

Notes to Consolidated Financial Statements

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2011 and 2010

Note 1

Basis of Consolidated Financial Statements

a. Basis of Presentation

The accompanying consolidated financial statements of Nippon Kayaku Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year's presentation.

b. Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The accompanying consolidated financial statements include the accounts of the Company and its significant subsidiaries controlled directly or indirectly by the Company (the "Companies"). Investment in companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity method of accounting.

All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are generally stated at cost.

Goodwill and negative goodwill which generated before March 31, 2010 are being amortized by the straight-line method over five to ten years.

c. Foreign Currency Translation

The accounts of foreign consolidated subsidiaries, except for the components of shareholders' equity, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of shareholders' equity are translated at their historical exchange rates. Revenues and expenses are translated at the average rate of exchange in effect during the year. Translation differences arising from the translation of the financial statements of the foreign consolidated subsidiaries are presented as translation adjustments.

Monetary assets and liabilities denominated in foreign currencies of the Company and its domestic consolidated subsidiaries are translated into yen at the current rates except for those hedged by forward foreign exchange contracts, which are translated at the contracted rates.

Gains and losses arising from exchange differences are credited or charged to income in the year incurred.

d. Cash Equivalents

The Company considers all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents.

e. Securities

Securities are classified as other securities. Marketable securities classified as other securities are carried at fair value with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

f. Inventories

Inventories are stated principally at the acquisition cost, using the average method. (The figures shown in the balance sheet have been calculated in accordance with the write-down approach based on decline in profitability.)

Note 1

Basis of Consolidated Financial Statements (continued)

g. Property, Plant and Equipment

Property, plant and equipment are stated at cost except that the cost of certain assets has been reduced by certain capital gains in accordance with the Corporation Tax Law of Japan.

Depreciation is mainly computed by the declining-balance method, except that the straight-line method is applied to the buildings which were acquired after April 1, 1998 based on the estimated useful lives of the respective assets.

h. Leases

Leased property under finance leases which do not transfer ownership of the leased property are depreciated by the straight-line method over the lease terms assuming no residual value. The finance lease transactions, which do not transfer the ownership to the lessee, and which started before the initial year of the new accounting rule's adoption continue to be accounted for similar to rental transactions.

i. Provision for Retirement Benefits

Domestic consolidated subsidiaries have defined benefit plans, i.e., welfare pension fund plans, tax-qualified pension plans and lump-sum payment 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. Certain foreign subsidiaries have defined contribution plans.

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets at the balance sheet dates, as adjusted for unrecognized actuarial gain or loss, and unrecognized past service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service by the eligible employees. Actuarial gain and loss are amortized in the following years in which the gain or loss is recognized primarily by the straight-line method over periods of 10 years which are shorter than the average remaining years by service of the eligible employees. Past service cost is amortized primarily by the straight-line method over periods of 10 years which are shorter than the average remaining years of service by the eligible employees.

j. Derivative Financial Instruments

The Company has entered into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates. Derivatives are carried at fair value with changes in unrealized gains or losses charged or credited to income. Receivables and payables hedged by qualified derivatives are translated at the corresponding foreign exchange contract rates.

Note 2

Accounting Changes

a. Application of "Accounting Standard for Equity Method of Accounting for Investment" and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method"

Effective from the year ended May 31, 2011, the Company applies the "Accounting Standard for Equity Method of Accounting for Investment" (Accounting Standards Board of Japan (ASBJ) Statement No. 16 of March 10, 2008) and the "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method" (ASBJ Statement PITF No. 24 of March 10, 2008).

There is no impact on the Company's consolidated financial statements for the year as a result of these changes.

b. Application of "Accounting Standard for Asset Retirement Obligations"

Effective from the year ended May 31, 2011, the Company applies the "Accounting Standard for Asset Retirement Obligation" (ASBJ Statement No. 18 of March 31, 2008) and the "Guidance on Accounting Standard for Asset Retirement Obligation" (ASBJ Guidance No. 21 of March 31, 2008).

