

# Consolidated Statements of Cash Flows

Nippon Kayaku Co., Ltd. and Consolidated Subsidiaries  
Years Ended May 31, 2007 and 2006

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2007	2006	2007
<b>Cash flows from operating activities</b>			
Income before income taxes and minority interests	¥13,608	¥18,629	\$111,825
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	8,730	7,708	71,739
Loss on impairment of fixed assets	819	192	6,730
Changes in reserves	1,255	(53)	10,313
Interest and dividend income	(361)	(430)	(2,966)
Interest expense	450	430	3,697
Equity in earnings of affiliates	(142)	(444)	(1,166)
Loss (gain) on disposal of property, plant and equipment, net	831	(4,939)	6,828
Loss (gain) on sales of investment securities, net	(191)	(7)	(1,569)
Changes in operating assets and liabilities:			
Notes and accounts receivable – trade	(355)	1,613	(2,917)
Inventories	681	(2,349)	5,596
Notes and accounts payable – trade	(1,244)	(758)	(10,222)
Payables – other	(757)	(138)	(6,220)
Other	(380)	(3,602)	(3,122)
Subtotal	22,944	15,848	188,544
Interest and dividends received	638	832	5,242
Interest paid	(542)	(354)	(4,453)
Income taxes paid	(2,839)	(4,535)	(23,329)
<b>Net cash provided by operating activities</b>	<b>20,201</b>	<b>11,791</b>	<b>166,003</b>
<b>Cash flows from investing activities</b>			
Purchases of time deposits, net	(46)	(2)	(378)
Purchase of marketable securities, net	5,497	(5,497)	45,172
Purchase of property, plant and equipment	(17,219)	(8,782)	(141,498)
Proceeds from sales of property, plant and equipment	307	8,099	2,522
Acquisition of goodwill and other intangible assets	(185)	(848)	(1,520)
Proceeds from sales (purchases) of investment securities, net	(3,406)	170	(27,989)
Purchase of investment securities of consolidated subsidiaries	–	(9)	–
Removal loss of property, plant and equipment	(2,223)	–	(18,267)
Other	(606)	(230)	(4,979)
<b>Net cash used in investing activities</b>	<b>(17,882)</b>	<b>(7,102)</b>	<b>(146,947)</b>
<b>Cash flows from financing activities</b>			
Net change in short-term debt	61	(538)	501
Proceeds from long-term debt	10,000	945	82,176
Repayment of long-term debt	(3,232)	(3,392)	(26,559)
Repayment of construction cooperation fund	(234)	(234)	(1,922)
Cash dividends paid	(4,434)	(2,119)	(36,436)
Increase due to issuance of additional shares by a consolidated subsidiary to third parties	–	4,524	–
Other	(600)	(368)	(4,930)
<b>Net cash provided by (used in) financing activities</b>	<b>1,559</b>	<b>(1,182)</b>	<b>12,811</b>
Effect of exchange rate changes on cash and cash equivalents	166	211	1,364
Increase in cash and cash equivalents	4,044	3,718	33,231
Cash and cash equivalents at beginning of year	21,424	17,191	176,053
Increase due to inclusion in consolidation	119	504	977
Increase due to merger by a subsidiary	–	11	–
<b>Cash and cash equivalents at end of year</b>	<b>¥25,589</b>	<b>¥21,424</b>	<b>\$210,280</b>

See accompanying notes to consolidated financial statements.