



ANNUAL REPORT 2011

NIKKO
SINCE 1908



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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

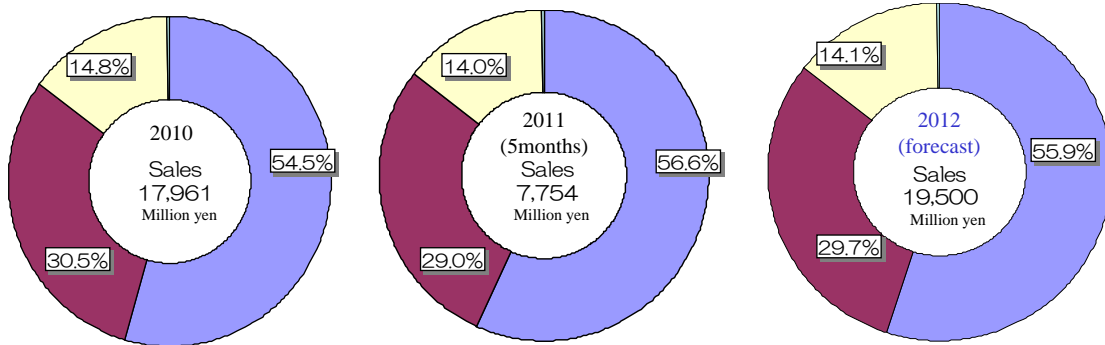
ELECTRO—
CERAMICS



環境エネルギー
機器

ENVIRONMENTAL
ENERGY
EQUIPMENT

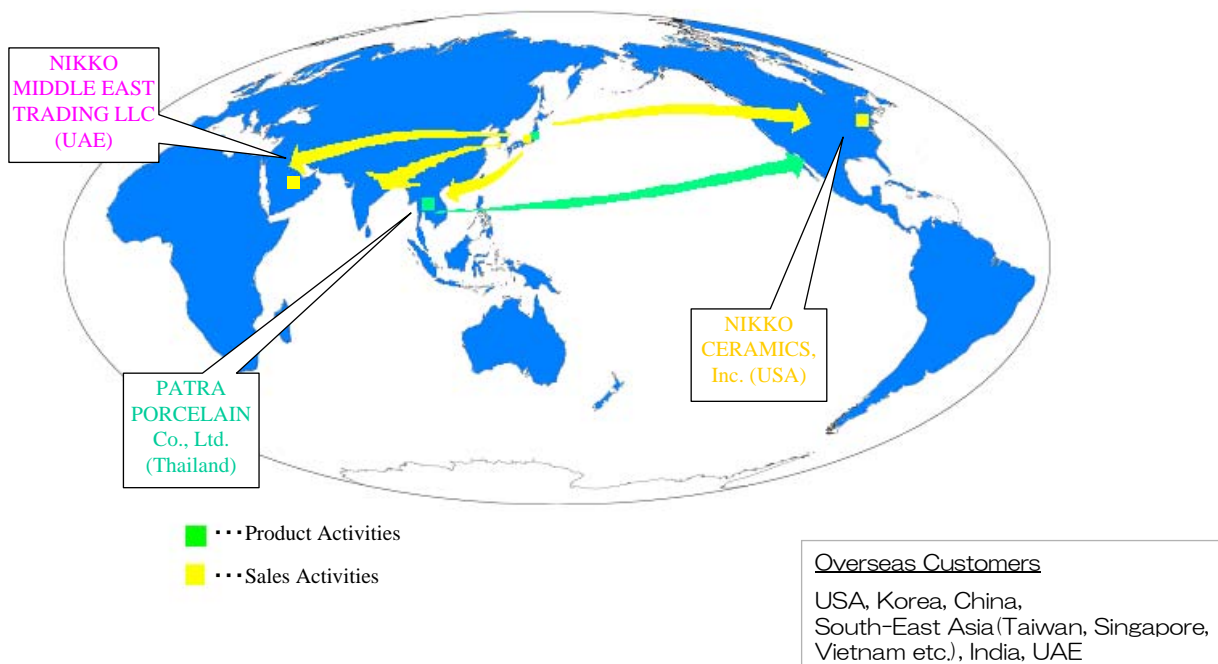
Sales by Segment Information



Business Segment	2010	2011 (5months)	2012 (forecast)
million ¥	'09.11- '10.10	'10.11- '11.3	'11.4- '12.3
Housing & Environmental Equipment	9,780	4,390	10,900
Tabletop	5,482	2,247	5,800
Electro-Ceramics	2,656	1,085	2,750
Others	42	31	50