As a result of this change, operating income has decreased by ¥3 million (\$37 thousand) and income before income taxes has decreased by ¥71 million (\$877 thousand) for the current consolidated fiscal year.

Notes to Consolidated Financial Statements (continued)

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Note 3

U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan. The rate of ¥80.88 = \$1, the approximate rate of exchange on May 31, 2011, has been used. The inclusion of such amounts is not intended to imply that the yen amounts have been or could be readily converted, realized or settled in U.S. dollars at that or any other rate.

Note 4

Inventories

Inventories at May 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Merchandise and finished products.....	¥15,515	¥16,342	\$191,827
Work in progress.....	2,088	1,927	25,816
Raw materials and supplies.....	7,043	6,886	87,079
	¥24,647	¥25,156	\$304,735

Note 5

Depreciation

Depreciation of property, plant and equipment was ¥8,548 million (\$105,687 thousand) and ¥9,580 million for the years ended May 31, 2011 and 2010, respectively.

Note 6

Short-Term Bank Loans and Long-Term Debt

Short-term bank loans are unsecured and are generally represented by 60-day notes. The weighted average interest rates for the years ended May 31, 2011 and 2010 were approximately 0.92% and 1.12%, respectively.

The approximate interest rates applicable to the long-term borrowings (except for current portion) at May 31, 2011 and 2010 were average 1.28% and 1.49%, respectively.

Long-term debt at May 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Collateralized loans from banks, insurance companies, government agencies and other financial institutions, due through 2015.....	¥ 1,045	¥ 1,045	\$ 12,920
Loans without collateral.....	15,627	16,421	193,212
	16,672	17,466	206,132
Less current portion.....	(5,529)	(5,794)	(68,360)
	¥11,143	¥11,672	\$137,772

The aggregate annual maturities of long-term debt subsequent to May 31, 2011 are as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2012.....	¥ 5,529	\$ 68,360
2013.....	4,509	55,749
2014.....	3,884	48,021
2015 and thereafter.....	2,750	34,000
	¥16,672	\$206,132

Note 6

Short-Term Bank Loans and Long-Term Debt (continued)

Assets pledged as collateral for long-term debt, other non-current liabilities and payables – trade at May 31, 2011 are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
Investment securities.....	¥ 72	\$ 890
Property, plant and equipment, at net book value	6,613	81,763
	¥6,685	\$82,653

Note 7

Retirement Benefit Plans

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of May 31, 2011 and 2010 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Retirement benefit obligation.....	¥(26,782)	¥(26,323)	\$(331,132)
Plan assets at fair value	21,536	20,095	266,271
Unfunded retirement benefit obligation	(5,245)	(6,228)	(64,849)
Unrecognized actuarial gain or loss	2,718	2,873	33,605
Unrecognized past service cost.....	(746)	(1,037)	(9,223)
Net retirement benefit obligation	(3,273)	(4,392)	(40,467)
Prepaid pension cost.....	148	191	1,829
Accrued retirement benefits.....	¥ (3,421)	¥ (4,584)	\$ (42,297)

The components of retirement benefit expenses for the year ended May 31, 2011 and 2010 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Service cost.....	¥1,325	¥1,289	\$16,382
Interest cost	527	524	6,515
Expected return on plan assets.....	(408)	(392)	(5,044)
Amortization of actuarial gain or loss	660	651	8,160
Amortization of past service cost.....	(291)	(291)	(3,597)
Total	¥1,812	¥1,781	\$22,403

The assumptions used in accounting for the above plans were as follows:

	May 31,	
	2011	2010
Discount rates.....	2.1% – 2.16%	2.1% – 2.16%
Expected rates of return on plan assets	1.0% – 2.1%	1.0% – 2.1%
Period for amortization of past service cost	10 years	10 years
Period for recognition of actuarial gain or loss.....	10 years	10 years

Accrued retirement benefits included ¥33 million (\$408 thousand) for directors and corporate auditors of the Company and its domestic consolidated subsidiaries at May 31, 2011.

