October 31, 2010

Long-term loans and lease obligations at October 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Long-term loans payable (2.24%)	¥1,778	¥1,350	\$21,980
Lease obligations	346	362	4,286

Percentage shows the annual weighted average interest rate at October 31, 2010

The aggregate annual maturities of the non-current portion of long-term loans and lease obligations at October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	long-term loans	Lease obligations	long-term loans	Lease obligations
2012	¥250	¥120	\$3,097	\$1,495
2013	329	97	4,068	1,209
2014	329	72	4,068	890
2015	269	35	3,327	437
2016 and thereafter	600	20	7,417	253

4. Pledged Assets

The carrying amounts of assets pledged as collateral at October 31, 2010 .

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Land	¥947	¥657	\$11,716
Buildings and structures	1,311	1,330	16,215
Investment securities	344	—	4,264
Merchandise and finished goods	479	—	5,932

5. Contingent Liabilities

Contingent liabilities at October 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Guarantee of indebtedness of affiliate	¥25	—	\$314
Guarantees of indebtedness of employees	6	¥6	74
Guarantees of the lease liabilities of the company (Transport duties trust)	23	—	292

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, 2010 and 2009 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollar
	2010	2009	2010
Retirement benefit obligation at end of year	¥(3,048)	¥(3,059)	\$(37,685)
Plan assets	1,136	1,180	14,051
Unfunded retirement benefit obligation	(1,911)	(1,879)	(23,634)
Unrecognized net retirement benefit obligation at transition	341	410	4,227
Unrecognized actuarial loss	201	272	2,492
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(1,368)	(1,196)	(16,913)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(1,368)	(1,196)	(16,913)

Consolidated subsidiaries use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2010 and 2009 are as follows

	Millions of yen		Thousands of U.S. dollar
	2010	2009	2010
Service cost	¥191	¥183	\$2,371
Interest cost	58	59	723
Expected return on plan assets	(22)	(24)	(276)
Amortization of transition obligation	68	68	845
Amortization of actual loss	40	40	500
Amortization of prior service cost	5	40	66
Retirement benefit expenses	342	367	4,231

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, 2010 and 2009 are as follows:

	2010	2009
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:

	Millions of yen		Thousands of U.S. dollar
	2010	2009	2010
Deferred tax assets:			
Provision for bonuses not deductible until paid	¥79	¥123	\$984
Provision for product warranties	34	42	429
Allowance for doubtful accounts	170	138	2,107
Allowance for loss on valuation of investments of subsidiaries and affiliates	—	63	—
Loss on valuation of inventories	309	307	3,829
Loss on disposal of inventories	45	48	558
Impairment loss on fixed assets	48	61	602
Provision for directors' retirement benefits	40	35	501
Provision for retirement benefits	552	483	6,833
Valuation difference on available-for-sale securities	73	44	903
Tax loss carried forward	2,697	2,331	33,351
Other	74	76	921
Subtotal	4,127	3,758	51,023
Allowance for valuation	(4,125)	(3,753)	(51,002)
Net deferred tax assets	¥1	¥4	\$21
Deferred tax liabilities:			
Deferred gains on sales of property	(6)	(6)	(74)
Net deferred tax liabilities	¥(6)	¥(6)	\$(74)

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, 2010 and 2009 are not shown since the operating result for the year was a loss before provision for income taxes.

8. Accounting for Leases

The Company and certain subsidiaries lease mainly machinery and equipment as lessee. The Group continues to account for finance leases which existed at October 31, 2010 and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of these leased property such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense and interest expense on an "as if capitalized" basis at October 31, 2010 and 2009 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Acquisition cost			
Machinery and equipment	¥513	¥513	\$6,351
Other assets	80	110	994
	¥594	¥624	\$7,346
Accumulated depreciation			
Machinery and equipment	¥199	¥125	\$2,462
Other assets	57	68	712
	¥256	¥194	\$3,174
Net book value			
Machinery and equipment	¥314	¥388	\$3,889
Other assets	22	41	282

Obligations under finance leases as of October 31, 2010 and 2009, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥84	¥88	\$1,043
Due after one year	269	353	3,329
	¥353	¥441	\$4,372

Depreciation expenses and interest expenses under finance leases as of 2010 and 2009, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Lease expenses for the year	¥88	¥88	\$1,091
Depreciation expense	90	96	1,114
Interest expenses	17	20	213

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.