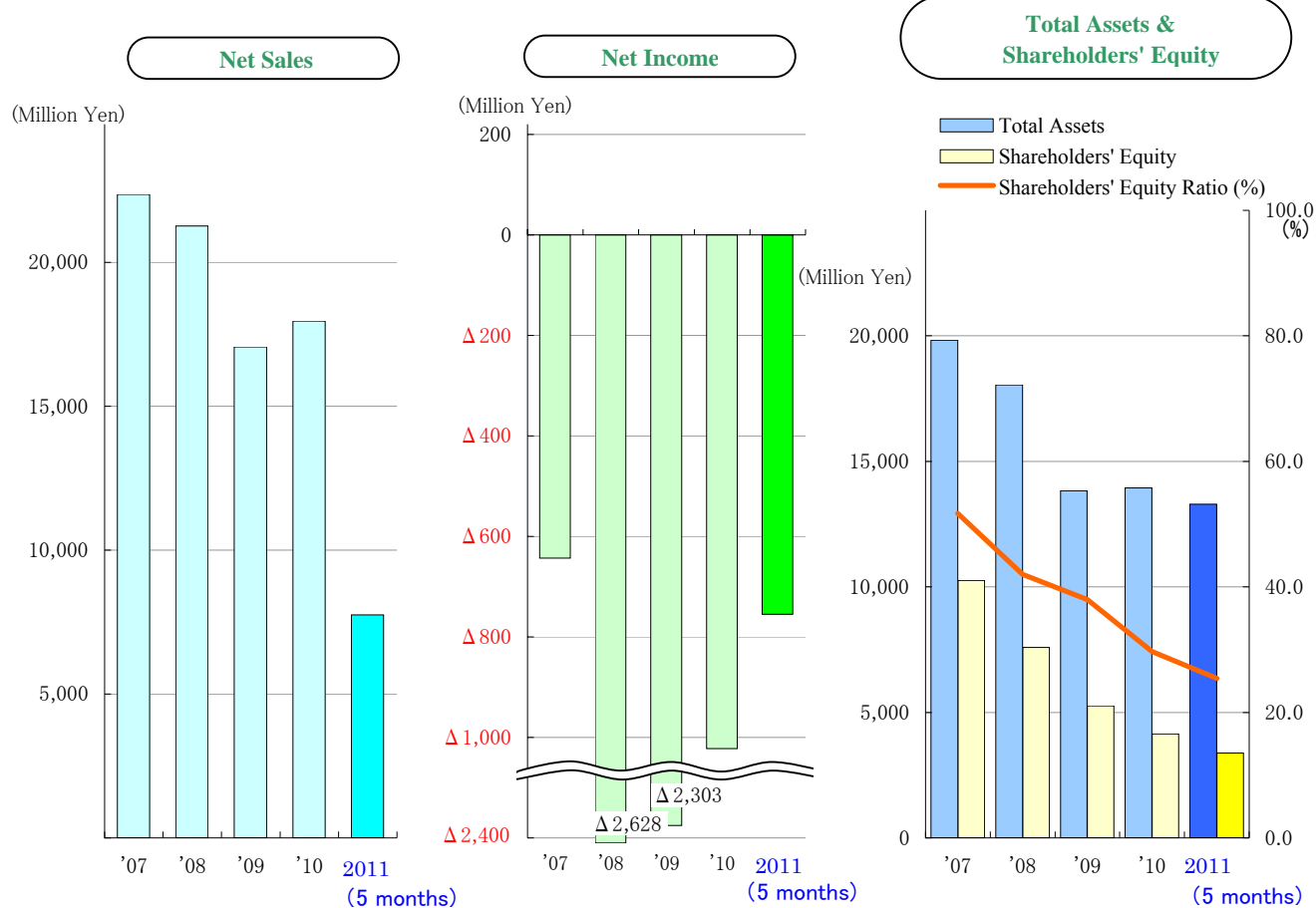
(About 2011)
 Due to the change in fiscal year end to March 31, the figures for the full year are for 5-month period from November 1, 2010 to March 31, 2011.

