

Consolidated Statements of Cash Flows

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries
Years Ended May 31, 2006 and 2005

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2006	2005	2006
Cash flows from operating activities			
Income before income taxes and minority interests	¥18,629	¥10,404	\$165,945
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	7,708	7,609	68,662
Loss on impairment of fixed assets	192	–	1,710
Changes in reserves	(53)	592	(472)
Interest and dividend income	(430)	(349)	(3,830)
Interest expense	430	416	3,830
Equity in earnings of affiliates	(444)	(331)	(3,955)
Loss (gain) on disposal of property, plant and equipment, net	(4,939)	440	(43,996)
Loss (gain) on sales of investment securities, net	(7)	(636)	(62)
Changes in operating assets and liabilities:			
Notes and accounts receivable – trade	1,613	1,538	14,368
Inventories	(2,349)	(986)	(20,924)
Notes and accounts payable – trade	(758)	(659)	(6,752)
Payables – other	(138)	(475)	(1,229)
Other	(3,602)	(994)	(32,086)
Subtotal	15,848	16,566	141,172
Interest and dividends received	832	557	7,411
Interest paid	(354)	(417)	(3,153)
Income taxes paid	(4,535)	(4,545)	(40,397)
Net cash provided by operating activities	11,791	12,160	105,032
Cash flows from investing activities			
Purchases of time deposits, net	(2)	–	(17)
Purchase of marketable securities, net	(5,497)	1,002	(48,966)
Purchase of property, plant and equipment	(8,782)	(7,932)	(78,229)
Proceeds from sales of property, plant and equipment	8,099	1,480	72,145
Acquisition of goodwill and other intangible assets	(848)	(206)	(7,553)
Proceeds from sales (purchases) of investment securities, net	170	(277)	1,514
Purchase of investment securities of consolidated subsidiaries	(9)	(76)	(80)
Other	(230)	(1,755)	(2,048)
Net cash used in investing activities	(7,102)	(7,765)	(63,263)
Cash flows from financing activities			
Net change in short-term debt	(538)	1,049	(4,792)
Proceeds from long-term debt	945	1,826	8,417
Repayment of long-term debt	(3,392)	(1,848)	(30,215)
Repayment of construction cooperation fund	(234)	(234)	(2,084)
Redemption of corporate bond	–	(3,000)	0
Cash dividends paid	(2,119)	(2,009)	(18,875)
Increase due to issuance of additional shares by a consolidated subsidiary to third parties	4,524	–	40,299
Other	(368)	(257)	(3,278)
Net cash used in financing activities	(1,182)	(4,473)	(10,529)
Effect of exchange rate changes on cash and cash equivalents	211	82	1,879
Increase in cash and cash equivalents	3,718	3	33,119
Cash and cash equivalents at beginning of year	17,191	17,402	153,135
Decrease resulting from changes in scope of consolidation	–	(215)	0
Increase due to inclusion in consolidation	504	–	4,489
Increase due to merger by a subsidiary	11	–	97
Cash and cash equivalents at end of year	¥21,424	¥17,191	\$190,842

See accompanying notes to consolidated financial statements.