



ANNUAL REPORT 2009

NIKKO
SINCE 1908



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Wind Energization
Wind turbine system



Water Purification
Water treatment facilities
/Housing & Environment
Equipment



Earth Reproduction
Pottery & Porcelain / Tiles /
Electro-Ceramics

NIKKO
SINCE 1908

<Products >



**POTTERY &
PORCELAIN**



**HOUSING &
ENVIRONMENTAL
EQUIPMENT**

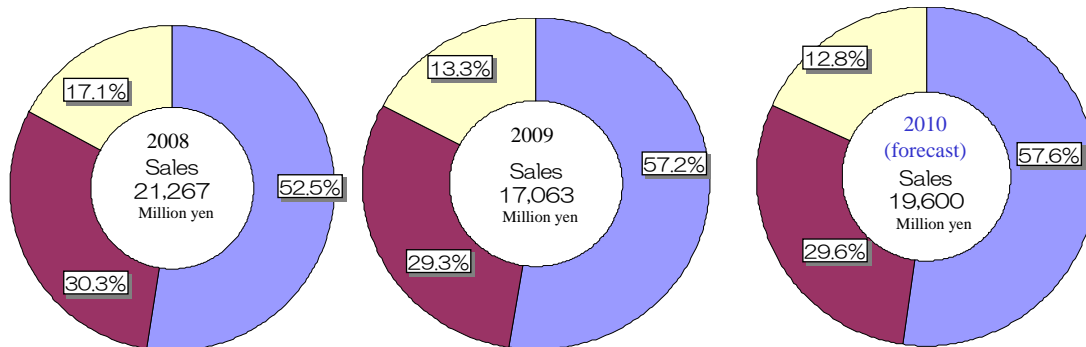


**ELECTRO—
CERAMICS**



**ENVIRONMENTAL
ENERGY
EQUIPMENT**

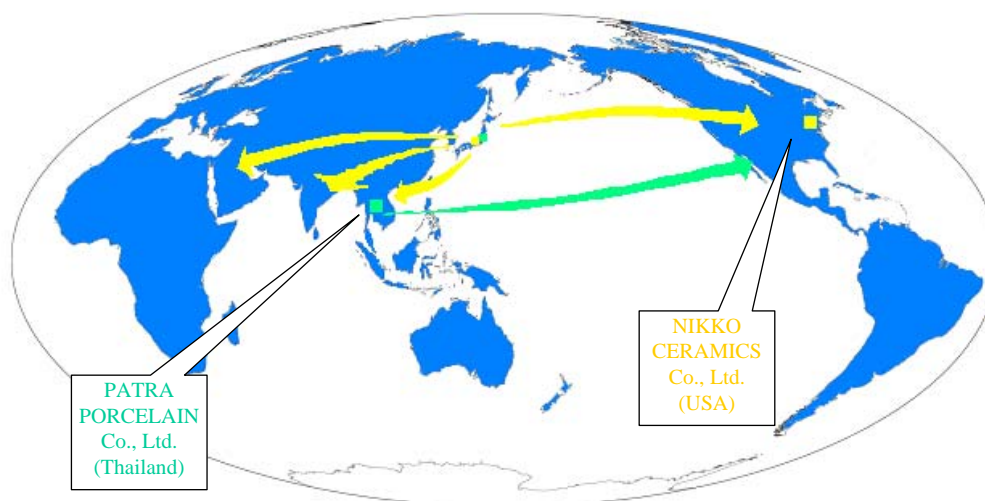
Sales by Segment Information



Business Segment	2008	2009	2010	
			against previous year	against previous year
million ¥				
Housing & Environmental Equipment	11,174	9,756	Δ 1,418	11,300 1,544
Tabletop	6,436	5,007	Δ 1,429	5,800 793
Electro-Ceramics	3,633	2,268	Δ 1,365	2,500 232
Others	24	30	6	40 10

(Forecast at Dec.10 2009)