NETWORK



Financial Highlights

NIKKO COMPANY
Consolidated Data



Consolidated Data	Millions of yen					Thousands of U. S. dollar
	2007	2008	2009	2010	2011	2011
Net Sales	22,359	21,267	17,063	17,961	7,754	93,255
Net Income	(643)	(2,628)	(2,303)	(1,022)	(755)	(9,084)
Total Assets	19,826	18,046	13,828	13,939	13,288	159,817
Shareholders' Equity	10,251	7,586	5,258	4,143	3,381	40,669
Shareholders' Equity Ratio (%)	51.7	42.0	38.0	29.7	25.4	
Return on Shareholders' Equity (%)	(6.3)	(29.5)	(35.9)	(21.7)	(20.1)	
Number of Shares	19,572,000	19,572,000	19,572,000	19,572,000	19,572,000	
Per Share of Common Stock	Yen					U. S. dollar
Net Income	(38.79)	(139.46)	(122.84)	(54.54)	(40.31)	(0.484)
Shareholders' Equity	541.89	403.55	280.59	221.13	180.49	2.170
Cash Dividends	4.00	1.00	—	—	—	—

Notes: ¥83.15 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

The Company has changed its fiscal year-end from October 31 to March 31, resulting in an irregular 5-month period for fiscal 2011.

Consolidated Balance Sheets

NIKKO COMPANY

March 31, 2011 and October 31, 2010

ASSETS	Millions of yen		Thousands of U. S. dollar
	2011	2010	2011
Current Assets:			
Cash and deposits	¥1,468	¥1,431	\$17,662
Notes and accounts receivable:			
Trade	3,002	3,306	36,112
Subsidiaries and affiliates	92	33	1,112
Other	0	0	6
Allowance for doubtful accounts	(158)	(269)	(1,905)
Inventories	3,388	3,635	40,747
Deferred tax assets	2	1	28
Prepaid expenses and other current assets	96	149	1,166
Total current assets	7,893	8,289	94,929
Investments and Other Assets:			
Investment securities	476	486	5,728
Stocks of affiliates	66	37	800
Other	525	432	6,324
Allowance for doubtful accounts	(388)	(285)	(4,675)
Total investments and other assets	679	670	8,177
Property, plant and equipment, at cost:			
Land	1,261	1,261	15,165
Buildings and structures	6,750	6,726	81,190
Machinery, equipment and vehicles	5,407	5,863	65,035
Tools, furniture and fixtures	1,249	1,315	15,027
Construction in progress	11	4	144
Lease Assets	230	341	2,777
Accumulated depreciation	(10,516)	(10,890)	(126,476)
Total property, plant and equipment	4,395	4,621	52,863
Intangible Assets:			
Lease Assets	211	237	2,540
Other	108	121	1,306
Total intangible assets and other	319	359	3,846
Total Assets	¥13,288	¥13,939	\$159,817

See Notes to the Consolidated Financial Statements.

Consolidated Balance Sheets

NIKKO COMPANY

March 31, 2011 and October 31, 2010

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U. S. dollar
	2011	2010	2011
Current liabilities:			
Notes and accounts payable:			
Trade	¥3,142	¥3,251	\$37,791
Subsidiaries and affiliates	222	249	2,673
Other	39	49	477
Short-term loans payable	793	446	9,544
Current portion of long-term loans payable	162	172	1,948
Lease obligations	127	126	1,536
Construction notes payable	23	136	283
Accrued expenses	179	176	2,164
Income taxes payable	30	60	371
Provision for bonuses	373	203	4,486
Provision for product warranties	103	86	1,238
Other	1,014	1,101	12,202
Total current liabilities	6,212	6,060	74,719
Noncurrent liabilities:			
Long-term loans payable	1,720	1,778	20,685
Lease obligations	293	346	3,526
Provision for directors' retirement benefits	99	104	1,199
Provision for retirement benefits	1,414	1,368	17,015
Other	166	137	2,001
Total noncurrent liabilities	3,694	3,735	44,428
Total Liabilities	9,907	9,796	119,147
Shareholders' Equity:			
Authorized-60,000,000 shares;			
Issued-19,572,000 shares in 2011			
and 19,572,000 shares in 2010	3,200	3,200	38,484
Capital surplus	2,066	3,045	24,854
Retained earnings	(1,231)	(1,454)	(14,805)
Treasury stocks	(334)	(334)	(4,022)
835,419 shares in 2011 and 833,316 shares in 2010			
Valuation difference on available-for-sale securities	(191)	(180)	(2,299)
Foreign currency translation adjustment	(128)	(132)	(1,541)
Total shareholders' equity	3,381	4,143	40,669
Total Liabilities			
and Shareholders' Equity	¥13,288	¥13,939	\$159,817

