

# ANNUAL REPORT



2008

**NIKKO**  
SINCE 1908

## Contents

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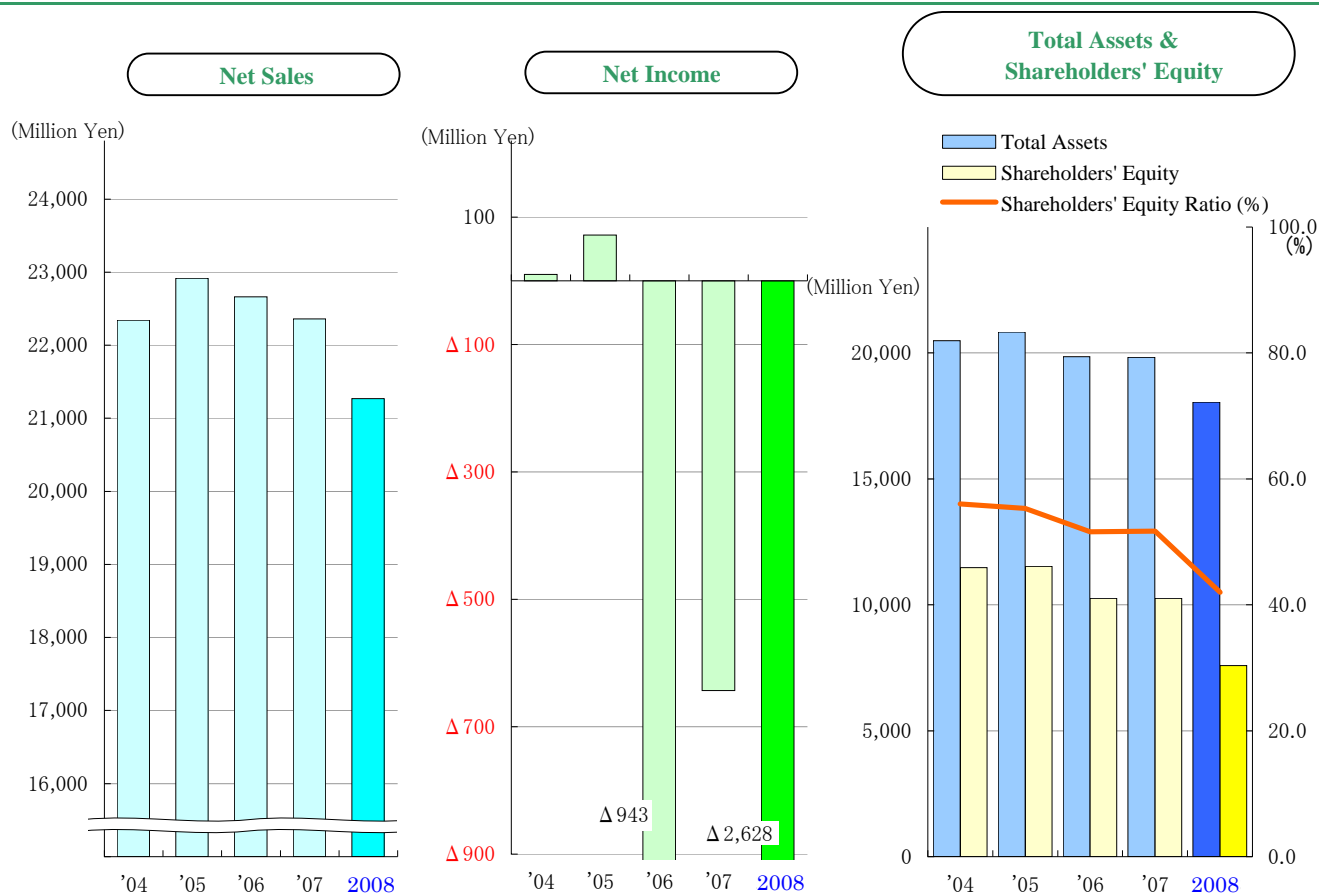
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## Financial Highlights

