



# Condensed Consolidated Financial Information

for the First Quarter of the FY 2007

(April 1, 2007 through June 30, 2007)

**SANYO CHEMICAL INDUSTRIES, LTD.**

URL <http://www.sanyo-chemical.co.jp>

## **Cautionary Statement with Respect to Forward-looking Statement**

This financial information contains forward-looking statements that are based on Sanyo Chemical Group's current plans, strategies and results. These forward-looking statements were formulated by managers based on currently-available information, but actual results may vary significantly depending on the economic environment where Sanyo Chemical Group conduct its business, competitive conditions, changes in the states of product development, relevant laws and regulations, and fluctuations in the currency exchange rate. Moreover, the factors that can affect these forward-looking statements are not limited to those listed here.

The following summary of the business results that Sanyo Chemical Group submitted Tokyo & Osaka Stock Exchange is unaudited and for reference only.

Ticker code : 4471

# Consolidated Financial Highlights (Unaudited)

## Results of Operations

|                  | 1Q-FY 2007      |               | 1Q-FY 2006      |        | FY 2006         |
|------------------|-----------------|---------------|-----------------|--------|-----------------|
|                  | Millions of Yen | Change        | Millions of Yen | Change | Millions of Yen |
| Net sales        | <b>¥31,667</b>  | <b>9.3%</b>   | ¥28,973         | 14.9%  | ¥122,397        |
| Operating income | <b>1,477</b>    | <b>(3.2%)</b> | 1,526           | 3.5%   | 6,553           |
| Ordinary income  | <b>1,987</b>    | <b>5.7%</b>   | 1,880           | 22.3%  | 8,024           |
| Net income       | <b>1,031</b>    | <b>16.9%</b>  | 882             | 164.7% | 3,051           |

|                               | 1Q-FY 2007   | 1Q-FY 2006 | FY 2006 |
|-------------------------------|--------------|------------|---------|
|                               | Yen          | Yen        | Yen     |
| Net income per share          | <b>¥9.35</b> | ¥7.99      | ¥27.65  |
| Net income per share, diluted | <b>8.65</b>  | 7.40       | 25.59   |

## Financial Condition

|                            | 1Q-FY 2007      | 1Q-FY 2006      | FY 2006         |
|----------------------------|-----------------|-----------------|-----------------|
|                            | Millions of Yen | Millions of Yen | Millions of Yen |
| Total assets               | <b>¥152,907</b> | ¥142,895        | ¥153,165        |
| Net assets                 | <b>91,330</b>   | 89,278          | 91,200          |
| Equity ratio               | <b>58.1%</b>    | 60.9%           | 57.8%           |
| Net assets per share : Yen | <b>804.38</b>   | 788.71          | 801.52          |

## Cash Flows

|  | 1Q-FY 2007      | 1Q-FY 2006      | FY 2006         |
|--|-----------------|-----------------|-----------------|
|  | Millions of Yen | Millions of Yen | Millions of Yen |
| Operating activities                           | <b>¥2,975</b>   | (¥123)          | ¥9,289          |
| Investing activities                           | <b>(3,048)</b>  | 181             | (10,643)        |
| Financing activities                           | <b>(630)</b>    | 1,905           | 1,758           |
| Cash and cash equivalents at the end of period | <b>14,730</b>   | 16,392          | 15,287          |

## Forecast

|                            | 1st Half        |        | Fiscal Year     |        |
|----------------------------|-----------------|--------|-----------------|--------|
|                            | Millions of Yen | Change | Millions of Yen | Change |
| Net sales                  | <b>¥62,000</b>  | 7.1%   | ¥130,000        | 6.2%   |
| Operating income           | <b>¥3,100</b>   | 17.6%  | ¥7,500          | 14.4%  |
| Ordinary income            | <b>3,600</b>    | 8.7%   | 8,500           | 5.9%   |
| Net income                 | <b>1,900</b>    | 11.5%  | 4,500           | 47.4%  |
| Net income per share : Yen | <b>17.21</b>    | 17.21  | 40.77           | 40.77  |

### Notes:

1. Amounts are rounded down to the nearest million.
2. The percentage change is year-on-year change compared with the same period of the previous fiscal year.
3. The computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

# Financial Statements (Consolidated Basis)

## **(1) Business Performance: Operating Environment**

During the first quarter (April 1, through June 30, 2007), the Japanese economy continued to grow moderately, supported by a rise in personal spending and private sector capital investment.

The chemical industry has enjoyed a favorable business environment due to steady demand. The operating environment, however, remained harsh, because raw material and fuel prices remained on an upward trend.