NETWORK



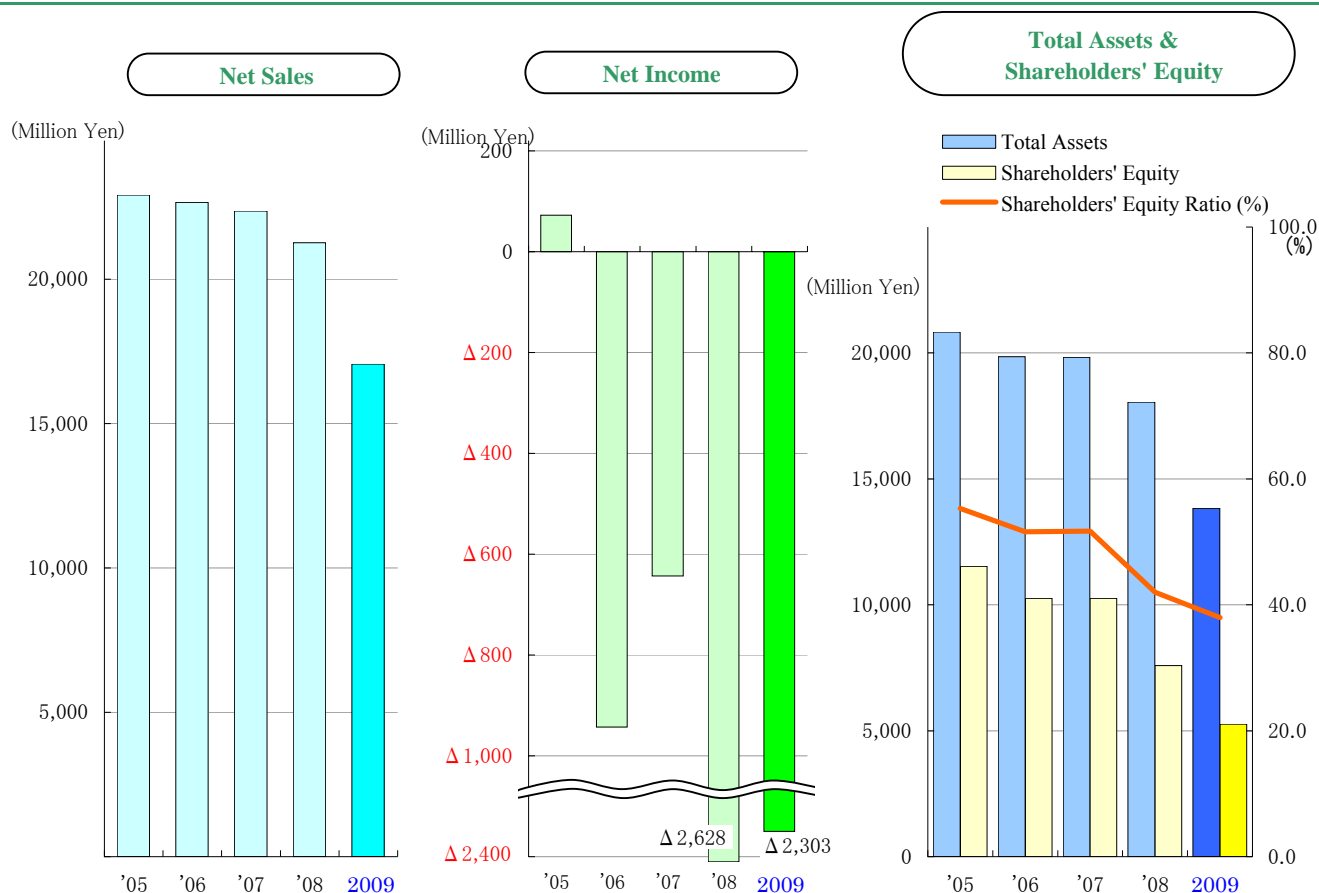
- ...Product Activities
- ...Sales Activities