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

NIKKO COMPANY

For the five months ended March 31, 2011 and years ended October 31, 2010

Consolidated Statement of Income

	Millions of yen		Thousands of U. S. dollar
	2011	2010	2011
Net Sales	¥7,754	¥17,961	\$93,255
Cost of Sales	5,665	13,445	68,135
Gross profit	2,088	4,516	25,119
Selling, General and Administrative Expenses	2,497	5,471	30,038
Operating income (loss)	(408)	(954)	(4,918)
Other (Income) Expenses:			
Interest expenses	22	52	273
Interest and dividend income	(0)	(1)	(6)
(Gain) on sale or loss on disposal of noncurrent assets, net	2	11	26
Other, net	311	(42)	3,745
Income before taxes (loss)	(744)	(975)	(8,957)
Income taxes-current	17	44	207
Income taxes-deferred	(6)	2	(80)
Income taxes	10	46	127
Income (loss) before minority interests	(755)	—	(9,084)
Net income (loss)	¥(755)	¥(1,022)	\$(9,084)

	Yen		U. S. dollar
	2011	2010	2011
Amounts Per Share of Common Stock:			
Net Income (loss)	¥(40.31)	¥(54.54)	\$(0.484)
Cash dividends	—	—	—

Consolidated Statement of Comprehensive Income

	Millions of yen		Thousands of U. S. dollar
	2011	2010	2011
Income(loss) before minority interests	(755)	—	(9,084)
Other comprehensive income			
Valuation difference on available-for-sale securities	(10)	—	(122)
Foreign currency translation adjustment	3	—	47
Other comprehensive income	(6)	—	(75)
Comprehensive income	(761)	—	(9,159)
Comprehensive income attributable to owners of the parent	(761)	—	(9,159)
Comprehensive income attributable to minority interests	—	—	—

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Changes in Equity

NIKKO COMPANY

For the five months ended March 31, 2011 and years ended October 31, 2010

	Number of shares of common stock (thousands)	Millions of yen				
		Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
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
Deficit disposition	—	—	(978)	978	—	—
Net income (loss) for the year	—	—	—	(755)	—	(755)
Purchase of treasury stock	—	—	—	—	(0)	(0)
Other	—	—	—	—	—	—
Balance, March 31, 2011	19,572	¥3,200	¥2,066	¥(1,231)	¥(334)	¥3,701

	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, 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
Deficit disposition	—	—	—	—
Net income (loss) for the year	—	—	—	(755)
Purchase of treasury stock	—	—	—	(0)
Other	(10)	3	(6)	(6)
Balance, March 31, 2011	¥(191)	¥(128)	¥(319)	¥3,381

	Thousands of dollars				
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance, October 31, 2010	\$38,484	\$36,621	\$(17,488)	\$(4,018)	\$53,599
Deficit disposition	—	(11,766)	11,766	—	—
Net income (loss) for the year	—	—	(9,084)	—	(9,084)
Purchase of treasury stock	—	—	—	(4)	(4)
Other	—	—	—	—	—
Balance, March 31, 2011	\$38,484	\$24,854	\$(14,805)	\$(4,022)	\$44,510

	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, 2010	\$(2,176)	\$(1,589)	\$(3,765)	\$49,833
Deficit disposition	—	—	—	—
Net income (loss) for the year	—	—	—	(9,084)
Purchase of treasury stock	—	—	—	(4)
Other	(122)	47	(75)	(75)
Balance, March 31, 2011	\$(2,299)	\$(1,541)	\$(3,841)	40,669

See Notes to the Consolidated Financial Statements.