NIKKO COMPANY  
Consolidated Data



Consolidated Data	Millions of yen					Thousands of U. S. dollar
	2004	2005	2006	2007	2008	2008
	(except per share amounts and %)					
Net Sales	22,344	22,918	22,660	22,359	21,267	216,137
Net Income	1	72	(943)	(643)	(2,628)	(26,709)
Total Assets	20,490	20,833	19,854	19,826	18,046	183,398
Shareholders' Equity	11,473	11,527	10,252	10,251	7,586	77,096
Shareholders' Equity Ratio (%)	56.0	55.3	51.6	51.7	42.0	
Return on Shareholders' Equity (%)	0.0	0.6	(8.7)	(6.3)	(29.5)	
Number of Shares	17,072,000	17,072,000	17,072,000	19,572,000	19,572,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	0.08	4.35	(57.07)	(38.79)	(139.46)	(1.417)
Shareholders' Equity	680.94	691.47	621.43	541.89	403.55	4.101
Cash Dividends	6.00	6.00	3.00	4.00	1.00	0.010

Note: ¥98.40 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheets

NIKKO COMPANY  
October 31, 2008 and 2007

ASSETS	Millions of yen		Thousands of U. S. dollar
	2008	2007	2008
Current Assets:			
Cash and time deposits	¥3,991	¥4,170	\$40,560
Marketable securities	-	100	-
Notes and accounts receivable:			
Trade	4,005	4,441	40,706
Subsidiaries and affiliates	52	140	531
Other	(0)	0	(3)
Allowance for doubtful accounts	(102)	(31)	(1,041)
Inventories	4,046	4,350	41,122
Deferred tax assets	5	296	55
Prepaid expenses and other current assets	327	175	3,325
Total current assets	12,325	13,645	125,256
Investments and Other Assets:			
Investment securities	549	785	5,581
Stocks of affiliates	219	189	2,234
Deferred tax assets	-	554	-
Other	168	405	1,715
Allowance for doubtful accounts	(79)	(68)	(807)
Total investments and other assets	858	1,866	8,723
Property, plant and equipment, at cost:			
Land	1,316	1,316	13,381
Buildings	6,571	5,890	66,784
Machinery and equipment	7,461	7,448	75,824
Construction in progress	38	17	394
Accumulated depreciation	(10,616)	(10,438)	(107,888)
Net property, plant and equipment	4,772	4,234	48,496
Intangible Assets and other	90	79	922
Total Assets	¥18,046	¥19,826	\$183,398

See Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheets

NIKKO COMPANY  
October 31, 2008 and 2007

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U. S. dollar
	2008	2007	2008
Current liabilities:			
Notes and accounts payable:			
Trade	¥3,884	¥4,067	\$39,480
Subsidiaries and affiliates	432	367	4,400
Other	8	11	82
Short-term loans payable	2,534	2,205	25,756
Construction notes payable	540	59	5,493
Accrued expenses	223	183	2,269
Accrued income taxes	55	53	567
Reserve for bonuses	431	428	4,380
Reserve for guarantee for after-care of products	94	82	955
Other	1,015	1,001	10,318
Total current liabilities	9,220	8,459	93,705
Long-term liabilities:			
Reserve for directors' retirement benefits	76	74	782
Reserve for loss on business of affiliates	-	66	-
Reserve for retirement benefits	1,035	882	10,520
Other	127	92	1,294
Total long-term liabilities	1,239	1,115	12,597
Total Liabilities	10,460	9,574	106,302
Minority Interests	-	-	-
Shareholders' Equity:			
Common stock, ¥50 par value per share			
Authorized-60,000,000 shares;			
Issued-19,572,000 shares in 2008			
and 19,572,000 shares in 2007	3,200	3,200	32,520
Additional paid-in capital (Capital reserve)	3,620	3,620	36,790
Retained earnings	1,296	3,981	13,174
Net unrealized loss on securities	(116)	(115)	(1,182)
Translation adjustment	(94)	(152)	(959)
Treasury stocks	(319)	(281)	(3,247)
773,364 shares in 2008 and 653,379 shares in 2007			
Total shareholders' equity	7,586	10,251	77,096
Total Liabilities, Minority Interests and Shareholders' Equity	¥18,046	¥19,826	\$183,398

See Notes to the Consolidated Financial Statements.