The minimum rental commitments under non-cancellable operating leases at October 31, 2010 and 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Due within one year	¥11	¥11	\$138
Due after one year	16	27	207
	¥27	¥39	\$345

9. Financial Instruments

Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheets as of October 31, 2010 are as follows. Fair values that are not readily determinable are not included in the following table. (See *2 for additional information.).

	Millions of yen		
	2010		
	Carrying value	Fair value	Variance
(1) Cash and time deposits	¥1,431	¥1,431	¥ —
(2) Notes and accounts receivable	3,338	3,338	—
(3) Investments in securities			
Held-to-maturity securities	50	39	(10)
Available-for-sale securities	387	387	—
Assets Total	5,207	5,195	(10)
(4) Notes and accounts payable	3,501	3,501	—
(5) Short-term bank borrowings	446	446	—
(6) Long-term borrowings from banks	1,950	2,002	52
(7) Lease obligations	473	461	(12)
(8) Income tax payable	60	60	—
Liabilities Total	6,432	6,473	40

	Thousands of U.S. dollars		
	2010		
	Carrying value	Fair value	Variance
(1) Cash and time deposits	\$17,698	\$17,698	\$ —
(2) Notes and accounts receivable	41,266	41,266	—
(3) Investments in securities			
Held-to-maturity securities	618	483	(134)
Available-for-sale securities	4,793	4,793	—
Assets Total	64,376	64,242	(134)
(4) Notes and accounts payable	43,288	43,288	—
(5) Short-term bank borrowings	5,524	5,524	—
(6) Long-term borrowings from banks	24,106	24,760	654
(7) Lease obligations	5,853	5,705	(148)
(8) Income tax payable	748	748	—
Liabilities Total	79,521	80,027	505

(1) Cash and time deposits; (2) Notes and accounts receivable

Carrying value is used for fair value for these short-term items because these amounts are approximately the same.

(3) Investments in securities

Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds.

(4) Notes and accounts payable; (5) Short-term bank borrowings; (8) Income tax payable

Carrying value approximates fair value for these short-term items.

(6) Long-term borrowings from banks

Fair value of long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.

(7) Lease obligations

The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

*2: Fair values that are difficult to determine:

	Millions of yen	Thousands of U.S. dollars
	Carrying value	Carrying value
Available-for-sale securities	¥85	\$1,060
Shares of subsidiaries and affiliates	219	2,717

Market prices do not exist for these items. These items are not included in 3 investments in securities, because their fair values are not readily determinable.

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, 2010 and 2009 were as follows.

Available-for-sale securities

Securities with book values exceeding

Millions of yen		
2010		
Acquisition cost	Book value	Difference
¥1	¥1	¥0

Thousands of U.S. dollars		
2010		
Acquisition cost	Book value	Difference
\$12	\$13	\$0

Other securities

Millions of yen		
2010		
Acquisition cost	Book value	Difference
¥567	¥386	¥(181)

Thousands of U.S. dollars		
2010		
Acquisition cost	Book value	Difference
\$7,018	\$4,780	\$(2,238)

Available-for-sale securities

Securities with book values exceeding

Millions of yen		
2009		
Acquisition cost	Book value	Difference
¥168	¥176	¥7

Thousands of U.S. dollars		
2009		
Acquisition cost	Book value	Difference
\$168	\$176	\$7

Other securities

Millions of yen		
2009		
Acquisition cost	Book value	Difference
¥399	¥283	¥(116)

Available-for-sale securities whose fair value is not readily available as of October 31, 2010 and 2009 comprise following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unlisted stocks	¥85	¥266	\$1,060
Others	50	50	648
Total	135	316	1,678

10. Segment Information

(1) Industry Segment Information

The Companies operate principally in the following three industrial segments:

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

The segment information of the Companies ended October 31, 2010 and 2009 are presented below:

Millions of yen							
2010							
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Net sales:							
Sales to outside customers	¥9,780	¥5,482	¥2,656	¥42	¥17,961	—	¥17,961
Intersegment sales	—	—	—	—	—	—	—
Total	9,780	5,482	2,656	42	17,961	—	17,961
Operating expenses	9,782	5,603	2,724	125	18,325	590	18,916
Operating income (loss)	(92)	(121)	(67)	(83)	(363)	(590)	(954)
Total assets:	¥4,088	¥4,691	¥2,520	¥9	¥11,310	¥2,629	¥13,939
Depreciation:	213	145	160	1	521	59	580
Capital expenditure:	59	297	130	—	488	2	490

