

Summary of Financial Statements (Consolidated)
Third Quarter Update for the Fiscal Year Ending May 31, 2007

This document is an English translation of parts of the Japanese-language original. All financial information has been prepared in accordance with generally accepted accounting principles in Japan.

March 27, 2007

Listed company: Nippon Kayaku Co., Ltd.
 Code No.: 4272
 (URL <http://www.nipponkayaku.co.jp>)

Listed stock exchange: Tokyo
 Head office location: Tokyo

1. Notes Relating to the Preparation, Etc., of Quarterly Business Performance Updates

- (1) Simplified accounting treatments were not adopted
- (2) There were no changes to accounting treatments from the previous year.
- (3) There were two changes to the scope of consolidation.

Nature of the changes:

Taiwan Nippon Kayaku Co., Ltd. and Euro Nippon Kayaku GmbH were newly included into the scope of consolidation. N.S. Color Techno Co., Ltd. and Kayafloc Co., Ltd. were excluded from the scope of consolidation.

2. Financial/Business Performance Summary for Third Quarter of Fiscal Year Ending May 2007 (June 1, 2006 to February 28, 2007)

(1) Operating results (consolidated) progress Note: Figures shown are rounded down to nearest million yen.

	Net sales		Operating income		Ordinary income		Third quarter (current) net income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third quarter of fiscal year ending May 2007	110,873	7.3	11,069	13.7	12,192	8.6	5,320	(38.5)
Third quarter of fiscal year ended May 2006	103,345	4.7	9,735	45.5	11,231	64.6	8,654	194.6
Ref: Fiscal year ended May 31, 2006	140,026		13,219		14,366		9,641	

	Third quarter (current) net income per share	Third quarter (current) diluted net income per share
	Yen	Yen
Third quarter of fiscal year ending May 2007	29.27	28.99
Third quarter of fiscal year ended May 2006	47.59	—
Ref: Fiscal year ended May 31, 2006	52.92	—

Note: Percentages for net sales, and operating income, etc., show changes compared to the comparable period of the previous fiscal year.

[Qualitative information concerning progress of operating results (consolidated)]

During the third quarter of the current year, despite concerns over consumer spending, Japan's economy experienced gradual growth as a result of factors including improved corporate income that led to higher capital investment, and a recovery in the employment situation.

Under these conditions, third quarter net sales for the Nippon Kayaku Group were 110.873 billion yen, an increase of 7.527 billion yen (7.3%) from the same period in the previous fiscal year.

Ordinary income was 12.192 billion yen, an increase of 960 million yen (8.6%) from the same period in the previous fiscal year. As a result of decreased profits from the sale of fixed assets, net income for the quarter was 5.32 billion yen, a decrease of 3.334 billion yen (38.5%) from the same period in the previous fiscal year.

The third quarter performance by business segment is described below.

[Functional chemicals business]

Sales reached 59.733 billion yen, an increase of 5.101 billion yen (9.3%) over the same period in the previous fiscal year.

In the functional materials business, sales of special epoxy resins for semiconductor encapsulation were higher than for the third quarter of the previous fiscal year, however sales of UV-curing resins declined compared with the same period in the previous fiscal year. As a result, overall performance of the functional materials business was lower.

In the electronic materials business, while sales of colors for inkjet printers increased from the same period in the previous fiscal year, sales of resins for lenses and optical discs were lower compared to the same period in the previous fiscal year. In the area of optical films, sales of plasma display films were lower than the same period in the previous fiscal year, however sales of Polatechno polarizing plates were strong, and exceeded the level of the same period in the previous fiscal year. Overall, performance of the electronic materials business in the third quarter was higher than the same period in the previous fiscal year.

In the catalysts business, sales of catalysts used in the manufacture of acrylic acid and methacrylic acid were strong, and exceeded the levels of the same period in the previous fiscal year.

In the safety systems business, sales of airbag inflators and micro gas generators for seatbelt pretensioners went smoothly, and were up from the same period in the previous year.

[Pharmaceuticals business]

Sales amounted to 30.639 billion yen, an increase of 1.677 billion (5.8%) from the same period in the previous fiscal year.