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
	2005	2006	2007	2008	2009	(except per share amounts)
Net Sales	22,918	22,660	22,359	21,267	17,063	186,604
Net Income	72	(943)	(643)	(2,628)	(2,303)	(25,192)
Total Assets	20,833	19,854	19,826	18,046	13,828	151,226
Shareholders' Equity	11,527	10,252	10,251	7,586	5,258	57,507
Shareholders' Equity Ratio (%)	55.3	51.6	51.7	42.0	38.0	
Return on Shareholders' Equity (%)	0.6	(8.7)	(6.3)	(29.5)	(35.9)	
Number of Shares	17,072,000	17,072,000	19,572,000	19,572,000	19,572,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	4.35	(57.07)	(38.79)	(139.46)	(122.84)	(1.343)
Shareholders' Equity	691.47	621.43	541.89	403.55	280.59	3.069
Cash Dividends	6.00	3.00	4.00	1.00	—	—

Note: ¥91.44 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2009 and 2008

ASSETS	Millions of yen		Thousands of U. S. dollar
	2009	2008	2009
Current Assets:			
Cash and deposits	¥1,580	¥3,991	\$17,287
Notes and accounts receivable:			
Trade	2,911	4,005	31,845
Subsidiaries and affiliates	30	52	332
Other	0	0	8
Allowance for doubtful accounts	(198)	(102)	(2,172)
Inventories	3,619	4,046	39,579
Deferred tax assets	4	5	46
Prepaid expenses and other current assets	148	327	1,621
Total current assets	8,096	12,325	88,546
Investments and Other Assets:			
Investment securities	557	549	6,101
Stocks of affiliates	218	219	2,387
Other	450	268	4,923
Allowance for loss on valuation of investments of subsidiaries and affiliates	(157)	(99)	(1,725)
Allowance for doubtful accounts	(298)	(79)	(3,265)
Total investments and other assets	770	858	8,421
Property, plant and equipment, at cost:			
Land	1,261	1,316	13,790
Buildings and structures	6,633	6,571	72,549
Machinery, equipment and vehicles	5,874	6,336	64,242
Tools, furniture and fixtures	1,362	1,124	14,896
Construction in progress	1	38	12
Lease Assets	342	—	3,743
Accumulated depreciation	(10,763)	(10,616)	(117,708)
Net property, plant and equipment	4,711	4,772	51,526
Intangible Assets:			
Lease Assets	162	—	1,777
Other	87	90	952
Intangible Assets and other	249	90	2,730
Total Assets	¥13,828	¥18,046	\$151,226

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY
October 31, 2009 and 2008

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U. S. dollar
	2009	2008	2009
Current liabilities:			
Notes and accounts payable:			
Trade	¥2,919	¥3,884	\$31,932
Subsidiaries and affiliates	196	432	2,152
Other	40	8	445
Short-term loans payable	422	2,534	4,624
Current portion of long-term loans payable	100	—	1,093
Lease obligations	101	—	1,111
Construction notes payable	44	540	486
Accrued expenses	181	223	1,984
Income taxes payable	42	55	465
Provision for bonuses	306	431	3,355
Provision for product warranties	105	94	1,148
Other	965	1,015	10,559
Total current liabilities	5,427	9,220	59,358
Noncurrent liabilities:			
Long-term loans payable	1,350	—	14,763
Lease obligations	362	—	3,958
Provision for directors' retirement benefits	88	76	968
Provision for retirement benefits	1,196	1,035	13,084
Other	144	127	1,585
Total noncurrent liabilities	3,141	1,239	34,360
Total Liabilities	8,569	10,460	93,719
Shareholders' Equity:			
Capital stock, ¥50 par value per share			
Authorized-60,000,000 shares;			
Issued-19,572,000 shares in 2009			
and 19,572,000 shares in 2008	3,200	3,200	34,995
Capital surplus	3,620	3,620	39,591
Retained earnings	(1,007)	1,296	(11,015)
Treasury stocks	(333)	(319)	(3,649)
Valuation difference on available-for-sale securities	(109)	(116)	(1,193)
Foreign currency translation adjustment	(111)	(94)	(1,222)
831,026 shares in 2009 and 773,364 shares in 2008			
Total shareholders' equity	5,258	7,586	57,507
Total Liabilities and Shareholders' Equity	¥13,828	¥18,046	\$151,226

