

**Summary of Financial Statements (Consolidated)**  
**Third Quarter Update for the Fiscal Year Ending May 31, 2008**

March 25, 2008

Listed company: Nippon Kayaku Co., Ltd. (URL <http://www.nipponkayaku.co.jp/>)

Listed stock exchange: Tokyo Stock Exchange, First Section

Code No.: 4272

Representative: (Position) President, (Name) Koichiro Shimada

Person in charge of inquiries:

(Position) Executive Officer, General Manager of Finance & Accounting Division, Administration Group (Name)

Ryoichi Araki

(Figures shown are rounded down to the nearest million yen.)

1. Consolidated Business Results for Third Quarter of Fiscal Year Ending May 2009 (June 1, 2007 to February 29, 2008)

(1) Consolidated Operating Results (Percentages indicate amount of change from the previous year.)

	Net sales		Operating income		Ordinary income	
	Millions of yen	%	Millions of yen	%	Millions of yen	%
Third quarter of fiscal year ending May 2008	108,686	(2.0)	9,777	(11.7)	8,086	(33.7)
Third quarter of fiscal year ended May 2007	110,873	7.3	11,069	13.7	12,192	8.6
Fiscal year ended May 31, 2007	148,124		13,536		15,138	

	First quarter (current) net income		First quarter (current) net income per share	First quarter (current) diluted net income per share
	Millions of yen	%	Yen	Yen
Third quarter of fiscal year ending May 2008	3,312	(37.7)	18.23	18.11
Third quarter of fiscal year ended May 2007	5,320	(38.5)	29.27	28.99
Fiscal year ended May 31, 2007	6,610		36.37	36.11

(2) Consolidated Financial Position

	Total assets	Net assets	Equity ratio	Net assets per share
	Millions of yen	Millions of yen	%	Yen
As of February 29, 2008	208,837	129,323	55.7	640.79
As of February 28, 2007	208,445	129,230	56.0	642.46
As of May 31, 2007	207,081	130,233	56.7	646.78

(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 year
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Third quarter of fiscal year ending May 2008	8,059	(15,860)	3,414	21,382
Third quarter of fiscal year ended May 2007	13,936	(12,799)	4,109	26,987
Fiscal year ended May 31, 2007	20,201	(17,882)	1,559	25,589

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## 2. Status of Dividends

Nippon Kayaku does not pay dividends using the end of quarter as the record date.

There are no changes to the dividend forecasts for the fiscal year ending May 2008 that were announced on December 27, 2007.

(Date)	Dividend amount per share		
	End of interim	End of year	Year
	Yen		
Fiscal year ended May 31, 2007	10.00	10.00	20.00
Fiscal year ending May 31, 2008	10.00		20.00
Fiscal year ending May 31, 2008 (forecast)		10.00	

## 3. Consolidated Business Results Forecast for Fiscal Year Ending May 2008 (June 1, 2007 – May 31, 2008)

[Reference]

There are no changes to the forecasts for the fiscal year ending May 2008 that were announced on December 27, 2007.

(For the full year, percentages indicate amount of change from the previous year.)

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Full year	148,500	0.3	13,600	0.5	12,200	(19.4)	6,700	1.3	36.88

## 4. Other

(1) Major changes in subsidiaries occurring during this year (changes in specified subsidiaries that involve changes in the scope of consolidation):

Microchem Corp. was newly included into the scope of consolidation. Kayatech Co., Ltd. was excluded from the scope of consolidation.

(2) Adoption of simplified accounting method: Yes

(3) Changes in accounting methods from the most-recent consolidated fiscal year: Yes

(Note: For details, refer to “4. Others” under [Qualitative Information, Financial Statements and Other Information] on page 5.)

### \* Explanation related to appropriate use of the business results forecast and other notes

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.

[Qualitative Information, Financial Statements, and Related Matters]

1. Qualitative information concerning consolidated operating results

Despite growth in capital investment, the economy of Japan during the current third quarter (June 1, 2007 to February 29, 2008) saw corporate profits affected by rising material prices due to the soaring price of oil. Overseas, although there was strong growth in Asian economies, particularly China, financial markets were affected by the slowdown in the U.S. economy.

Under these conditions, net sales for the Nippon Kayaku Group in this third quarter were 108.686 billion yen, a decrease of 2.187 billion yen (2.0%) from the same period in the previous fiscal year.