Among pharmaceutical products for the Japanese domestic market, new products "PACLITAXEL Inj. NK" (anti-cancer drug) and "GELPART" (material for transcatheter arterial embolization) contributed to sales. In addition, sales were strong for new products "EPIRUBICIN Inj. Merck" (anti-cancer drug), "CARBOMERCK" (anti-cancer drug), "IA CALL" (arterial injection anti-cancer drug), "IMMUCYST" (anti-cancer drug), and the introduced-product "CALCED" (anti-cancer drug), with sales exceeding the levels of the same period in the previous fiscal year. On the other hand, due to factors including the effects of competitor products, sales of "FARESTON Tab." (anti-cancer drug), "RANDA Inj." (anti-cancer drug), "BESTATINE" (anti-cancer drug), and "MILLISROL Inj." (vasodilator) decreased compared to the same period in the previous fiscal year.

Overall, sales of pharmaceutical products for the Japanese domestic market in this quarter were higher than the same period in the previous fiscal year.

In the area of exports, sales of "BLEO" (anti-cancer drug) were strong and were higher than the same period in the previous fiscal year, while sales of "ETOPOSIDE" (anti-cancer drug) were lower. Export sales overall were lower than the same period in the previous fiscal year.

Sales of active pharmaceutical ingredients went smoothly, and were higher than the same period in the previous fiscal year.

Sales of the diagnostic agents "LANAZYME ST-439 Plates" (breast cancer diagnostic agent) and "LANA 1,5AG AUTO LIQUID" (diabetes diagnostic agent) were strong, and approximately on the same level as the same period in the previous fiscal year.

[Fine chemicals business]

Sales amounted to 18.286 billion yen, an increase of 869 million yen (5.0%) from the same period in the previous fiscal year.

In the agrochemicals business, both domestic sales and exports of agrochemicals (pesticides) were strong, and exceeded the levels from the same period in the previous fiscal year.

In the color chemicals business, domestic sales of textile dyes were strong, and were up from the same period in the previous fiscal year.

In the explosives business, due to the effects of declining demand from civil engineering and stonecrushing applications, sales were lower compared with the same period in the previous fiscal year.

[Other businesses]

Sales amounted to 2.213 billion yen, a decrease of 120 million yen (5.1%) from the same period in the previous fiscal year.

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of February 28, 2007	208,445	129,230	56.0	642.46
As of February 28, 2006	199,855	113,065	56.6	621.59
Ref: As of May 31, 2006	205,308	127,030	56.2	634.51

Note: Net assets for the third quarter of the fiscal year ended May 2006 do not include minority interests.

(3) Status of Consolidated Cash Flow

	Cash flow from operating activities	Cash flow from investing activities	Cash flow from financing activities	Cash and cash equivalents at end of the period
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Third quarter of fiscal year ending May 2007	13,936	(12,799)	4,109	26,987
Third quarter of fiscal year ended May 2006	10,009	(10,145)	(1,309)	16,455
Ref: Fiscal year ended May 31, 2006	11,791	(7,102)	(1,182)	21,424

[Qualitative information concerning changes in financial position (consolidated)]

Total assets were 208.445 billion yen, an increase of 3.137 billion yen from the end of the previous fiscal year. Current assets decreased by 280 million yen, while fixed assets increased by 3.418 billion yen.

Liabilities were 79.215 billion yen, an increase of 936 million yen from the end of the previous fiscal year. Despite a decrease in accrued amount payable and allowance for employee retirement benefits, this was primarily due to an increase in long-term debt. Net assets were 129.23 billion yen, an increase of 2.2 billion yen from the end of the previous fiscal year.

The balance of cash and cash equivalents at the end of the third quarter was 5.562 billion yen higher than at the end of the previous fiscal year, reaching 26.987 billion yen. The status of cash flows is as described below.

[Cash flow from operating activities]

Cash flow from operating activities amounted to 13.936 billion yen. Despite income for the quarter (before income taxes and minority interests) of 11.017 billion yen and depreciation expenses of 6.303 billion yen, this was primarily the result of the 2.923 billion yen in corporate taxes paid.

[Cash flow from investment activities]

Cash flow from investment activities indicated expenditures of 12.799 billion yen. Despite revenue of 6.496 billion yen from the sale of marketable securities, this was primarily the result of expenditures of 13.391 billion yen for the acquisition of tangible fixed assets.

[Cash flow from financing activities]

Cash flow financing activities indicated revenue of 4.109 billion yen. Despite payments of 4.328 billion yen in dividends, this was primarily the result of 10.0 billion yen in revenue from long-term loans.

3. Consolidated Business Results Forecast for Fiscal Year Ending May 2007 (June 1, 2006 to May 31, 2007)

	Net sales	Ordinary income	Net income
	Millions of yen	Millions of yen	Millions of yen
Full year	150,000	15,000	7,000

(Reference) Forecasted net income per share (full year): 38.51 yen

[Qualitative information concerning the consolidated results forecast]

Based on recent trends and other information, we have corrected the forecast for the full-year business results that was announced when the interim period summary of financial statements was released on December 28, 2006. For details, refer to the "Notice of Correction to the Business Results Forecast," which was released separately today.