Notes to Consolidated Financial Statements (continued)

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Note 8

Stock Options

Stock option expense that is included in "Selling, general and administrative expenses" on the consolidated statement of income for the year ended May 31, 2011 amounted to ¥29 million (\$358 thousand).

The stock options outstanding as of May 31, 2011 are as follows:

(1) Overview, volume and changes

1. Overview

Company Name	MOXTEK, Inc.
Date of resolution	February 2, 2006
Persons granted	4 executives of the Company, 1 other
Number of stock options granted by class of stock (Notes)	Common stock 10,000 shares
Date of grant	February 2, 2006
Vesting conditions	Continuous service from the date of grant (February 2, 2006) to the right fixation day (February 2, 2006), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 2, 2006 to February 1, 2011

Company Name	MOXTEK, Inc.
Date of resolution	January 31, 2007
Persons granted	2 directors of the Company
Number of stock options granted by class of stock (Notes)	Common stock 20,000 shares
Date of grant	January 31, 2007
Vesting conditions	Continuous service from the date of grant (January 31, 2007) to the right fixation day (January 31, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From January 31, 2007 to January 31, 2012

Company Name	MOXTEK, Inc.
Date of resolution	February 14, 2007
Persons granted	9 directors of the Company, 10 executives of the Company, 8 others
Number of stock options granted by class of stock (Notes)	Common stock 80,000 shares
Date of grant	February 14, 2007
Vesting conditions	Continuous service from the date of grant (February 14, 2007) to the right fixation day (February 14, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 14, 2007 to February 14, 2012

Company Name	MOXTEK, Inc.
Date of resolution	April 5, 2007
Persons granted	1 other
Number of stock options granted by class of stock (Notes)	Common stock 5,000 shares
Date of grant	April 5, 2007
Vesting conditions	Continuous service from the date of grant (April 5, 2007) to the right fixation day (April 5, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From April 5, 2007 to April 4, 2012

Note 8

Stock Options
(continued)

Company Name	MOXTEK, Inc.
Date of resolution	December 2, 2007
Persons granted	1 executive of the Company
Number of stock options granted by class of stock (Notes)	Common stock 1,500 shares
Date of grant	December 2, 2007
Vesting conditions	Continuous service from the date of grant (December 2, 2007) to the right fixation day (December 2, 2007), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From December 2, 2007 to December 1, 2012

Company Name	MOXTEK, Inc.
Date of resolution	May 28, 2008
Persons granted	2 directors of the Company, 16 executives of the Company, 9 others
Number of stock options granted by class of stock (Notes)	Common stock 97,500 shares
Date of grant	May 28, 2008
Vesting conditions	Continuous service from the date of grant (May 28, 2008) to the right fixation day (May 28, 2008), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From May 28, 2008 to May 27, 2018

Company Name	MOXTEK, Inc.
Date of resolution	February 3, 2010
Persons granted	1 director of the Company, 15 executives of the Company, 6 others
Number of stock options granted by class of stock (Notes)	Common stock 104,500 shares
Date of grant	February 3, 2010
Vesting conditions	Continuous service from the date of grant (February 3, 2010) to the right fixation day (February 3, 2010), or, not exceeding 30 days after termination.
Service period	No service period is specified
Exercise period	From February 3, 2010 to February 2, 2020

Company Name	MOXTEK, Inc.
Date of resolution	February 17, 2011
Persons granted	1 director of the Company, 6 executives of the Company, 20 others
Number of stock options granted by class of stock (Notes)	Common stock 96,000 shares
Date of grant	February 17, 2011
Vesting conditions	Continuous service from the date of grant (February 17, 2011) to the right fixation day (February 17, 2011), or, not exceeding 60 days after termination.
Service period	No service period is specified
Exercise period	From February 17, 2011 to February 16, 2021

Note: The given common stock is common stock without the right to vote.
 Note: The number of options is described after being translated into the number of shares.