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income

NIKKO COMPANY

Years ended October 31, 2009 and 2008

	Millions of yen		Thousands of U. S. dollar
	2009	2008	2009
Net Sales	¥17,063	¥21,267	\$186,604
Cost of Sales	13,589	16,035	148,613
Gross profit	3,473	5,232	37,991
Selling, General and Administrative Expenses	5,796	6,279	63,393
Operating income (loss)	(2,322)	(1,046)	(25,400)
Other (Income) Expenses:			
Interest expenses	36	16	402
Interest and dividend income	(3)	(4)	(36)
(Gain) on sale or loss on disposal of noncurrent assets, net	(20)	36	(224)
Other, net	(73)	630	(803)
Income before taxes (loss)	(2,262)	(1,725)	(24,737)
Income taxes-current	41	49	453
Income taxes-deferred	0	853	0
Income taxes	41	902	454
Net income (loss)	¥(2,303)	¥(2,628)	\$(25,192)

	Yen		U. S. dollar
	2009	2008	2009
Amounts Per Share of Common Stock:			
Net Income (loss)	¥(122.84)	¥(139.46)	\$(1.343)
Cash dividends	—	1.00	—

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

NIKKO COMPANY

Years ended October 31, 2009 and 2008

	Number of shares of common stock (thousands)	Millions of yen				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance, October 31, 2007	19,572	¥3,200	¥3,620	¥3,981	¥(281)	¥10,519
Dividends from surplus	—	—	—	(56)	—	(56)
Net income (loss) for the year	—	—	—	(2,628)	—	(2,628)
Purchase of treasury stock	—	—	—	—	(38)	(38)
Other	—	—	—	—	—	—
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

	Millions of yen			
	Valuation difference on available- for-sale securities	Foreign Currency Translation Adjustments	Total valuation and translation adjustments	Total ner assets
Balance, October 31, 2007	¥(115)	¥(152)	¥(267)	¥10,251
Dividends from surplus	—	—	—	(56)
Net income (loss) for the year	—	—	—	(2,628)
Purchase of treasury stock	—	—	—	(38)
Other	(0)	57	57	57
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

	Thousands of dollars				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance, October 31, 2008	\$34,995	\$39,591	\$14,177	\$(3,495)	\$85,268
Net income (loss) for the year	—	—	(25,192)	—	(25,192)
Purchase of treasury stock	—	—	—	(154)	(154)
Other	—	—	—	—	—
Balance, October 31, 2009	\$34,995	\$39,591	\$(11,015)	\$(3,649)	\$59,922

	Thousands of dollars			
	Valuation difference on available- for-sale securities	Foreign Currency Translation Adjustments	Total valuation and translation adjustments	Total ner assets
Balance, October 31, 2008	\$(1,272)	\$(1,032)	\$(2,304)	\$82,964
Net income (loss) for the year	—	—	—	(25,192)
Purchase of treasury stock	—	—	—	(154)
Other	79	(190)	(110)	(110)
Balance, October 31, 2009	\$(1,193)	\$(1,222)	\$(2,415)	\$57,507