* The forecast above is based on information that was obtainable and on assumptions pertaining to uncertain factors that can affect future business results, as of the date this report was announced. The actual business results may vary greatly due to a variety of future factors.

[Supporting Data]

1. Summarized Consolidated Balance Sheets

	As of February 28, 2006	As of February 28, 2007	As of May 31, 2006	Comparative change
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Assets				
Current assets	105,425	108,363	108,644	(280)
Cash and savings	14,867	20,835	17,979	2,855
Notes receivable and accounts receivable	44,143	45,767	45,627	140
Marketable securities	11,777	8,254	8,985	(731)
Inventory assets	27,345	29,368	26,649	2,719
Other	7,290	4,136	9,401	(5,265)
Fixed assets	94,430	100,082	96,663	3,418
Tangible fixed assets	60,377	67,837	62,754	5,082
Intangible fixed assets	7,947	5,947	7,608	(1,660)
Investments and other assets	26,105	26,296	26,300	(3)
Total assets	199,855	208,445	205,308	3,137

Liabilities				
Current liabilities	40,345	40,182	41,619	(1,437)
Notes payable and accounts payable	19,801	18,804	16,953	1,851
Short-term loans payable	6,814	6,685	4,868	1,817
Accrued amount payable	7,036	5,775	12,446	(6,671)
Corporation tax payable	1,153	2,781	1,276	1,504
Accrued expenses	3,310	3,357	4,391	(1,033)
Other	2,228	2,776	1,682	1,094
Fixed liabilities	38,127	39,033	36,659	2,374
Long-term loans payable	9,294	14,891	7,175	7,715
Allowance for employee retirement benefits	6,905	3,599	8,025	(4,425)
Long-term deposits payable	14,704	13,998	14,168	(170)
Other	7,223	6,543	7,289	(745)
Total liabilities	78,472	79,215	78,278	936
Minority interests				
Minority interests	8,317			
Shareholders' equity				
Capital stock	14,932			
Additional paid-in capital	17,263			
Retained earnings	74,650			
Net unrealized gains on other securities	5,607			
Foreign currency translation adjustments	988			
Treasury stock	(378)			
Total capital	113,065			
Total liabilities, minority interests, and capital	199,855			

	As of February 28, 2006	As of February 28, 2007	As of May 31, 2006	Comparative change
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net assets				
Shareholders' equity		109,900	109,000	900
Capital stock		14,932	14,932	
Additional paid-in capital		17,268	17,264	3
Retained earnings		78,190	77,201	988
Treasury stock		(491)	(398)	(92)
Unrealized gains and currency translation adjustments		6,843	6,375	467
Net unrealized gains on other securities		5,154	5,216	(62)
Foreign currency translation adjustments		1,688	1,158	530
Minority interests		12,486	11,653	832
Total net assets		129,230	127,030	2,200
Total liabilities and net assets		208,445	205,308	3,137

2. Summarized Consolidated Profit and Loss Statement

	Third quarter of fiscal year ended May 2006	Third quarter of fiscal year ending May 2007	Fiscal year ended May 31, 2006	Comparative change
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net sales	103,345	110,873	140,026	7,527
Cost of sales	64,339	69,486	87,074	5,146
Reversal of reserve for sales returns	46	62	46	15
Addition to reserve for sales returns	51	54	62	2
Gross profit on sales	39,001	41,395	52,935	2,394
Selling, general, and administrative expenses	29,265	30,325	39,715	1,060
Operating income	9,735	11,069	13,219	1,333
Nonoperating income	2,297	2,130	2,430	(167)
Nonoperating expenses	802	1,007	1,284	205
Ordinary income	11,231	12,192	14,366	960
Extraordinary income	8,483	428	8,497	(8,055)
Extraordinary loss	2,773	1,603	4,234	(1,170)
Third quarter (current) net income before income taxes	16,941	11,017	18,629	(5,924)
Corporation tax, inhabitant tax, and business tax	2,927	4,624	3,622	1,697
Income taxes deferred	3,951	(219)	3,748	(4,171)
Minority interests	1,407	1,292	1,616	(115)
Third quarter (current) net income	8,654	5,320	9,641	(3,334)