Notes to Consolidated Financial Statements (continued)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
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Note 8

Stock Options (continued)

2. Volume and changes of stock options

a. Number of stock options

Company name	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.
Date of resolution	February 2, 2006	January 31, 2007	February 14, 2007	April 5, 2007	December 2, 2007	May 28, 2008	February 3, 2010	February 17, 2011
Prior to vesting								
Beginning of period	-	-	-	-	-	-	-	-
Granted	-	-	-	-	-	-	-	-
Forfeited	-	-	-	-	-	-	-	-
Vested	-	-	-	-	-	-	-	-
Unvested	-	-	-	-	-	-	-	-
After vesting								
Beginning of period	5,800	10,000	44,000	5,000	1,500	78,429	104,500	-
Vested	-	-	-	-	-	-	-	96,000
Exercised	3,500	-	-	-	-	16,073	-	-
Forfeited	2,300	-	5,500	-	-	3,500	6,000	-
Outstanding	-	10,000	38,500	5,000	1,500	58,856	98,500	96,000

b. Unit price information

(In U.S. dollars)

Company name	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.	MOXTEK, Inc.
Date of resolution	February 2, 2006	January 31, 2007	February 14, 2007	April 5, 2007	December 2, 2007	May 28, 2008	February 3, 2010	February 17, 2011
Exercise price	17.16	25.13	25.13	25.13	25.13	14.00	17.84	23.58
Average stock market price at exercise	-	-	-	-	-	-	-	-
Fair value unit price at grant date	-	-	-	-	-	-	-	23.58

(2) Assumptions used in estimating the fair value of stock options above were as follows:

Fiscal year 2011 stock options

Method of estimation	Black-Scholes model
Volatility *1	54.0%
Expected remaining period	6 years and 3 months
Expected dividend *2	8.2%
Risk-free interest rate *3	2.36%

*1 The regulation of the average has been used for three years of a similar type of business.

*2 Probable dividend per share for each year

*3 Interest rate for U.S. government bonds

Note 9

Research and Development Expenses

Research and development expenses amounted to ¥11,086 million (\$137,067 thousand) and ¥12,276 million for the years ended May 31, 2011 and 2010, respectively.

Note 10

Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on income which, in the aggregate, resulted in a statutory tax rate of 40.69% in 2011 and 2010. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

The effective tax rates reflected in the consolidated statements of income for the years ended May 31, 2011 and 2010 differ from the statutory tax rate for the following reasons:

	2011	2010
Statutory tax rate	40.69%	40.69%
Effect of:		
Expenses not deductible for income tax purposes	1.06	1.87
Dividend income deductible for income tax purposes	(1.36)	(3.02)
Tax deductions for research and development expenses	(2.88)	(7.80)
Taxation on per capital basis	0.44	1.03
Intercompany dividends	1.24	3.18
(Decrease) increase in valuation allowance	-	(26.55)
Reversal of foreign currency translation adjustments	(4.10)	-
Other, net	(0.46)	(2.05)
Subtotal	(6.06)	(33.34)
Effective tax rate	34.63%	7.35%