## Consolidated Statement of Income

NIKKO COMPANY

Years ended October 31, 2008 and 2007

	Millions of yen		Thousands of
	2008	2007	U. S. dollar
			2008
Net Sales	¥21,267	¥22,359	\$216,137
Cost of Sales	16,035	16,560	162,957
Gross profit	5,232	5,798	53,180
Selling, General and Administrative Expenses	6,279	6,069	63,812
Operating income (loss)	(1,046)	(270)	(10,632)
Other (Income) Expenses:			
Interest expenses	16	16	165
Interest and dividend income	(4)	(4)	(44)
(Gain) on sale or loss on disposal of property, net	36	32	374
Other, net	630	23	6,406
Income before taxes (loss)	(1,725)	(338)	(17,534)
Income taxes-current	49	32	505
Income taxes-deferred	853	271	8,669
Income taxes	902	304	9,175
Net income (loss)	¥(2,628)	¥(643)	\$(26,709)

	Yen	Yen	U. S. dollar
	2008	2007	2008
Amounts Per Share of Common Stock:			
Net Income (loss)	¥(139.46)	¥(38.79)	\$(1.417)
Cash dividends	1.00	4.00	0.010

See Notes to the Consolidated Financial Statements.

## Consolidated Statement of Shareholders' Equity

NIKKO COMPANY

Years ended October 31, 2008 and 2007

	Number of shares of common stock (thousands)	Millions of yen		
		Common stock	Capital surplus	Retained earnings
Balance, October 31, 2007	19,572	¥3,200	¥3,620	¥3,981
Net income for the year	—	—	—	(2,628)
Cash dividends	—	—	—	(56)
Balance, October 31, 2008	19,572	¥3,200	¥3,620	¥1,296

	Thousands of U. S. dollars		
	Common stock	Capital surplus	Retained earnings
Balance, October 31, 2007	\$27,879	\$31,540	\$34,685
Net income for the year	—	—	(26,709)
Cash dividends	—	—	(575)
Balance, October 31, 2008	\$32,520	\$36,790	\$13,174

See Notes to the Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

NIKKO COMPANY

Years ended October 31, 2008 and 2007

	Millions of yen		Thousands of
	2008	2007	U. S. dollar
Net cash provided by operating activities:			
Income (Loss) before income taxes	¥(1,725)	¥(338)	\$(17,534)
Depreciation	427	328	4,346
Allowance for doubtful accounts	81	37	829
Increase (Decrease) in reserve for bonuses	3	(13)	30
Increase (Decrease) allowance for investment loss of affiliates	19	(10)	196
Increase (Decrease) in reserve for loss on business of affiliates	(66)	10	(670)
Increase (Decrease) in reserve for guarantee for after-care of products	12	82	121
Increase (Decrease) in reserve for retirement benefits	152	150	1,551
Interest and dividend income	(12)	(12)	(126)
Loss on retirement of fixed assets	36	32	374
Loss (Gain) on valuation of investments in securities	287	—	2,922
Loss (Gain) on valuation of derivatives	4	(62)	49
Interest expenses	16	16	165
(Increase) Decrease in notes and accounts receivables	477	132	4,857
(Increase) Decrease in inventories	304	(38)	3,093
Increase (Decrease) in notes and accounts payables	(118)	(260)	(1,208)
Other	180	(69)	1,837
	82	(16)	838
Interest and dividend income received	12	12	126
Interest expenses paid	(16)	(16)	(165)
Income taxes paid	(37)	(18)	(377)
Net cash provided by operating activities	¥41	¥(38)	\$421
Net cash used in investment activities:			
Purchase of marketable securities	(51)	(3)	(522)
Proceeds from sales of marketable securities	—	50	—
Proceeds from sales of fixed assets	119	—	1,209
Purchase of fixed assets	(619)	(645)	(6,297)
Acquisition of investments in affiliates	(30)	—	(304)
Other	(34)	26	(346)
Net cash used in investment activities	¥(616)	¥(572)	\$(6,261)
Net cash used in financing activities:			
Increase in short-term loans payable	329	(170)	3,345
Purchase of treasury stock	(38)	(31)	(386)
Cash dividends paid	(56)	(33)	(576)
Proceeds from issuance of common stock	—	775	—
Net cash used in financing activities:	¥234	¥540	\$2,382
Effect of exchange rate change on cash and cash equivalents	57	13	587
Increase (Decrease) in cash and cash equivalents	(282)	(57)	(2,870)
Cash at beginning of period	3,996	4,053	40,616
Cash at end of period	¥3,714	¥3,996	\$37,746