Sales in the first quarter increased by 9.3% from the same period of the previous fiscal year, to ¥31,667 million, high year-on-year growth. An expansion in sales was attributable to the growth in sales of thermoplastic polyurethane beads (TUB) for the interior parts of automobiles, and polyester beads (PEB) used as a core component of polymerization toners – “Strategically Developed Products (Strategic Products),” products developed or currently under development, which have strong potential for contributing substantially to future business expansion – and existing businesses such as superabsorbent polymers.

However, operating income decreased by 3.2% from the same period of the previous fiscal year, to ¥1,477 million, because surging raw materials and crude oil prices wiped out the effect of the sales increase. Expenses at a US subsidiary scheduled to begin commercial production this summer also weighed.

Reflecting an exchange profit due to the weak yen, ordinary income increased by 5.7% from the same period of the previous fiscal year, to ¥1,987 million, and net income for the quarter increased by 16.9% to ¥1,031 million.

### **Surfactants**

Sales of industrial surfactants grew smoothly due to an expanding sales of base materials for hair care products, and strong sales of detergent base materials with superior biodegradability, as well as polyethylene glycol. Defoamers and other paint additives also increased steadily due mainly to rising demand in China.

In the area of surfactants for textiles, sales of agents used in textile manufacturing processes for industrial materials, such as carbon fiber and airbags, were strong. However, overall sales of surfactants for textiles remained weak due to slackening demand for textile agents for clothing in Japan, and intense competition in overseas markets.

As a result, total sales in this product group increased by 1.0% from the same period of the previous fiscal year to ¥5,615 million.

### **Polyurethane Chemicals**

Sales of raw materials for polyurethane foam increased substantially, supported by a revision of product prices that correspond to higher raw material costs, and continuing vigorous demand for high-performance polyurethane foam because the number of this product which is adopted as automobile seats increased.

In the area of polyurethane resins, sales increased substantially, due to the increasing number of automobile models using thermoplastic polyurethane beads (TUB) for the interior parts of automobiles. A brisk rise in sales of waterborne resins for automobile paints also contributed to the growth in sales.

As a result, total sales in this product group increased by 14.2% from the same period of the previous fiscal year to ¥8,032 million.

### **Lipophilic High-Molecular Agents**

Sales increased in polyester beads (PEB) used as a core component of polymerization toners due to the growing popularity of highly-functional copiers. Sales of resin for pulverized toners also increased briskly because more customers came to adopt their energy-saving toner resins in addition to strong sales of color toners.

Sales for lubricating oils and machining-related products increased briskly, supported by increased demand for lubricity improvers for diesel fuels in compliance with the new regulations on low-sulfur content in diesel fuels, and for lubricating oil additives for continuously variable transmission fluid.

In coating and adhesive-related products, sales of ultraviolet curing resins and adhesives for medical equipment increased strongly due to the increased number of the adoption of these products.

As a result, total sales in this product group increased by 4.3% from the same period of the previous fiscal year to ¥6,752 million.

### **Hydrophilic High-Molecular Agents**

Sales of superabsorbent polymers increased substantially on strong demand for hygiene-use materials

such as disposable diapers. Sales within China were also steady at our subsidiary San-Dia Polymers (Nantong) Co., Ltd., which began commercial production in April 2005.

Sales of water treatment products returned to positive territory, due in part to a revision of product prices for polymer flocculants and paper strength agents.

As a result, total sales in this product group increased by 16.7% from the same period of the previous fiscal year to ¥7,165 million.

### **Specialty Products**

In the field of polymer modifier-related products, sales increased in permanent antistatic agents for use in packaging materials for electronic components, and resin modifiers for special fiber due to the increased number of the adoption of this product.

In electric/electronic-related products, sales increased slightly because, despite a major rise in sales of silicon wafer processing agents, electrolytes for aluminum electrolytic capacitors were affected by a temporary inventory adjustment.

Other products also had a good quarter, supported by strong sales of raw materials for medical products such as enteric-soluble coating agents, and concrete agents for civil engineering and construction.

As a result, total sales in this product group increased by 8.9% from the same period of the previous fiscal year to ¥3,636 million.

## **(2) Financial Condition**

Total assets decreased by ¥258 million from the previous term-end to ¥152,907 million on a consolidated basis. The equity ratio increased by 0.3 percentage point from the previous term-end, to 58.1%.

Cash and cash equivalents came to ¥14,730 million at the end of the quarter, down ¥556 million from the end of the previous fiscal year.

### **Cash Flows from Operating Activities**

Net cash provided by operating activities amounted to ¥2,975 million. Cash inflows came from income before income taxes and minority interests of ¥1,957 million and depreciation and amortization expenses of ¥1,938 million, which more than offset income tax payments of ¥869 million and other outflows.

### **Cash Flows from Investing Activities**

Net cash used in investing activities amounted to ¥3,048 million, due mainly to payments for acquisition of property, plant and equipment totaling ¥2,930 million for.