The significant components of deferred tax assets and liabilities as of May 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Accrued retirement benefits	¥1,390	¥1,862	\$17,185
Accrued bonuses	1,361	1,385	16,827
Accrued enterprise tax	159	235	1,965
Allowance for sales rebate	160	154	1,978
Loss on impairment of fixed assets	232	1,106	2,868
Goodwill	-	323	-
Loss on revaluation of inventories	138	142	1,706
Loans receivables from subsidiaries	-	3,419	-
Tax loss carried forward	-	3,905	-
Other	2,234	2,032	27,621
Total deferred tax assets	5,677	14,563	70,190
Valuation allowance	(607)	(5,584)	(7,504)
	5,069	8,979	62,673
Deferred tax liabilities:			
Adjustment of acquisition costs of fixed assets	(3,162)	(3,370)	(39,094)
Special reserve for adjustment of acquisition costs of fixed assets	(84)	(103)	(1,038)
Unrealized holding gains on other securities	(201)	(363)	(2,485)
Adjustments on book value relating to land of consolidated subsidiaries	(706)	(706)	(8,728)
Goodwill and other intangible assets	(154)	(135)	(1,904)
Depreciation	(263)	(313)	(3,251)
Foreign currency translation adjustments	-	(542)	-
Other	(79)	(188)	(976)
Total deferred tax liabilities	(4,652)	(5,724)	(57,517)
Net deferred tax assets (liabilities)	¥ 417	¥3,255	\$ 5,155

Notes to Consolidated Financial Statements (continued)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
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Note 11

Leases

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥68 million (\$840 thousand) and ¥129 million for the years ended May 31, 2011 and 2010, respectively.

Future minimum lease payments (including the interest portion) subsequent to May 31, 2011 relating to finance lease transactions accounted for as operating leases are summarized as follows:

Year ending May 31,	Millions of yen	Thousands of U.S. dollars
2012	¥35	\$432
2013 and thereafter	21	259
	¥57	\$704

Note 12

Contingent Liabilities

Contingent liabilities of the Companies at May 31, 2011 were as follows:

	Millions of yen	Thousands of U.S. dollars
Notes receivable discounted	¥ 98	\$ 1,211
Guarantees of loans of employees	1,773	21,921

Note 13

Amounts per Share

	Yen		U.S. dollars
	2011	2010	2011
For the year ended May 31:			
Net income:			
Primary	¥ 71.70	¥ 54.39	\$0.88
Diluted	–	54.39	–
Cash dividends	20.00	20.00	0.24
At May 31:			
Net assets	704.57	663.88	8.71

Diluted net income per share for the year ended May 31, 2011 has not been presented because there were no potentially dilutive shares of common stock.

Note 14

Financial Instruments

Status of financial instruments

1) Policy for financial instruments

The company and consolidated subsidiaries have a fund management policy, which stipulates that fund management activities shall be restricted to safe and secure financial assets such as cash and deposits. Also, it stipulates that fund-raising activities shall be done mainly by bank loans.

2) Types of financial instruments and related risk and risk management for financial instruments

The company and consolidated subsidiaries plan to reduce customer risks associated with operating receivables such as acceptances receivable and accounts receivable – trade, by following our internal credit administration policy, which requires Finance & Accounting Division and concerned divisions to monitor customers' business conditions on a regular basis. Regarding marketable securities and investment securities, their market values and the issuers' financial conditions are checked on a quarterly basis.

Regarding bank loans, short-term borrowings are mainly for working capital, and long-term borrowings are for capital investment. Long-term borrowings are mainly procured with fixed interest rate.

The company and consolidated subsidiaries do not use derivatives trading for speculation purposes based on the internal control policy. It stipulates that derivatives trading shall be restricted to exchange contracts, which are limited to risks associated with actual demand.

3) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments includes, in addition to the value determined based on market prices, valuations calculated on a reasonable basis if no market price is available. However, as certain variables are used for these calculations, the result of such calculations may vary if different assumptions are used.

4) Estimated fair value of financial instruments

Carrying value of financial instruments on the consolidated balance sheet as of May 31, 2011 and estimated fair value are shown in the following table.