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 ¥98.40=U.S.\$1 the approximate rate of exchange at October 31, 2008, 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, 2008 (2 subsidiaries as at October 31, 2007). The consolidated financial statements include the accounts of the Company and 3 (2 for 2007) of its subsidiaries. The consolidated subsidiaries are listed below:

	As at October 31, 2008	
	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, 2008, 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.

#### (Additional information)

Pursuant to the amended corporation tax law of Japan, as for property, plant and equipment acquired before April 1, 2007, the Company and the domestic consolidated subsidiary previously depreciated up to the depreciable limit of 5% of the acquisition cost in accordance with the corporation tax law of Japan. Effective from this period, the residual value is depreciated over five years using the straight-line method from the fiscal year following the year in which the depreciable limit is reached pursuant to the amended corporation tax law of Japan. As a result, operating income and income before income taxes decreased by ¥55million (\$563 thousand), respectively.

### (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.

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.

**(8) 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.

**(9) 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.

**(10) 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.

**(11) 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.

**(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 ¥275million (\$2,797 thousand) and ¥305million (\$2,660 thousand) for the years ended October 31, 2008 and 2007, respectively.

### 3. Short-term Bank Loans

Short-term bank loans of subsidiaries are secured by the Company, at an annual weighted average interest rate of 1.97% at October 31, 2008, and 2.08% at October 31, 2007.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Short-term bank loans	¥2,534	¥2,205	\$25,756

### 4. Pledged Assets

The carrying amounts of assets pledged as fixed collateral at October 31, 2008 and 2007, the Company had no liabilities.

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Property, plant and equipment – net of accumulated depreciation	¥217	¥209	\$2,212

### 5. Contingent Liabilities

Contingent liabilities in respect of guarantees of indebtedness of employees amounted to ¥8 million (\$91 thousand) at October 31, 2008 and ¥8 million (\$77 thousand) at October 31, 2007.

### 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, 2008 and 2007 for the Company's and the consolidated subsidiaries' defined benefit plans

(2) Components of accrued pension and severance costs as of October 31, 2008 and 2007 are as follows:

	Millions of yen		Thousands of U.S. dollar
	2008	2007	2008
Retirement benefit obligation at end of year	¥(3,107)	¥(3,092)	\$(31,585)
Plan assets	1,280	1,712	13,013
Unfunded retirement benefit obligation	(1,827)	(1,380)	(18,571)
Unrecognized net retirement benefit obligation at transition	478	547	4,865
Unrecognized actuarial loss	313	(48)	3,185
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(1035)	(882)	(10,520)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(1035)	(882)	(10,520)

A consolidated subsidiary use the simplified method.