Operating income was 9.777 billion yen, a decrease of 1.291 billion yen (11.7%) from the same period in the previous fiscal year, a result of factors such as slow sales of optical films in the electronic materials business. Ordinary income was largely affected by the exchange rate, decreasing by 4.105 billion yen (33.7%) from the same period in the previous fiscal year to 8.086 billion yen. Net income for the quarter was 3.312 billion yen, a decrease of 2.008 billion yen (37.7%) from the same period in the previous fiscal year.

The third quarter performance by business segment is described below.

[Functional chemicals business]

Sales were 44.799 billion yen, a decrease of 2.229 billion yen (4.7%) from the same period in the previous fiscal year.

In the functional materials business, sales of special epoxy resins for semiconductor encapsulation were higher than the third quarter of the previous fiscal year, thanks to strong sales of environmentally friendly epoxy resins. Sales of UV-curing resins also exceeded sales from the third quarter of the previous fiscal year. Sales for the functional material business as a whole were also higher.

In the electronic materials business, sales of colors for inkjet printers increased from the same period in the previous fiscal year. Among composite materials, sales of resins for optical discs were higher than the same period in the previous fiscal year, however sales of functional dyes and resins for lenses were lower. In the area of optical films, sales of plasma display films were significantly lower than the same period in the previous fiscal year. Although sales of Polatechno dye-type polarizing films for use in automotive applications grew, the shrinking market for rear-projection televisions affected sales of the inorganic polarizing films used with these products, and sales dropped significantly. Sales for the electronic materials business as a whole were below the level of the same period in the previous fiscal year.

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

Operating income for the functional chemicals business as a whole was 5.566 billion yen, a decrease of 1.618 billion yen (22.5%) resulting from factors such as slow sales of optical films in the electronic materials business.

[Pharmaceuticals business]

Sales were 30.940 billion yen, an increase of 301 million yen (1.0%) over the same period in the previous fiscal year.

Among pharmaceutical products for the Japanese domestic market, sales were strong of “ODYNE Tab.” (anti-cancer drug), “IA CALL Inj.” (anti-cancer drug), “PACLITAXEL Inj. NK” (anti-cancer drug), “CARBOMERCK” (anti-cancer drug), “EPIRUBICIN Inj. Merck” (anti-cancer drug), “CALCED” (anti-cancer drug), and “GELPART” (material for transcatheter arterial embolization), with sales of these products exceeding the levels from the same period in the previous fiscal year. On the other hand, the effects of competitor products and other factors resulted in lower sales of “FARESTON Tab.” (anti-cancer drug) and “MILLISROL Inj.” (vasodilator) compared with the same period in the previous fiscal year. Overall sales of pharmaceutical products for the Japanese domestic market were higher than the same period in the previous fiscal year.

In the area of exports, sales of “BLEO” (anti-cancer drug) were higher than the same period in the previous fiscal year, however sales of “ETOPOSIDE” (anti-cancer drug) were lower. As a result, export sales overall were lower than the same period in the previous fiscal year.

Despite strong sales of raw materials for generic drugs, overall sales of active pharmaceutical ingredients for the Japan domestic market were below the level of the same period in the previous fiscal year due to declining sales of feed additives.

Sales of the diagnostic agents “LANAZYME ST-439 Plates” (breast cancer diagnostic agent) and “LANA 1,5AG” (diabetes diagnostic agent) were strong, and exceeded the level of the same period in the previous fiscal year.

Operating income for the pharmaceuticals business as a whole was 5.522 billion yen, an increase of 397 million yen (7.8%) over the same period in the previous fiscal year.

[Safety systems business]

Sales were 15.295 billion yen, an increase of 2.590 billion yen (20.4%) over the same period in the previous fiscal year.

We enjoyed strong sales of airbag inflators and micro gas generators for seatbelt pretensioners, both of which exceeded the level of the third quarter in the previous fiscal year.

Operating income for the safety systems business as a whole was 207 million yen. Due to factors such as higher depreciation expenses resulting from active capital investment and high material prices, ordinary income decreased by 176 million yen (45.9%) from the same period in the previous fiscal year.

[Fine chemicals business]

On January 2, 2008, the Nippon Kayaku explosives business was integrated with Asahi Kasei Chemicals Corporation to create the amalgamated company Kayaku Japan Co., Ltd. This company is accounted for using the equity method, and as a result the sales of the Nippon Kayaku explosives business from June through December 2007 are included in the consolidated statements.