Consolidated Statement of Cash Flows

NIKKO COMPANY

For the five months ended March 31, 2011 and years ended October 31, 2010

	Millions of yen		Thousands of
	2011	2010	U. S. dollar
			2011
Net cash provided by (used in) operating activities			
Income (Loss) before income taxes and minority interests	¥(744)	¥(975)	\$(8,957)
Depreciation and amortization	244	580	2,937
Loss on adjustment for changes of Accounting Standard for asset retirement obligations	43	—	527
Loss on liquidation of subsidiaries and affiliates	7	—	95
Business structure improvement expenses	344	—	4,141
Increase (decrease) in allowance for doubtful accounts	(8)	59	(98)
Increase (decrease) in provision for bonuses	169	(103)	2,044
Increase (decrease) in provision for retirement benefits	46	171	561
Increase (decrease) in provision of allowance for loss on valuation of investment of subsidiaries and affiliates	—	(157)	—
Increase (decrease) in provision for product warranties	17	(19)	204
Interest and dividends income	(3)	(9)	(37)
Interest expenses	22	52	273
Loss (gain) on sales of property, plant and equipment	(0)	(5)	(2)
Loss on retirement of noncurrent assets	2	17	29
Loss (gain) on valuation of investment securities	—	0	—
Loss (gain) on valuation of derivatives	—	2	—
Decrease (increase) in notes and accounts receivable-trade	279	(417)	3,361
Decrease (increase) in claims provable in bankruptcy, claims provable in rehabilitation	(102)	10	(1,235)
Decrease (increase) in inventories	43	(32)	519
Increase (decrease) in notes and accounts payable-trade	(140)	403	(1,689)
Other, net	(114)	369	(1,381)
Subtotal	107	(52)	1,294
Interest and dividends income received	3	9	37
Interest expenses paid	(22)	(52)	(273)
Income taxes paid	(42)	(36)	(507)
Net cash provided by (used in) operating activities	¥45	¥(132)	\$550
Net cash provided by (used in) investment activities			
Payments into time deposits	(106)	(180)	(1,285)
Proceeds from withdrawal of time deposits	106	178	1,285
Purchase of property, plant and equipment	(200)	(411)	(2,409)
Proceeds from sales of property, plant and equipment	0	8	2
Acquisition of investments in affiliates	—	20	—
Payments for investments in capital of subsidiaries and affiliates	(30)	—	(360)
Other, net	(7)	(39)	(90)
Net cash provided by (used in) investment activities	¥(237)	¥(424)	\$(2,858)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	346	25	4,169
Proceeds from long-term loans payable	—	600	—
Payments into long-term loans payable	(68)	(100)	(817)
Repayments of lease obligations	(52)	(109)	(631)
Purchase of treasury stock	(0)	(0)	(4)
Cash dividends paid	—	(0)	—
Other, net	(0)	—	(4)
Net cash provided by (used in) financing activities	¥225	¥415	\$2,712
Effect of exchange rate change on cash and cash equivalents	3	(9)	40
Net increase (decrease) in cash and cash equivalents	36	(151)	444
Cash and cash equivalents at beginning of period	1,251	1,402	15,045
Cash and cash equivalents at end of period	¥1,287	¥1,251	\$15,489

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 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 ¥83.15=U.S.\$1 the approximate rate of exchange at March 31, 2011, 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 March 31, 2011. The consolidated financial statements include the accounts of the Company and 3 of its subsidiaries. The consolidated subsidiaries are listed below:

	As at March 31, 2011	
	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 Non-consolidated Subsidiaries and Affiliates

At March 31, 2011, the Company had 2 non-consolidated subsidiaries and 2 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) 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.

(13) Shareholders' Equity

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

(14) Research and Development Costs

Expenses relating to research and development activities are charged to income as incurred. Such research and development expenses were included in cost of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥122million (\$1,470 thousand) and ¥335million (\$4,146 thousand) for the years ended March 31, 2011 and October 31, 2010, respectively.

(15) Change in Fiscal Year End

The company had changed its fiscal year end from October 31 to March 31 being authorized by the General Meeting of Shareholders to be held on January 28, 2011. This was done to bring its fiscal year into line with that of its main business partners, considering that their fiscal year end on March 31 each year, to disclose its business performance and other such management information more appropriately and execute operations in an efficient manner. As a result of the change, we have an irregular 5-month period for fiscal 2011. Further, 3 consolidated subsidiaries had changed its fiscal year end from October 31 to March 31 to increase efficiency of preparing financial statements.