### **Cash Flows from Financing Activities**

Net cash used in financing activities amounted to ¥630 million, mainly reflecting ¥800 million in dividend payments.

## **(3) Earnings Forecasts (Consolidated Basis)**

The Company has made no change to its interim forecast released on April 27, 2007 (consolidated basis). During the quarter under review, we achieved 51.1% of our first-half sales target, 47.7% of the operating income target, 55.2% of the ordinary income target and 54.3% of the net income target.

However, there is a risk of performance falling short of this forecast as any renewed rise in prices for raw materials and fuel may not be matched by rises in our product prices, and cost-cutting measures could stall.

The above consolidated forecast assumes a price of ¥50,000/KL for Japan-produced naphtha and an exchange rate of ¥115 to the dollar.

## **(4) Other Matters**

Significant changes affecting subsidiaries during the period under review (changes in the scope of consolidation)

Nothing to report

Adoption of simplified accounting methods

Income taxes: Calculating by estimated effective income-tax rate based on statutory income tax rate

Changes in accounting standards (consolidated basis) compared with recent reporting periods

Nothing to report

# Consolidated Financial Statements

## Consolidated Balance Sheets (Assets)

|                                     | 1Q-FY 2006          | 1Q-FY 2007          | Increase<br>(Decrease) |                | Reference : FY 2006  |
|-------------------------------------|---------------------|---------------------|------------------------|----------------|----------------------|
|                                     | as of June 30, 2006 | as of June 30, 2007 | Millions of Yen        | Percentage     | as of March 31, 2007 |
|                                     | Millions of Yen     | Millions of Yen     | Millions of Yen        | Percentage     | Millions of Yen      |
| <b>ASSETS</b>                       |                     |                     |                        |                |                      |
| <b>Current assets</b>               | 66,262              | <b>72,134</b>       | <b>5,872</b>           | <b>8.9%</b>    | 72,558               |
| Cash and cash equivalents           | 16,392              | <b>14,730</b>       | <b>(1,661)</b>         |                | 15,287               |
| Notes and accounts receivable-trade | 31,419              | <b>37,432</b>       | <b>6,012</b>           |                | 38,173               |
| Inventories                         | 15,853              | <b>17,150</b>       | <b>1,297</b>           |                | 17,108               |
| Other current assets                | 2,597               | <b>2,820</b>        | <b>223</b>             |                | 1,990                |
| <b>Fixed assets</b>                 | 76,633              | <b>80,772</b>       | <b>4,138</b>           | <b>5.4%</b>    | 80,607               |
| Property, plant and equipment       | 47,755              | <b>50,359</b>       | <b>2,603</b>           | <b>5.5%</b>    | 50,116               |
| Building and structures             | 13,713              | <b>13,553</b>       | <b>(160)</b>           |                | 13,661               |
| Machinery and equipment             | 23,819              | <b>22,432</b>       | <b>(1,387)</b>         |                | 23,124               |
| Land                                | 7,607               | <b>7,788</b>        | <b>181</b>             |                | 7,750                |
| Construction in progress            | 773                 | <b>4,694</b>        | <b>3,920</b>           |                | 3,677                |
| Other Property, plant and equipment | 1,842               | <b>1,890</b>        | <b>48</b>              |                | 1,903                |
| Intangible assets                   | 1,916               | <b>1,430</b>        | <b>(486)</b>           | <b>(25.4%)</b> | 1,561                |
| Capitalized computer software costs | 811                 | <b>565</b>          | <b>(245)</b>           |                | 650                  |
| Consolidated goodwill               | 861                 | <b>682</b>          | <b>(178)</b>           |                | 727                  |
| Other Intangible assets             | 244                 | <b>182</b>          | <b>(62)</b>            |                | 184                  |
| Investments and other assets        | 26,961              | <b>28,982</b>       | <b>2,021</b>           | <b>7.5%</b>    | 28,928               |
| Investments in securities           | 25,392              | <b>27,318</b>       | <b>1,926</b>           |                | 27,275               |
| Long-term loans                     | 69                  | <b>55</b>           | <b>(14)</b>            |                | 58                   |
| Other Investments and other assets  | 1,499               | <b>1,609</b>        | <b>110</b>             |                | 1,594                |
| <b>Total assets</b>                 | 142,895             | <b>152,907</b>      | <b>10,011</b>          | <b>7.0%</b>    | 153,165              |