Sales were 15.421 billion yen, a decrease of 2.865 billion yen (15.7%) from the same period in the previous fiscal year.

In the agrochemicals business, both domestic sales and exports were significantly below the levels of the same period in the previous fiscal year.

In the color chemicals business, sales were approximately on the same level as the same period in the previous fiscal year, with strong sales of non-textile special dyes for paper pulp.

In the explosives business, due to the integration of our operations to form Kayaku Japan Co., Ltd., sales were significantly lower than the same period in the previous fiscal year.

Operating income for the fine chemicals business as a whole was 1.088 billion yen. In addition to the effects of integrating our explosives business, the elimination of China's value-added tax refund and the rising price of raw materials had a large effect on the color chemicals business. As a result, operating income declined by 299 million yen (21.6%) from the same period in the previous fiscal year.

[Other business]

Sales amounted to 2.228 billion yen, an increase of 15 million yen (0.7%) over the same period in the previous fiscal year.

Operating income was 1.208 billion yen, an increase of 2 million yen (0.2%) over the same period in the previous fiscal year.

2. Qualitative information concerning the consolidated financial position

Total assets increased by 1.755 billion yen from the end of the previous fiscal year to reach 208.837 billion yen. Current assets increased by 1.697 billion yen, primarily due to an increase in inventory assets. Fixed assets increased by 58 million yen.

Liabilities increased by 2.666 billion yen over the end of the previous fiscal year to reach 79.513 billion yen. Although there was a reduction in corporate and other taxes payable, the increase in liabilities was primarily due to an increase in short term loans payable. Net assets were 129.323 billion yen, a decrease of 910 million yen from the end of the previous fiscal year.

The balance of cash and cash equivalents at the end of the third quarter decreased by 4.206 billion yen from the end of the previous fiscal year to 21.382 billion yen. The status of each cash flow is as described below.

[Cash flow from operating activities]

Cash flow from operating activities was 8.059 billion yen. Despite income before income taxes and minority interests of 7.102 billion yen and depreciation costs of 7.924 billion yen, this result was largely due to the 6.891 billion yen in corporate and other taxes that were paid.

[Cash flow from investing activities]

Cash flow from investing activities showed an expenditure of 15.860 billion yen. This result was primarily due to the expenditure of 10.901 billion yen for the acquisition of tangible fixed assets.

[Cash flow from financing activities]

Cash flow from investing activities was 3.414 billion yen. Although the change in short-term loans payable was 5.380 billion yen, this result was primarily due to the payment of 3.515 billion yen in dividends.

3. Qualitative information concerning the consolidated results forecast  
Consolidated business results for the current third quarter were within the forecast range. Therefore at this time we have no corrections to the business results forecast for the full fiscal year.
4. Others
  - (1) Major changes in subsidiaries occurring during this year (changes in designated subsidiaries that involve changes to the consolidation range)  
Added: 1 company (MicroChem Corporation)  
Removed: Kayatech Co., Ltd.  
A merger occurred in which Nippon Kayaku was the surviving company and Kayatech became an extinct company.
  - (2) Adoption of a simplified method for accounting processes  
At Nippon Kayaku and some of our consolidated subsidiaries, the calculated allowance for employee retirement benefits is the amount that is recognized as occurring in the current third quarter, based on the expected employee retirement benefit obligation and pension assets at the end of the consolidated fiscal year.
  - (3) Changes in accounting methods from the most recent consolidated fiscal year  
The “business segments” under “Segment information” has been changed.  
For details, refer to page 10.