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 March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term loans payable (1.11%)	¥793	¥446	\$9,544
Current portion of long-term loans payable (2.14%)	162	172	1,948
Lease obligations	127	126	1,536

Percentages show the annual weighted average interest rate at March 31, 2011

Long-term loans and Lease obligations at March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Long-term loans payable (2.24%)	¥1,720	¥1,778	\$20,685
Lease obligations	293	346	3,526

Percentage shows the annual weighted average interest rate at March 31, 2011

The aggregate annual maturities of the non-current portion of long-term loans and lease obligations at March 31, 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars	
	long-term loans	Lease obligations	long-term loans	Lease obligations
2013	¥319	¥108	\$3,838	\$1,299
2014	349	94	4,198	1,138
2015	323	53	3,886	640
2016	257	23	3,092	282
2017 and thereafter	471	13	5,669	164

4. Pledged Assets

The carrying amounts of assets pledged as collateral at March 31, 2011 and October 31, 2010.

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Land	¥947	¥947	\$11,397
Buildings and structures	1,284	1,311	15,446
Investment securities	328	344	3,944
Merchandise and finished goods	472	479	5,685

5. Contingent Liabilities

Contingent liabilities at March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Guarantee of indebtedness of affiliate	¥26	¥25	\$317
Guarantees of indebtedness of employees	5	6	62
Guarantees of the lease liabilities of the company (Transport duties trust)	21	23	255

6. Retirement Plans and Severance Indemnities

- (1) The Company and certain domestic consolidated subsidiaries have a defined benefit plan, qualified pension plan, covering substantially all employees. They may grant additional benefits in case where certain requirements are met when employees retire. Furthermore, certain domestic consolidated subsidiaries changed its retirement benefit plan as of November 1, 2010 from qualified pension plan to defined contribution pension plan and lump-sum severance indemnity plans.
- (2) Detail on the reserve for retirement benefits as of March 31, 2011 and October 31, 2010 are analyzed as follows:

	Millions of yen		Thousands of U.S. dollar
	2011	2010	2011
Retirement benefit obligation at end of year	¥(3,040)	¥(3,048)	\$(36,571)
Plan assets	1,177	1,136	14,158
Unfunded retirement benefit obligation	(1,863)	(1,911)	(22,412)
Unrecognized net retirement benefit obligation at transition	302	341	3,639
Unrecognized actuarial loss	146	201	1,757
Unrecognized prior service cost	—	—	—
Net amount recognized on the balance sheet	(1,414)	(1,368)	(17,015)
Prepaid pension expenses	—	—	—
Accrued retirement benefits	(1,414)	(1,368)	(17,015)

Note: Certain domestic consolidated subsidiaries calculate retirement benefit obligation by the simplified method permitted under the accounting standards generally accepted in Japan.

- (3) Components of retirement benefit expenses for the year ended March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollar
	2011	2010	2011
Service cost	¥70	¥191	\$851
Interest cost	24	58	293
Expected return on plan assets	(9)	(22)	(108)
Amortization of transition obligation	—	68	—
Amortization of transition of transfers	27	—	330
Amortization of actuarial gains and losses	16	40	196
Premium paid into the defined-contribution plan	3	—	38
Other	0	5	6
Retirement benefit expenses (Total)	133	342	1,607
Gain/ loss on transfers between pension plans	(14)	—	(172)
Total	119	—	1,435

Notes: (1) In certain domestic consolidated subsidiaries, except premium paid into the defined-contribution plan and Amortization of transition obligation, retirement expenses under the simplified method are included in service cost.

(2) Certain domestic consolidated subsidiaries has changed its retirement benefit plan as of November 1, 2010, from qualified pension plan to defined contribution pension plan, and has applied “Accounting Standard for Transfer between Retirement Benefit Plan” (ASBJ Guidance No.1). In accordance with this transfer, we resulted ¥14million (\$172thousand) as extraordinary gain.

- (4) Assumptions used for calculation of retirement benefits for the year ended March 31, 2011 and October 31, 2010 are as follows:

	2011	2010
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
	2011	2010	2011
Deferred tax assets:			
Provision for bonuses not deductible until paid	¥146	¥79	\$1,762
Provision for product warranties	41	34	500
Allowance for doubtful accounts	161	170	1,937
Loss on valuation of inventories	319	309	3,838
Loss on disposal of inventories	42	45	506
Impairment loss on fixed assets	44	48	534
Provision for retirement benefits	571	552	6,870
Provision for directors' retirement benefits	39	40	475
Valuation difference on available-for-sale securities	—	73	—
Business structure improvement expenses	139	—	1,673
Tax loss carried forward	2,653	2,697	31,909
Other	112	74	1,347
Subtotal	4,270	4,127	51,356
Allowance for valuation	(4,267)	(4,125)	(51,328)
Net deferred tax assets	¥2	¥1	\$28
Deferred tax liabilities:			
Deferred gains on sales of property	—	(6)	—
Net deferred tax liabilities	—	¥(6)	—