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY

Years ended October 31, 2009 and 2008

	Millions of yen		Thousands of
	2009	2008	U. S. dollar
			2009
Net cash provided by (used in) operating activities			
Income (Loss) before income taxes	¥(2,262)	¥(1,725)	\$(24,737)
Depreciation and amortization	782	427	8,553
Increase (decrease) in allowance for doubtful accounts	315	81	3,447
Increase (decrease) in provision for bonuses	(124)	3	(1,357)
Increase (decrease) in provision for retirement benefits	161	152	1,762
Increase (decrease) in provision for loss on business of subsidiaries and affiliates	—	(66)	—
Increase (decrease) in provision of allowance for loss on valuation of investments of subsidiaries and affiliates	58	19	634
Increase (decrease) in provision for product warranties	11	12	120
Interest and dividends income	(11)	(12)	(125)
Interest expenses	36	16	402
Loss (gain) on sales of property, plant and equipment	(41)	—	(450)
Loss on retirement of noncurrent assets	20	36	225
Loss (gain) on valuation of investment securities	1	287	16
Loss (gain) on valuation of derivatives	19	4	218
Decrease (increase) in notes and accounts receivable-trade	1,113	477	12,175
Decrease (increase) in claims provable in bankruptcy, claims provable in rehabilitation	(215)	—	(2,362)
Decrease (increase) in inventories	427	304	4,672
Increase (decrease) in notes and accounts payable-trade	(1,198)	(118)	(13,111)
Other, net	200	180	2,197
Subtotal	(705)	82	(7,717)
Interest and dividends income received	11	12	125
Interest expenses paid	(36)	(16)	(402)
Income taxes paid	(52)	(37)	(570)
Net cash provided by (used in) operating activities	¥(783)	¥41	\$(8,564)
Net cash provided by (used in) investment activities			
Payments into time deposits	(78)	(126)	(853)
Proceeds from withdrawal of time deposits	176	123	1,934
Purchase of property, plant and equipment	(988)	(619)	(10,814)
Proceeds from sales of property, plant and equipment	106	119	1,165
Purchase of investment securities	(1)	(51)	(16)
Purchase of stocks of subsidiaries and affiliates	—	(30)	—
Other, net	(0)	(31)	(0)
Net cash provided by (used in) investment activities	¥(785)	¥(616)	\$(8,585)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(2,111)	329	(23,092)
Proceeds from long-term loans payable	1,500	—	16,404
Payments into long-term loans payable	(50)	—	(546)
Repayments of lease obligations	(49)	—	(542)
Purchase of treasury stock	(14)	(38)	(154)
Cash dividends paid	(0)	(56)	(7)
Net cash provided by (used in) financing activities	¥(726)	¥234	\$(7,939)
Effect of exchange rate change on cash and cash equivalents	(17)	57	(190)
Net increase (decrease) in cash and cash equivalents	(2,311)	(282)	(25,279)
Cash and cash equivalents at beginning of period	3,714	3,996	40,619
Cash and cash equivalents at end of period	¥1,402	¥3,714	\$15,340

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 ¥91.44=U.S.\$1 the approximate rate of exchange at October 31, 2009, 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, 2009 and 2008. 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, 2009	
	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, 2009, 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

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.

(Additional information)

Pursuant to the revised taxation system in fiscal 2008, the company and its domestic consolidated subsidiaries calculate depreciation expense of machinery based on the revised useful life beginning with the fiscal year under review. As a result of this change, operating loss and ordinary loss are increased by to ¥35million (\$384thousand), loss before income taxes and minority interests are increased by to ¥31million (\$342thousand).

(4) (new)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 ¥263million (\$2,882 thousand) and ¥275million (\$2,797 thousand) for the years ended October 31, 2009 and 2008, respectively.

3. Short-term and Long-term Bank Loans

Short-term bank loans consisted mainly of borrowing from banks. The annual weighted average interest rate are 1.38% at October 31, 2009 and 1.97% at October 31, 2008.

The composition of Short and Long-term loans maturing and lease obligations due within one year as of October 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Short-term loans payable	¥422	¥2,534	\$4,624
Current portion of long-term loans payable	100	—	1,093
Lease obligations	101	—	1,111

Long-term loans and lease obligations at October 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Long-term loans payable	¥1,350	—	\$14,763
Lease obligations	362	—	3,958

The aggregate annual maturities of the non-current portion of long-term loans and lease obligations at October 31, 2009 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	long-term loans	Lease obligations	long-term loans	Lease obligations
2011	¥100	¥103	\$1,093	\$1,132
2012	150	97	1,640	1,065
2013	200	73	2,187	808
2014	200	47	2,187	521
2015 and thereafter	700	39	7,655	431

4. Pledged Assets

The carrying amounts of assets pledged as collateral at October 31, 2009 . (at October 31, 2008 the Company had no liabilities).