## 5. Summarized Quarterly Consolidated Financial Statements

### (1) Summarized Quarterly Consolidated Balance Sheets

	As of February 29, 2007	As of February 29, 2008	As of May 31, 2007	Comparative change
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
<b>Assets</b>				
Current assets	108,363	104,359	102,661	1,697
Cash and savings	20,835	18,340	18,320	19
Notes receivable and accounts receivable	45,767	46,153	46,213	(60)
Marketable securities	8,254	3,493	7,377	(3,884)
Inventory assets	29,368	29,664	26,180	3,484
Other	4,136	6,707	4,569	2,138
Fixed assets	100,082	104,477	104,419	58
Tangible fixed assets	67,837	71,526	69,783	1,743
Intangible fixed assets	5,947	6,748	5,757	990
Investments and other assets	26,296	26,203	28,879	(2,675)
<b>Total assets</b>	<b>208,445</b>	<b>208,837</b>	<b>207,081</b>	<b>1,755</b>
<b>Liabilities</b>				
Current liabilities	40,182	42,712	40,316	2,395
Notes payable and accounts payable	18,804	19,015	15,974	3,040
Short-term loans payable	6,685	11,384	7,099	4,284
Accrued amount payable	5,775	6,030	6,754	(723)
Accrued expenses	3,357	3,277	4,490	(1,213)
Corporate tax payable	2,781	715	4,548	(3,832)
Other	2,776	2,288	1,448	840
Fixed liabilities	39,033	36,801	36,531	270
Long-term loans payable	14,891	14,320	12,033	2,286
Allowance for employee retirement benefits	3,599	4,478	3,904	573
Long-term deposits payable	13,998	13,443	13,846	(403)
Other	6,543	4,559	6,745	(2,186)
<b>Total liabilities</b>	<b>79,215</b>	<b>79,513</b>	<b>76,847</b>	<b>2,666</b>
<b>Net assets</b>				
Shareholders' equity	109,900	110,791	111,168	(376)
Capital stock	14,932	14,932	14,932	-
Additional paid-in capital	17,268	17,270	17,269	1
Retained earnings	78,190	79,160	79,481	(321)
Treasury stock	(491)	(571)	(514)	(56)
Unrealized gains and currency translation adjustments	6,843	5,596	6,345	(749)
Net unrealized gains on other securities	5,154	2,348	5,068	(2,720)
Foreign currency translation adjustments	1,688	3,247	1,276	1,971
Minority interests	12,486	12,935	12,719	215
<b>Total net assets</b>	<b>129,230</b>	<b>129,323</b>	<b>130,233</b>	<b>(910)</b>
<b>Total liabilities and net assets</b>	<b>208,445</b>	<b>208,837</b>	<b>207,081</b>	<b>1,755</b>

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## (2) Summarized Quarterly Consolidated Profit and Loss Statement

	Third quarter of fiscal year ended May 2007	Third quarter of fiscal year ending May 2008	Fiscal year ended May 31, 2007	Comparative change
	Millions of yen	Millions of yen	Millions of yen	Millions of yen
Net sales	110,873	108,686	148,124	(2,187)
Cost of sales	69,486	69,165	93,537	(320)
Reversal of reserve for sales returns	62	57	62	(5)
Addition to reserve for sales returns	54	32	57	(21)
Gross profit on sales	41,395	39,545	54,592	(1,850)
Selling, general, and administrative expenses	30,325	29,767	41,056	(558)
Operating income	11,069	9,777	13,536	(1,291)
Nonoperating income	2,130	1,144	2,712	(985)
Nonoperating expenses	1,007	2,835	1,110	1,827
Ordinary income	12,192	8,086	15,138	(4,105)
Extraordinary income	428	55	437	(372)
Extraordinary loss	1,603	1,040	1,966	(562)
First quarter (current) net income before income taxes	11,017	7,102	13,608	(3,914)
Corporate tax, inhabitant tax, and business tax	4,624	2,822	6,330	(1,802)
Income taxes deferred	(219)	303	(826)	522
Minority interests	1,292	664	1,494	(627)
First quarter (current) net income	5,320	3,312	6,610	(2,008)

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## (3) Summarized Quarterly Consolidated Cash Flow Statement