	Millions of yen			Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
May 31, 2011						
1) Cash and cash equivalents.....	¥ 18,427	¥ 18,427	¥ -	\$ 227,831	\$ 227,831	\$ -
2) Trade receivables.....	46,945	46,945	-	580,427	580,427	-
3) Marketable securities and investment securities	30,993	30,993	-	383,197	383,197	-
Total Assets	¥ 96,366	¥ 96,366	¥ -	\$ 1,191,468	\$ 1,191,468	\$ -
1) Trade payables	¥(14,262)	¥(14,262)	¥ -	\$ (176,335)	\$ (176,335)	\$ -
2) Short-term bank loans	(5,388)	(5,388)	-	(66,617)	(66,617)	-
3) Long-term debt*1	(16,672)	(16,858)	(185)	(206,132)	(208,432)	(2,287)
4) Long-term deposits payable*1.....	(10,346)	(10,525)	(178)	(127,917)	(130,131)	(2,200)
Total Liabilities	¥(46,669)	¥(47,034)	¥(364)	\$ (577,015)	\$ (581,528)	\$(4,500)
Derivatives.....	¥ (12)	¥ (12)	¥ -	\$ (148)	\$ (148)	\$ -

*1 Current portion of long-term debt and long-term deposits payable are included in "Long-term debt" and "Long-term deposits payable."

Notes to Consolidated Financial Statements (continued)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
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Note 14

Financial Instruments (continued)

Status of financial instruments (continued)

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Assets

- 1) Cash and cash equivalents and 2) Trade receivables

These items are settled in a short period of time. Since their carrying value approximates fair value, the relevant fair value is determined as carrying value.

- 3) Marketable securities and investment securities

The fair value of stocks is based on quoted market prices.

Commercial paper is redeemed in a short period of time. Since its carrying value approximates fair value, the relevant fair value is determined as carrying value.

Liabilities

- 1) Trade payables and 2) Short-term bank loans

These items are settled in a short period of time. Since their carrying value approximates fair value, the relevant fair value is determined as carrying value.

- 3) Long-term debt and 4) Long-term deposits payable

The fair value of long-term debt and long-term deposits payable is based on the present value of the total of principal and interest discounted by the interest rate to be applied if similar new loans and deposits were entered into.

For the fair value of long-term debt with floating interest rates, those interest rates are updated to reflect the market interest rate within a short period of time. Since its fair value approximates their carrying value, the relevant fair value is determined as carrying value.

Derivatives Transactions

Please refer to Note 16, Derivative Transactions, of the notes to the consolidated financial statements.

2. Financial instruments for which it is extremely difficult to determine the fair value

Because no quoted market price is available and it is extremely difficult to determine the fair value, the financial instruments below are not included in the above table.

As of May 31, 2011

	Millions of yen	Thousands of U.S. dollars
Unlisted stock	¥5,168	\$63,897
Other	158	1,953

3. Redemption schedule for receivables and marketable securities with maturities at May 31, 2011

As of May 31, 2011

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in bank	¥18,414	¥ -	¥ -	¥ -
Trade receivables	46,945	-	-	-
Marketable securities and investment securities	22,998	-	-	-

As of May 31, 2011

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Cash on hand and in bank	\$227,670	\$ -	\$ -	\$ -
Trade receivables	580,427	-	-	-
Marketable securities and investment securities	284,347	-	-	-

Note 14

Financial Instruments (continued)

Status of financial instruments (continued)

4. Redemption schedule for long-term debt and long-term deposits payable at May 31, 2011

As of May 31, 2011	Millions of yen					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt.....	¥5,529	¥4,509	¥3,884	¥1,575	¥1,175	¥ -
Long-term deposits payable.....	563	464	464	464	464	1,316

As of May 31, 2011	Thousands of U.S. dollars					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt.....	\$68,360	\$55,749	\$48,021	\$19,473	\$14,527	\$ -
Long-term deposits payable.....	6,960	5,736	5,736	5,736	5,736	16,271

Note 15

Marketable and Investment Securities

Information regarding marketable securities classified as other securities as of May 31, 2011 and 2010 was as follows:

Marketable other securities

	Millions of yen			Thousands of U.S. dollars		
	May 31, 2011					
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:						
Stock	¥3,049	¥4,337	¥1,288	\$37,697	\$53,622	\$15,924
Debt securities	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	3,049	4,337	1,288	37,697	53,622	15,924
Securities whose carrying value does not exceed their acquisition cost:						
Stock	4,699	3,657	(1,042)	58,098	45,215	(12,833)
Debt securities	-	-	-	-	-	-
Other	-	-	-	-	-	-
Subtotal	4,699	3,657	(1,042)	58,098	45,215	(12,833)
Total	¥7,749	¥7,994	¥ 245	\$95,808	\$98,837	\$ 3,029

	Millions of yen		
	May 31, 2010		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥5,083	¥6,660	¥1,577
Debt securities	-	-	-
Other	-	-	-
Subtotal	5,083	6,660	1,577
Securities whose carrying value does not exceed their acquisition cost:			
Stock	2,661	1,872	(788)
Debt securities	-	-	-
Other	-	-	-
Subtotal	2,661	1,872	(788)
Total	¥7,744	¥8,533	¥ 788

Impairment of investment securities

As of May 31, 2011	Millions of yen	Thousands of U.S. dollars
	Stock	¥169

Notes to Consolidated Financial Statements (continued)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2011 and 2010

Note 16

Derivatives Transactions

As of May 31, 2011

Summarizes below are the notional amounts and the estimated fair value of the derivative instruments outstanding at May 31, 2011, for which hedged accounting has not been applied.

Currency-related transactions

As of May 31, 2011	Millions of yen			
	Notional amount		Fair value	Unrealized gain (loss)
	Maturing within one	Maturing after one		
Forward foreign exchange contracts				
Sell:				
USD	¥927	¥ -	¥(12)	¥(12)

As of May 31, 2011	Thousands of U.S. dollars			
	Notional amount		Fair value	Unrealized gain (loss)
	Maturing within one	Maturing after one		
Forward foreign exchange contracts				
Sell:				
USD	\$11,461	\$ -	\$(148)	\$(148)

Note 17

Investment and Rental Properties

The Company and certain consolidated subsidiaries own commercial facilities and offices for earning rentals and other purposes in Hiroshima and in other regions.

Profit from rentals related to these properties (with main rental income recorded as net sales and other income, and main rental expense recorded as cost of sales, selling, general and administrative expenses and other expenses) in the current fiscal year totaled ¥1,188 million (\$14,688 thousand).

The carrying value in the consolidated balance sheet, net change during the fiscal year and corresponding fair value of those properties are as follows:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Amount shown on consolidated balance sheet		
Balance as of May 31, 2010	¥ 9,138	\$ 112,982
Increase (decrease) during the fiscal year	(163)	(2,015)
Balance as of May 31, 2011	8,975	110,966
Fair value as of current fiscal year-end	35,302	436,473
Difference	26,326	325,494

Effective the fiscal year ended May 31, 2011, a new accounting standard for disclosures regarding fair value of investment and rental real estate properties and related implementation guidance have been adopted.

Note 18

Segment Information

The Companies operate principally in three reportable segments: functional chemicals, pharmaceuticals, safety systems and other businesses. The functional chemicals business involves the production and sales of functional materials, electric materials, catalysts and color chemicals. Other involves the production and sales of agro and real estate leasing business.

Segment information for the Companies as of or for the years ended May 31, 2011 and 2010 is summarized as follows:

	Millions of yen							Consolidated
	Reportable segments			Subtotal	Other	Total	Adjustments and eliminations	
	Functional chemicals business	Pharmaceuticals business	Safety systems business					
2011								
I. Sales and operating income:								
Sales to third parties	¥71,759	¥50,339	¥17,918	¥140,017	¥ 8,862	¥148,879	¥ -	¥148,879
Intersegments	43	29	-	73	28	101	(101)	-
Total	71,803	50,368	17,918	140,091	8,890	148,981	(101)	148,879
Segment profit	¥12,116	¥10,544	¥ 1,063	¥ 23,724	¥ 2,273	¥ 25,998	¥(5,168)	¥ 20,829
Segment assets	¥72,595	¥49,107	¥19,544	¥141,246	¥21,479	¥162,726	¥42,383	¥205,110