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Land	¥657	—	\$7,185
Buildings and structures	1,330	—	14,554

5. Contingent Liabilities

Contingent liabilities in respect of guarantees of indebtedness of employees amounted to ¥6million (\$67 thousand) at October 31, 2009 and ¥8million (\$91 thousand) at October 31, 2008.

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, 2009 and 2008 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollar
	2009	2008	2009
Retirement benefit obligation at end of year	¥(3,059)	¥(3,107)	\$(33,460)
Plan assets	1,180	1,280	12,905
Unfunded retirement benefit obligation	(1,879)	(1,827)	(20,555)
Unrecognized net retirement benefit obligation at transition	410	478	4,487
Unrecognized actuarial loss	272	313	2,983
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(1,196)	(1,035)	(13,084)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(1,196)	(1,035)	(13,084)

Consolidated subsidiaries use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2009 and 2008 are as follows

	Millions of yen		Thousands of U.S. dollar
	2009	2008	2009
Service cost	¥183	¥206	\$2,005
Interest cost	59	59	651
Expected return on plan assets	(24)	(32)	(268)
Amortization of transition obligation	68	68	747
Amortization of actual loss	40	11	443
Amortization of prior service cost	40	16	442
Retirement benefit expenses	367	329	4,022

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, 2009 and 2008 are as follows:

	2009	2008
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
	2009	2008	2009
Deferred tax assets:			
Provision for bonuses not deductible until paid	¥123	¥174	\$1,355
Provision for product warranties	42	37	463
Allowance for doubtful accounts	138	67	1,512
Allowance for loss on valuation of investments of subsidiaries and affiliates	63	40	697
Loss on valuation of inventories	307	290	3,366
Loss on disposal of inventories	48	76	531
Impairment loss on fixed assets	61	96	677
Provision for directors' retirement benefits	35	31	391
Provision for retirement benefits	483	418	5,286
Valuation difference on available-for-sale securities	44	47	483
Tax loss carried forward	2,331	1,355	25,498
Other	76	85	835
Subtotal	3,758	2,721	41,099
Allowance for valuation	(3,753)	(2,716)	(41,053)
Net deferred tax assets	¥4	¥5	\$46
Deferred tax liabilities:			
Deferred gains on sales of property	(6)	(6)	(70)
Net deferred tax liabilities	¥(6)	¥(6)	\$(70)

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, 2009 and 2008 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, 2008 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, 2009 and 2008 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Acquisition cost			
Machinery and equipment	¥513	¥848	\$5,619
Other assets	110	112	1,206
	¥624	¥960	\$6,825
Accumulated depreciation			
Machinery and equipment	¥125	¥272	\$1,370
Other assets	68	54	752
	¥194	¥327	\$2,123
Accumulated loss on impairment			
Machinery and equipment	—	¥102	—
Other assets	—	—	—
	—	¥102	—
Net book value			
Machinery and equipment	¥388	¥472	\$4,248
Other assets	41	57	454
	¥429	¥530	\$4,702

Obligations under finance leases as of October 31, 2009 and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥88	¥94	\$965
Due after one year	353	441	3,868
	¥441	¥536	\$4,833

Depreciation expenses and interest expenses under finance leases as of 2009 and 2008, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Lease expenses for the year	¥88	¥52	\$972
Depreciation expense	96	47	1,053
Interest expenses	20	6	227
Loss on impairment	—	57	—

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 noncancellable operating leases at October 31, 2009 and 2008 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Due within one year	¥11	¥139	\$122
Due after one year	27	154	306
	¥39	¥294	\$428

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, 2009 and 2008 were as follows.