	Third quarter of fiscal year ended May 2007	Third quarter of fiscal year ending May 2008	Fiscal year ended May 31, 2007
	Millions of yen	Millions of yen	Millions of yen
Cash flow from operating activities			
First quarter (current) net income before income taxes	11,017	7,102	13,608
Depreciation	6,303	7,924	8,730
Interest and dividends received	(293)	(426)	(361)
Interest paid	305	378	450
Income on sale of tangible fixed assets	(209)	(45)	(216)
(Increase) and decrease in notes and accounts receivable	140	426	(355)
(Increase) and decrease in inventory assets	(2,493)	(4,250)	681
Increase and (decrease) in purchase debt	1,477	2,950	(1,244)
Increase and (decrease) in accrued amount payable	(1,377)	(558)	(757)
Increase and (decrease) in accrued expenses	(1,069)	(1,399)	136
Other	3,087	2,738	2,272
Subtotal	16,889	14,840	22,944
Interest and dividends received	296	405	638
Interest paid	(327)	(294)	(542)
Corporate tax paid	(2,923)	(6,891)	(2,839)
Cash flow from operating activities	13,936	8,059	20,201
Cash flow from investing activities			
Revenue from repayment of time deposits	3	204	12
Expenditure from deposit of time deposits	(45)	(266)	(59)
Expenditure from acquisition of marketable securities	(2,996)	-	(2,996)
Revenue from sale of marketable securities	6,496	-	8,494
Expenditure from acquisition of tangible fixed assets	(13,391)	(10,901)	(17,219)
Revenue from sale of tangible fixed assets	220	99	307
Expenditure from acquisition of intangible fixed assets	(99)	(250)	(185)
Expenditure from acquisition of investments in securities	(1,210)	(2,474)	(3,946)
Revenue from investments in securities	539	2,231	539
Expenditure from increase in long-term prepaid expenses	(508)	(168)	(813)
Other	(1,806)	(4,333)	(2,017)
Cash flow from investing activities	(12,799)	(15,860)	(17,882)
Cash flow from financing activities			
Increase and (decrease) in short-term loans payable	1,247	5,380	61
Revenue from long-term loans	10,000	5,000	10,000
Expenditure from repayment of long-term loans payable	(2,051)	(2,769)	(3,232)
Dividends paid	(4,328)	(3,515)	(4,434)
Other	(758)	(681)	(834)
Cash flow from financing activities	4,109	3,414	1,559
Effect of exchange rate changes on cash and cash equivalents	197	143	166
Change in cash and cash equivalents	5,443	(4,243)	4,044
Cash and cash equivalents at beginning of year	21,424	25,589	21,424
Changes in cash and cash equivalents resulting from changes in the consolidation range	119	36	119
Cash and cash equivalents at the end of first quarter of year (current year)	26,987	21,382	25,589

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#### (4) Segment Information

##### Segment information by business segment

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

	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
Millions of yen								
Net sales								
Sales to third parties	47,028	30,639	12,704	18,286	2,213	110,873		110,873
Intersegment sales and transfers	81	0		199	11	293	(293)	
Total sales	47,110	30,639	12,704	18,486	2,225	111,167	(293)	110,873
Operating expenses	39,924	25,514	12,320	17,097	1,019	95,877	3,925	99,803
Operating income	7,185	5,125	384	1,388	1,206	15,289	(4,219)	11,069

Third quarter of fiscal year ending May 2008 (June 1, 2007 to February 29, 2008)

	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
Millions of yen								
Net sales								
Sales to third parties	44,799	30,940	15,295	15,421	2,228	108,686		108,686
Intersegment sales and transfers	87	2		236	5	331	(331)	-
Total sales	44,887	30,943	15,295	15,657	2,234	109,017	(331)	108,686
Operating expenses	39,320	25,420	15,088	14,568	1,025	95,423	3,484	98,908
Operating income	5,566	5,522	207	1,088	1,208	13,594	(3,816)	9,777

Fiscal year ended May 31, 2007 (June 1, 2006 to May 31, 2007)

	Functional chemicals business	Pharmaceuticals business	Safety systems business	Fine chemicals business	Other business	Total	Elimination/corporation	Consolidated
Millions of yen								
Net sales								
Sales to third parties	61,942	41,700	16,982	24,538	2,960	148,124		148,124
Intersegment sales and transfers	122	1		293	6	424	(424)	
Total sales	62,065	41,702	16,982	24,831	2,967	148,548	(424)	148,124
Operating expenses	53,641	34,227	17,099	22,990	1,374	129,332	5,255	134,588
Operating income	8,424	7,475	(116)	1,840	1,592	19,215	(5,679)	13,536

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Note: 1. Business segment

Based on sales summary classification.

2. Changes in business segments

Our previous four business segments were *functional chemicals business*, *pharmaceuticals business*, *fine chemicals business*, and *other business*. However with the expansion of our *safety systems business*, which handles automotive safety products, we have created a new Safety Systems Group as an administration segment. In order to more correctly apply the current status of our business, beginning from the current fiscal year we will begin indicating the *safety systems business* (formerly part of the *functional chemicals business*) as a separate segment. For this reason, there are now five business segments: *functional chemicals business*, *pharmaceuticals business*, *safety systems business*, *fine chemicals business*, and *other business*.

We have also rearranged the business segments from the previous third quarter and previous consolidated accounting year to reflect the new change.