The reconciliation of the statutory tax rate to the income tax rate reflected in the Consolidated Statements of Income for the year ended March 31, 2011 and October 31, 2010 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 March 31, 2011 and does 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 March 31, 2011 and October 31, 2010 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Acquisition cost			
Machinery and equipment	¥509	¥513	\$6,125
Other assets	54	80	650
	¥563	¥594	\$6,775
Accumulated depreciation			
Machinery and equipment	¥224	¥199	\$2,699
Other assets	37	57	454
	¥262	¥256	\$3,153
Fair loss			
Machinery and equipment	¥2	—	\$34
Other assets	—	—	—
	¥2	—	34
Net book value			
Machinery and equipment	¥281	¥314	\$3,391
Other assets	16	22	196
	¥298	¥337	\$3,587

Obligations under finance leases as of March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥77	¥84	\$934
Due after one year	237	269	2,858
	¥315	¥353	\$3,793
Allowance for impairment loss on leased property	¥2	—	\$25

Depreciation expenses and interest expenses under finance leases as of 2011 and 2010, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Lease expenses for the year	¥36	¥88	\$435
Depreciation expense	34	90	420
Interest expenses	6	17	74
Impairment loss	2	—	25

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

The minimum rental commitments under non-cancellable operating leases at March 31, 2011 and October 31, 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Due within one year	¥11	¥11	\$134
Due after one year	12	16	145
	¥23	¥27	\$280

9. Financial Instruments

Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheets as of March 31, 2011 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		
	2011		
	Carrying value	Fair value	Variance
(1) Cash and time deposits	¥1,468	¥1,468	¥ —
(2) Notes and accounts receivable	3,060	3,060	—
(3) Investments in securities			
Held-to-maturity securities	50	36	(13)
Available-for-sale securities	377	377	—
Assets Total	4,956	4,943	(13)
(4) Notes and accounts payable	3,364	3,364	—
(5) Short-term bank borrowings	793	793	—
(6) Long-term borrowings from banks	1,882	1,916	34
(7) Lease obligations	420	411	(9)
(8) Income tax payable	30	30	—
Liabilities Total	6,492	6,516	24

	Thousands of U.S. dollars		
	2011		
	Carrying value	Fair value	Variance
(1) Cash and time deposits	\$17,662	\$17,662	\$ —
(2) Notes and accounts receivable	36,808	36,808	—
(3) Investments in securities			
Held-to-maturity securities	601	444	(156)
Available-for-sale securities	4,542	4,542	—
Assets Total	59,614	59,457	(156)
(4) Notes and accounts payable	40,465	40,465	—
(5) Short-term bank borrowings	9,544	9,544	—
(6) Long-term borrowings from banks	22,633	23,046	412
(7) Lease obligations	5,062	4,943	(118)
(8) Income tax payable	371	371	—
Liabilities Total	78,077	78,370	293

(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
	<u>Carrying value</u>	<u>Carrying value</u>
Unlisted shares	¥48	\$584
Shares of subsidiaries and affiliates	36	439
Investments in capital of subsidiaries and affiliates	30	360

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.

10. 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 held-to-maturity securities and available-for-sale securities at March 31, 2011 and October 31, 2010 were as follows.

(1) Held-to-maturity securities

Securities with book values exceeding

Millions of yen		
<u>2011</u>		
Book value	Fair value	Difference
—	—	—

Thousands of U.S. dollars

<u>2011</u>		
Book value	Fair value	Difference
—	—	—

Held-to-maturity securities

Securities with book values exceeding

Millions of yen		
<u>2010</u>		
Book value	Fair value	Difference
—	—	—

Other securities

Millions of yen		
<u>2011</u>		
Book value	Fair value	Difference
¥50	¥36	¥(13)

Thousands of U.S. dollars

<u>2011</u>		
Book value	Fair value	Difference
\$601	\$444	\$(156)

Other securities

Millions of yen		
<u>2010</u>		
Book value	Fair value	Difference
¥50	¥39	¥(10)