II. Other items								
Depreciation and amortization	¥ 3,502	¥ 2,357	¥ 1,932	¥ 7,792	¥ 852	¥ 8,644	¥ 384	¥ 9,029
Goodwill and amortization	¥ 409	-	-	¥ 409	-	¥ 409	-	¥ 409
Capital expenditures	¥ 4,161	¥ 2,867	¥ 1,194	¥ 8,223	¥ 354	¥ 8,577	¥ 257	¥ 8,834

	Thousands of U.S. dollars							Consolidated
	Reportable segments			Subtotal	Other	Total	Adjustments and eliminations	
	Functional chemicals business	Pharmaceuticals business	Safety systems business					
2011								
I. Sales and operating income:								
Sales to third parties	\$887,227	\$622,391	\$221,538	\$1,731,169	\$109,569	\$1,840,739	-	\$1,840,739
Intersegments	531	358	-	902	346	1,248	\$(1,248)	-
Total	887,772	622,749	221,538	1,732,084	109,915	1,842,000	(1,248)	1,840,739
Segment profit	\$149,802	\$130,365	\$ 13,142	\$ 293,323	\$ 28,103	\$ 321,439	\$(63,897)	\$ 257,529
Segment assets	\$897,564	\$607,158	\$241,641	\$1,746,364	\$265,566	\$2,011,943	\$524,023	\$2,535,979

II. Other items								
Depreciation and amortization	\$ 43,298	\$ 29,141	\$ 23,887	\$ 96,340	\$ 10,534	\$ 106,874	\$ 4,747	\$ 111,634
Goodwill and amortization	\$ 5,056	-	-	\$ 5,056	-	5,056	-	\$ 5,056
Capital expenditures	\$ 51,446	\$ 35,447	\$ 14,762	\$ 101,669	\$ 4,376	\$ 106,045	\$ 3,177	\$ 109,223

Notes to Consolidated Financial Statements (continued)

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
May 31, 2011 and 2010

Note 18

Segment Information (continued)

	Millions of yen							
	2010							
	Reportable segments			Subtotal	Other	Total	Adjustments and eliminations	Consolidated
Functional chemicals business	Pharmaceuticals business	Safety systems business						
I. Sales and operating income:								
Sales to third parties	¥ 64,299	¥49,692	¥17,665	¥131,657	¥ 9,375	¥141,032	¥ -	¥141,032
Intersegments	54	18	-	72	27	100	(100)	-
Total	64,354	49,710	17,665	131,730	9,402	141,133	(100)	141,032
Segment profit	¥ 8,348	¥10,090	¥ 387	¥ 18,827	¥ 2,286	¥ 21,113	¥ (5,118)	¥ 15,995
Segment assets	¥ 70,484	¥43,823	¥23,324	¥137,633	¥21,766	¥159,400	¥43,241	¥202,641
II. Other items								
Depreciation and amortization	¥ 3,902	¥ 2,425	¥ 2,439	¥ 8,767	¥ 841	¥ 9,609	¥ 419	¥ 10,028
Goodwill and amortization	¥ 391	-	-	¥ 391	-	¥ 391	-	¥ 391
Loss on impairment of fixed assets	-	-	¥ 2,366	¥ 2,366	-	¥ 2,366	-	¥ 2,366
Capital expenditures	¥ 2,693	¥ 2,333	¥ 1,510	¥ 6,537	¥ 326	¥ 6,863	¥ 169	¥ 7,033

Note 19

Subsequent Events

The following appropriations of retained earnings of the Company were approved at a meeting of the shareholders held on August 30, 2011;

	Millions of yen	Thousands of U.S. dollars
2011 year-end cash dividends (¥10 = \$0.123 per share)	¥1,813	\$22,415