3. Summarized Consolidated Cash Flow Statement

	Third quarter of fiscal year ended May 2006	Third quarter of fiscal year ending May 2007	Fiscal year ended May 31, 2006
	Millions of yen	Millions of yen	Millions of yen
Cash flow from operating activities			
Third quarter (current) net income before income taxes	16,941	11,017	18,629
Depreciation	5,585	6,303	7,708
Interest and dividends received	(394)	(293)	(430)
Interest paid	369	305	430
Income on sale of tangible fixed assets	(8,457)	(209)	(8,469)
(Increase) and decrease in notes and accounts receivable	3,071	140	1,613
(Increase) and decrease in inventory assets	(3,060)	(2,493)	(2,349)
Increase and (decrease) in purchase debt	1,944	1,477	(758)
Increase and (decrease) in accrued amount payable	(268)	(1,377)	(138)
Increase and (decrease) in accrued expenses	(1,289)	(1,069)	(185)
Other	(53)	3,087	(199)
Subtotal	14,390	16,889	15,848
Interest and dividends received	392	296	832
Interest paid	(272)	(327)	(354)
Corporation tax paid	(4,500)	(2,923)	(4,535)
Cash flow from operating activities	10,009	13,936	11,791
Cash flow from investing activities			
Revenue from repayment of time deposits	3,014	3	5,146
Expenditure from deposit of time deposits	(5,149)	(45)	(5,149)
Expenditure from acquisition of marketable securities	(16,012)	(2,996)	(18,510)
Revenue from sale of marketable securities	8,005	6,496	13,012
Expenditure from acquisition of tangible fixed assets	(6,423)	(13,391)	(8,782)
Revenue from sale of tangible fixed assets	8,048	220	8,099
Expenditure from acquisition of intangible fixed assets	(885)	(99)	(848)
Expenditure from acquisition of investments in securities	(29)	(1,210)	(229)
Revenue from investments in securities	431	539	400
Expenditure from increase in long-term prepaid expenses	(189)	(508)	(246)
Other	(955)	(1,806)	5
Cash flow from investing activities	(10,145)	(12,799)	(7,102)
Cash flow from financing activities			
Increase and (decrease) in short-term loans payable	2,009	1,247	(538)
Revenue from long-term loans	996	10,000	945
Expenditure from repayment of long-term loans payable	(1,670)	(2,051)	(3,392)
Dividends paid	(2,062)	(4,328)	(2,119)
Other	(582)	(758)	3,922
Cash flow from financing activities	(1,309)	4,109	(1,182)
Effect of exchange rate changes on cash and cash equivalents	205	197	211
Change in cash and cash equivalents	(1,239)	5,443	3,718
Cash and cash equivalents at beginning of year	17,191	21,424	17,191
Change in cash and cash equivalents accompanying new consolidation	504	119	504
Change in cash and cash equivalents accompanying mergers			11
Cash and cash equivalents at end of third quarter of year	16,455	26,987	21,424

4. Segment Information

Third quarter of fiscal year ended May 2006 (June 1, 2005 to February 28, 2006)

	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
	Millions of yen						
Net sales							
Sales to third parties	54,632	28,962	17,417	2,333	103,345		103,345
Intersegment sales and transfers	63	6	45	5	120	(120)	
Total sales	54,695	28,968	17,462	2,338	103,465	(120)	103,345
Operating expenses	46,634	25,340	16,307	1,197	89,479	4,129	93,609
Operating income	8,061	3,628	1,155	1,140	13,986	(4,250)	9,735

Third quarter of fiscal year ending May 2007 (June 1, 2006 to February 28, 2007)

	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
	Millions of yen						
Net sales							
Sales to third parties	59,733	30,639	18,286	2,213	110,873		110,873
Intersegment sales and transfers	81	0	199	11	293	(293)	
Total sales	59,815	30,639	18,486	2,225	111,167	(293)	110,873
Operating expenses	52,245	25,514	17,097	1,019	95,877	3,925	99,803
Operating income	7,569	5,125	1,388	1,206	15,289	(4,219)	11,069

Fiscal year ended May 31, 2006

	Functional chemicals business	Pharmaceuticals business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
	Millions of yen						
Net sales							
Sales to third parties	73,133	39,774	24,028	3,089	140,026		140,026
Intersegment sales and transfers	86	8	64	8	167	(167)	
Total sales	73,219	39,783	24,093	3,097	140,194	(167)	140,026
Operating expenses	63,042	34,283	22,208	1,571	121,106	5,700	126,806
Operating income	10,177	5,499	1,884	1,526	19,087	(5,867)	13,219

Note: Business segment is based on sales summary classification.