(2) Available-for-sale securities

Securities with book values exceeding

Millions of yen		
<u>2011</u>		
Book value	Acquisition cost	Difference
¥1	¥1	¥0

Thousands of U.S. dollars

<u>2011</u>		
Book value	Acquisition cost	Difference
\$14	\$13	\$0

Available-for-sale securities

Securities with book values exceeding

Millions of yen		
<u>2010</u>		
Book value	Acquisition cost	Difference
¥1	¥1	¥0

Other securities

Millions of yen		
<u>2011</u>		
Book value	Acquisition cost	Difference
¥376	¥567	¥(191)

Thousands of U.S. dollars

<u>2011</u>		
Book value	Acquisition cost	Difference
\$4,527	\$6,827	\$(2,300)

Other securities

Millions of yen		
<u>2010</u>		
Book value	Acquisition cost	Difference
¥386	¥567	¥(181)

11. Segment Information

(1) Overview of reportable segments

Segments used for financial reporting are the Nikko Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Group has established business divisions that comprise of the company and its subsidiaries and affiliates, and each division conducts business in line with the comprehensive strategies they have devised for products, merchandise and services in both domestic and overseas markets.

Therefore, the Group consists of segments by products, merchandise and services on the basis of the business divisions, and the "Housing & Environmental equipment", "Tabletop" and "Electro-Ceramics" are three reportable segments.

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

(2) Information related to net sales and profit or loss for each reportable segment

	Millions of yen						Amounts on the consolidated financial statements
	2011						
	Housing & Environmental Equipment	Tabletop	Electro-Ceramics	Other	Total	Adjustment	
Net sales:							
Sales to outside customers	¥4,390	¥2,247	¥1,085	¥31	¥7,754	—	¥7,754
Intersegment sales or Transfers	—	—	—	—	—	—	—
Total	4,390	2,247	1,085	31	7,754	—	7,754
Segment profit (loss) (Operating income(loss))	(20)	(79)	(18)	(16)	(135)	(273)	(408)
Segment assets	3,593	4,493	2,563	8	10,660	2,628	13,288
Other items:							
Depreciation and Amortization	¥70	¥72	¥76	¥0	¥219	¥24	¥244
Increase in Property, plant and equipment and Intangible assets	8	17	40	—	67	0	67
Impairment loss	111	—	—	—	111	—	111

Thousands of U.S. dollars							
2011							
	Housing & Environmental Equipment	Tabletop	Electro- Ceramics	Other	Total	Adjustment	Amounts on the consolidated financial statements
Net sales:							
Sales to outside customers	\$52,802	\$27,024	\$13,051	\$376	\$93,255	—	\$93,255
Intersegment sales or Transfers	—	—	—	—	—	—	—
Total	52,802	27,024	13,051	376	93,255	—	93,255
Segment profit (loss) (Operating income(loss))	(243)	(961)	(227)	(196)	(1,628)	(3,289)	(4,918)
Segment assets	43,217	54,046	30,832	105	128,202	31,615	159,817
Other items:							
Depreciation and Amortization	\$842	\$871	\$923	\$8	\$2,644	\$289	\$2,934
Increase in Property, plant and equipment and Intangible assets	104	211	491	—	807	3	810
Impairment loss	1,339	—	—	—	1,339	—	1,339

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	9,872	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

Note: Beginning with the current fiscal year, the Company has applied “Accounting Standard for Disclosure of Segment Information” (ASBJ Statement No. 17, March 27, 2009) and “Application Guidance on Accounting Standard for Disclosure of Segment Information” (ASBJ Guidance No. 20, March 21, 2008).

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 June 30th, 2011)

Chairman

Akitoshi Sakai

Chief Executive Officer

Makoto Yoshida

Board Director, Senior Managing Officer

Kazuto Futamata

Board Director, Executive Managing Officer

Kazuo Miyanabe (Housing & Environmental Equipment Division, General Manager)

Board Director, Managing Officer

Kenji Kita	(Tabletop Division, General Manager)
Yoshiaki Iwasaki	(Tabletop Division, Head-Factory Manager)
Makoto Aoki	(Electro-Ceramics Division, General Manager)
Yasuhiro Kurauchi	(Finance & Administration, General Manager)

Board Director

Mitsuru Mitani
Ryuji Iwata
Akiko Mitani

Executive Auditing Director

Shigekazu Kaneda

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"
Directly Managed Shop "TABLE WITH"

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/>