Thousands of U.S. dollars							
2010							
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Net sales:							
Sales to outside customers	\$120,907	\$67,777	\$32,845	\$524	\$222,054	—	\$222,054
Intersegment sales	—	—	—	—	—	—	—
Total	120,907	67,777	32,845	524	222,054	—	222,054
Operating expenses	122,046	69,275	33,678	1,551	226,552	7,297	233,850
Operating income (loss)	(1,139)	(1,498)	(833)	(1,027)	(4,498)	(7,297)	(11,796)
Total assets:	\$50,547	\$58,002	\$31,163	\$114	\$139,827	\$32,504	\$172,332
Depreciation:	2,642	1,803	1,978	20	6,444	734	7,179
Capital expenditure:	740	3,677	1,618	—	6,036	29	6,066

Millions of yen							
2009							
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Net sales:							
Sales to outside customers	¥9,756	¥5,007	¥2,268	¥30	¥17,063	—	¥17,063
Intersegment sales	—	—	—	—	—	—	—
Total	9,756	5,007	2,268	30	17,063	—	17,063
Operating expenses	10,103	5,615	2,971	88	18,778	606	19,385
Operating income (loss)	(347)	(607)	(703)	(57)	(1,715)	(606)	(2,322)
Total assets:	¥4,022	¥4,552	¥2,159	¥8	¥10,743	¥3,084	¥13,828
Depreciation:	421	146	164	2	735	43	778
Capital expenditure:	319	54	92	—	466	37	503

(2) Information by Geographic Segment

Geographical segment information is not presented since domestic sales exceeded 90% of total segment sales.

(3) Overseas Sales and Sales by Overseas Subsidiaries

Overseas 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, 2010 and 2009 are presented below:

	Millions of yen			
	2010			
Overseas sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,028	¥1,096	¥59	¥2,184
Consolidated net sales				17,961
Percentage of overseas sales against consolidated net sales	5.7%	6.1%	0.3%	12.2%

	Thousands of U.S. dollars			
	2010			
Overseas sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	\$12,717	\$13,550	\$737	\$27,005
Consolidated net sales				222,054

	Millions of yen			
	2009			
Overseas sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥870	¥699	¥46	¥1,616
Consolidated net sales				17,063
Percentage of overseas sales against consolidated net sales	5.1%	4.1%	0.3%	9.5%

11. Derivative Financial Instruments

The Company has entered into forward exchange contracts 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, 2010 and 2009, of derivatives for which hedge accounting has not been applied.

<u>Commodity Related</u>	Millions of yen		Thousands of
	<u>2010</u>	<u>2009</u>	<u>U.S. dollars</u>
Oil Swap Contracts:			
Receive floating/ Pay Fixed			
Contract amount	—	¥43	—
Due after one year	—	—	—
Fair value	—	8	—
Unrealized Gain/(loss)	—	8	—

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, 2011)

Chairman

Akitoshi Sakai

Chief Executive Officer

Makoto Yoshida

Board Director, Executive Managing Officer

Kazuto Futamata (Housing & Environmental Equipment Division, General Manager)
Shigekazu Kaneda (Finance & Administration, General Manager)

Board Director, Managing Officer

Kenji Kita (Tabletop Division, General Manager)
Yoshiaki Iwasaki (Tabletop Division, Head-Factory Manager)
Kazuo Miyanabe (General Manager, Housing & Environmental Equipment Division,
Ceramics Tile Section & Comptroller General,
General Manager, Corporate Technical & Production Engineering)
Makoto Aoki (Electro-Ceramics Division, General Manager)

Board Director

Mitsuru Mitani

Executive Auditing Director

Norio Yamamoto

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

Date of Establishment

May 11th, 1908

Show Room

Head Office, Tokyo, Osaka, Nagoya, New York
Concept Shop "SAWA"

Factories

Head Factory, Tsurugi Factory, Saitama Factory

Subsidiaries and Affiliates

NIKKO CERAMICS, INC. (U.S.A.)
Nikko Hanbai Co., Ltd. (Japan)
Nikko ME Co., Ltd. (Japan)
N&I ASIA PTE LTD. (Singapore)
NIKKO MIDDLE EAST TRADING LLC (UAE)
Nikko Care 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 June each year in Ishikawa-Prefecture

Auditors

AZSA & CO.

URL

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