(3) Components of retirement benefit expenses for the year ended October 31, 2008 and 2007 are as follows

	Millions of yen		Thousands of U.S. dollar
	2008	2007	2008
Service cost	¥206	¥190	\$2,101
Interest cost	59	58	602
Expected return on plan assets	(32)	(31)	(333)
Amortization of transition obligation	68	68	695
Amortization of actual loss	11	20	119
Amortization of prior service cost	16	8	164
Retirement benefit expenses	329	315	3,349

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, 2008 and 2007 are as follows:

	2008	2007
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
	2008	2007	2008
Deferred tax assets:			
Allowance for bonuses not deductible until paid	¥174	¥172	\$1,769
Reserve for guarantee for after-care of products	37	33	385
Allowance for doubtful accounts	67	33	689
Loss on valuation of inventories	290	249	2,956
Loss on disposal of inventories	76	43	780
Impairment loss on fixed assets	96	117	978
Accrued directors' and statutory auditors' retirement benefits	31	29	316
Liabilities for retirement benefits	418	356	4,250
Loss on valuation of investments in memberships	—	21	—
Allowance for operating loss of subsidiaries	—	332	—
Unrealized profit on securities	47	47	478
Tax loss carried forward	1,355	971	13,779
Other	125	126	1,275
Subtotal	2,721	2,536	27,659
Allowance for valuation	(2,716)	(1,678)	(27,605)
Net deferred tax assets	¥5	¥858	\$53
Deferred tax liabilities:			
Deferred gains on sales of property	(6)	(7)	(68)
Net deferred tax liabilities	¥(6)	¥(7)	\$(68)

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, 2008 and 2007 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, accumulated loss on impairment, 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, 2008 and 2007, was as follows. (from 2008 The amounts of acquisition costs and obligations under finance leases exclude the imputed interest expense portions.)

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Acquisition cost			
Machinery and equipment	¥848	¥467	\$8,621
Other assets	112	121	1,141
	¥960	¥588	\$9,762
Accumulated depreciation			
Machinery and equipment	¥272	¥302	\$2,773
Other assets	54	54	552
	¥327	¥357	\$3,326
Accumulated loss on impairment			
Machinery and equipment	¥102	¥104	\$1,040
Other assets	—	—	—
	¥102	¥104	\$1,040
Net book value			
Machinery and equipment	¥472	¥60	\$4,806
Other assets	57	62	588
	¥530	¥122	\$5,395

Obligations under finance leases as of October 31, 2008 and 2007, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Due within one year	¥94	¥44	\$955
Due after one year	441	81	4,491
	¥536	¥125	\$5,447

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 2008 and 2007, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Lease expenses for the year	¥52	¥59	\$534
Depreciation expense	47	59	486
Interest expenses	6	—	64
Loss on impairment	57	47	580

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, 2008 and 2007 were as follows.

### Available-for-sale securities

#### Securities with book values exceeding

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

Thousands of U.S. dollars		
2008		
Acquisition cost	Book value	Difference
\$12	\$16	\$3

#### Other securities

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

Thousands of U.S. dollars		
2008		
Acquisition cost	Book value	Difference
\$5,748	\$4,562	\$(1,185)

### Available-for-sale securities

#### Securities with book values exceeding

Millions of yen		
2007		
Acquisition cost	Book value	Difference
¥351	¥389	¥38

#### Other securities

Millions of yen		
2007		
Acquisition cost	Book value	Difference
¥501	¥347	¥(153)

Available-for-sale securities whose fair value is not readily available as of October 31, 2008 and 2007 comprise following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Unlisted stocks	¥268	¥48	\$2,728
Others	50	—	508
Total	318	48	3,236

## 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
Tabletop	Fine bone china, Fine vitrified china, Fine porcelain, Oven ware
Electro-Ceramics	Alumina substrates, Hybrid IC, LTCC substrates, Dielectric ceramics

The segment information of the Companies ended October 31, 2008 and 2007 are presented below:

	Millions of yen						
	2008						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Sales:							
Sales to customers	¥11,174	¥6,436	¥3,633	¥24	¥21,267	—	¥21,267
Intersegment sales	—	—	—	—	—	—	—
Total sales	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