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
\$1,846	\$1,926	\$80

Other securities

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

Thousands of U.S. dollars		
2009		
Acquisition cost	Book value	Difference
\$4,370	\$3,097	\$(1,273)

Available-for-sale securities

Securities with book values exceeding

Millions of yen		
2008		
Acquisition cost	Book value	Difference
¥1	¥1	¥0

Other securities

Millions of yen		
2008		
Acquisition cost	Book value	Difference
¥565	¥448	¥(116)

Available-for-sale securities whose fair value is not readily available as of October 31, 2009 and 2008 comprise following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Unlisted stocks	¥266	¥268	\$2,919
Others	50	50	546
Total	316	318	3,466

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, 2009 and 2008 are presented below:

	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

	Thousands of U.S. dollars						
	2009						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Net sales:							
Sales to outside customers	\$106,695	\$54,764	\$24,806	\$337	\$186,604	—	\$186,604
Intersegment sales	—	—	—	—	—	—	—
Total	106,695	54,764	24,806	337	186,604	—	186,604
Operating expenses	110,493	61,407	32,501	967	205,369	6,635	212,005
Operating income (loss)	(3,797)	(6,642)	(7,695)	(629)	(18,764)	(6,635)	(25,400)
Total assets:	\$43,987	\$49,785	\$23,620	\$97	\$117,491	\$33,735	\$151,226
Depreciation:	4,613	1,606	1,800	22	8,043	474	8,518
Capital expenditure:	3,490	595	1,012	—	5,097	405	5,503

	Millions of yen						
	2008						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Net sales:							
Sales to outside customers	¥11,174	¥6,436	¥3,633	¥24	¥21,267	—	¥21,267
Intersegment sales	—	—	—	—	—	—	—
Total	11,174	6,436	3,633	24	21,267	—	21,267
Operating expenses	11,109	6,420	3,979	49	21,558	755	22,314
Operating income (loss)	64	15	(346)	(25)	(290)	(755)	(1,046)
Total assets:	¥4,400	¥5,323	¥2,780	¥9	¥12,514	¥5,532	¥18,046
Depreciation:	166	131	133	1	432	19	451
Capital expenditure:	161	111	270	11	555	522	1,078

(Additional Information)

As noted in “Additional Information in 2. Summary of Significant Accounting Policies (3) Property, Plant and Equipment”, pursuant to the revised taxation system in fiscal 2008, the company and its domestic consolidated subsidiaries calculate depreciation expense of machinery based on the revised useful life beginning with the fiscal year under review. As a result of this change, as for Housing & Environmental Equipment segment, Tabletop segment and Electro-Ceramics segment, operating loss increased by ¥2million (\$29thousand), ¥14million (\$163thousand) and ¥17million (\$190thousand).

(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, 2009 and 2008 are presented below:

	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%

	Thousands of U.S. dollars			
	2009			
Overseas sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	\$9,516	\$7,651	\$510	\$17,678
Consolidated net sales				186,604

	Millions of yen			
	2008			
Overseas sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,321	¥1,096	¥156	¥2,574
Consolidated net sales				21,267
Percentage of overseas sales against consolidated net sales	6.2%	5.2%	0.7%	12.1%

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, 2009 and 2008, of derivatives for which hedge accounting has not been applied.

<u>Currency Related</u>	Millions of yen		Thousands of U.S. dollars
	<u>2009</u>	<u>2008</u>	<u>2009</u>
Foreign Exchange Forward Contracts:			
Selling U.S. dollar			
Contract amount	—	¥21	—
Due after one year	—	—	—
Fair value	—	19	—
Unrealized Gain/(loss)	—	1	—
<hr/>			
<u>Commodity Related</u>			
Oil Swap Contracts:			
Receive floating/ Pay Fixed			
Contract amount	¥43	¥53	\$470
Due after one year	—	10	—
Fair value	8	35	90
Unrealized Gain/(loss)	8	35	90
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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, 2010)

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)
Nobuyasu Oda (Housing & Environmental Equipment Division, Administration Division,
Information Technology Division Manager)
Kazuo Miyanabe (General Manager & Comptroller General,
Crossover Manufacturing/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,
Sendai, Fukuoka, New York

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 (Asia) Co., Ltd. (Thailand)
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 January each year in Ishikawa-Prefecture

Auditors

AZSA & CO.

URL

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