	Thousands of U.S. dollars						
	2008						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Sales:							
Sales to customers	\$113,557	\$65,412	\$36,922	\$245	\$216,137	—	\$216,137
Intersegment sales	—	—	—	—	—	—	—
Total sales	113,557	65,412	36,922	245	216,137	—	216,137
Operating expenses	112,898	65,254	40,439	502	219,094	7,675	226,769
Operating income (loss)	659	158	(3,517)	(256)	(2,956)	(7,675)	(10,632)
Total assets:	\$44,718	\$54,099	\$28,259	\$99	\$127,177	\$56,221	\$183,398
Depreciation:	1,694	1,334	1,355	13	4,397	194	4,591
Capital expenditure:	1,644	1,135	2,748	119	5,648	5,311	10,959

	Millions of yen						
	2007						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Eliminations/Corporate	Consolidated
Sales:							
Sales to customers	¥11,655	¥6,653	¥4,035	¥14	¥22,359	—	¥22,359
Intersegment sales	—	—	—	—	—	—	—
Total sales	11,655	6,653	4,035	14	22,359	—	22,359
Operating expenses	11,373	6,362	4,213	33	21,982	647	22,630
Operating income (loss)	282	290	(177)	(19)	376	(647)	(270)
Total assets:	¥4,555	¥5,058	¥3,514	¥10	¥13,138	¥6,687	¥19,826
Depreciation:	125	105	81	0	312	13	326
Capital expenditure:	94	160	229	0	485	315	800



(Change in accounting policies)

Pursuant to the amended corporation tax law of Japan, effective from this period, the residual value of property, plant and equipment acquired before April 1, 2007, is depreciated over five years using the straight-line method from the fiscal year following the year in which the depreciable limit (5% of the acquisition cost) is reached pursuant to the amended corporation tax law of Japan. As a result, the operating income of the Housing & Environmental Equipment, Tabletop, Electro-Ceramics and Other decreased by ¥15million (\$154 thousand), ¥15million (\$160 thousand), ¥22million (\$226 thousand), ¥0million (\$3 thousand), respectively.

(2) Information by Geographic Segment

As more than 90% of the consolidated net sales for the two years in the period ended October 31, 2008 and 2007 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, 2008 and 2007 are presented below:

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

	Thousands of U.S. dollars			
	2008			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	\$13,432	\$11,141	\$1,589	\$26,162
Net sales				216,137

	Millions of yen			
	2007			
Export sales and sales by overseas subsidiaries:	Americas	Asia	Other	Total
Overseas sales	¥1,654	¥1,046	¥149	¥2,851
Net sales				22,359
Percentage of such sales against consolidated net sales	7.4%	4.7%	0.7%	12.8%

## 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, 2008 and 2007, of derivatives for which hedge accounting has not been applied.

<u>Currency Related</u>	Millions of yen		Thousands of U.S. dollars
	<u>2008</u>	<u>2007</u>	<u>2008</u>
Foreign Exchange Forward Contracts:			
Selling U.S. dollar			
Contract amount	¥21	¥105	\$217
Due after one year	—	—	—
Fair value	19	102	199
Unrealized Gain/(loss)	1	3	18
Currency Swaps:			
U.S. dollar payment/Yen receipt			
Contract amount	—	¥901	—
Due after one year	—	—	—
Fair value	—	(4)	—
Unrealized Gain/(loss)	—	(4)	—
 <u>Commodity Related</u>			
	Millions of yen		Thousands of U.S. dollars
	<u>2008</u>	<u>2007</u>	<u>2008</u>
Oil Swap Contracts:			
Receive floating/ Pay Fixed			
Contract amount	¥53	¥151	\$543
Due after one year	10	53	109
Fair value	35	241	361
Unrealized Gain/(loss)	35	241	361

## 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 29th, 2009)

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### 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, Product Planning Division,  
Manufacturing Division, Administration Division Manager)  
Kazuo Miyanabe (Production Engineering Dept, General Manager  
Electro-Ceramics Division, Manufacturing Director)  
Makoto Aoki (Electro-Ceramics Division, General Manager)

### Board Director

Mitsuru Mitani

### Executive Auditing Director

Norio Yamamoto

### Auditors

Shigeru Sawa  
Takao Anzai

## Corporate Data

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### 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

Tokyo, Osaka, Toyama, 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/>