## Consolidated Balance Sheets (Liabilities and Shareholders' Equity)

|  | 1Q-FY 2006          | 1Q-FY 2007          | Increase        |            | Reference : FY 2006  |
|--|---------------------|---------------------|-----------------|------------|----------------------|
|  | as of June 30, 2006 | as of June 30, 2007 | (Decrease)      |            | as of March 31, 2007 |
|  | Millions of Yen     | Millions of Yen     | Millions of Yen | Percentage | Millions of Yen      |
| <b>LIABILITIES</b>                                       |                     |                     |                 |            |                      |
| <b>Current liabilities</b>                               | 30,568              | <b>37,768</b>       | 7,199           | 23.6%      | 38,130               |
| Notes and accounts payable-trade                         | 19,985              | <b>27,048</b>       | 7,063           |            | 26,542               |
| Short-term loans   | 923                 | <b>1,161</b>        | 238             |            | 828                  |
| Current portion of long-term loans                       | 308                 | <b>419</b>          | 111             |            | 358                  |
| Accrued expenses   | 2,773               | <b>3,113</b>        | 339             |            | 3,019                |
| Accrued income taxes                                     | 844                 | <b>1,000</b>        | 156             |            | 1,127                |
| Allowance for bonuses                                    | 750                 | <b>765</b>          | 14              |            | 1,677                |
| Directors' and corporate auditors' bonuse allowances     | 16                  | <b>18</b>           | <b>2</b>        |            | 71                   |
| Notes payable-plant and equipment                        | 2,669               | <b>1,996</b>        | (672)           |            | 1,994                |
| Other current liabilities                                | 2,296               | <b>2,243</b>        | (53)            |            | 2,511                |
| <b>Long-term liabilities</b>                             | 23,048              | <b>23,808</b>       | 760             | 3.3%       | 23,834               |
| Unsecured convertible bonds                              | 10,000              | <b>10,000</b>       | —               |            | 10,000               |
| Long-term loans  | 4,182               | <b>5,273</b>        | 1,091           |            | 5,138                |
| Accrued severance indemnities                            | 5,920               | <b>5,491</b>        | (429)           |            | 5,664                |
| Directors' and corporate auditors' retirement allowances | 1,091               | <b>1,068</b>        | (22)            |            | 1,153                |
| Other liabilities  | 1,854               | <b>1,974</b>        | 120             |            | 1,877                |
| <b>Total liabilities</b>                                 | 53,617              | <b>61,576</b>       | 7,959           | 14.8%      | 61,965               |
| Net assets   |                     |                     |                 |            |                      |
| Shareholders' equity                                     | 80,224              | <b>81,743</b>       | 1,518           | 1.9%       | 81,544               |
| Common stock   | 13,051              | <b>13,051</b>       | —               | —          | 13,051               |
| Additional paid-in capital                               | 12,199              | <b>12,200</b>       | 0               | 0.0%       | 12,200               |
| Retained earnings  | 60,609              | <b>62,155</b>       | 1,545           | 2.5%       | 61,951               |
| Treasure stock, at cost                                  | (5,635)             | <b>(5,662)</b>      | (26)            | 0.5%       | (5,657)              |
| Valuation and translation adjustments                    | 6,848               | <b>7,034</b>        | 185             | 2.7%       | 6,921                |
| Unrealized gains on securities                           | 6,851               | <b>6,692</b>        | (158)           | (2.3%)     | 6,616                |
| Foreign currency translation adjustments                 | (2)                 | <b>341</b>          | 344             | —          | 305                  |
| Minority interests                                       | 2,205               | <b>2,552</b>        | 347             | 15.7%      | 2,734                |
| <b>Total net assets</b>                                  | 89,278              | <b>91,330</b>       | 2,051           | 2.3%       | 91,200               |
| <b>Total liabilities and net assets</b>                  | 142,895             | <b>152,907</b>      | 10,011          | 7.0%       | 153,165              |

## Consolidated Statements of Income

|  | 1Q-FY 2006        | 1Q-FY 2007        | Increase<br>(Decrease) |            | Reference : FY 2006 |
|--|-------------------|-------------------|------------------------|------------|---------------------|
|  | April, 2006       | April, 2007       |                        |            | April, 2006         |
|  | turogh June, 2006 | turogh June, 2007 | Millions of Yen        | Percentage | through May, 2007   |
|  | Millions of Yen   | Millions of Yen   | Millions of Yen        | Percentage | Millions of Yen     |
| <b>Net sales</b>   | 28,973            | <b>31,667</b>     | 2,693                  | 9.3%       | 122,397             |
| Cost of sales  | 22,948            | <b>25,567</b>     | 2,619                  | 11.4%      | 97,639              |
| <b>Gross profit</b>                                      | 6,025             | <b>6,100</b>      | 74                     | 1.2%       | 24,757              |
| Selling, general and administrative expenses             | 4,499             | <b>4,622</b>      | 123                    | 2.7%       | 18,204              |
| <b>Operating income</b>                                  | 1,526             | <b>1,477</b>      | (48)                   | (3.2%)     | 6,553               |
| Non-operating income                                     | 470               | <b>632</b>        | 161                    | 34.3%      | 1,949               |
| Interest income  | 9                 | <b>36</b>         | 26                     |            | 133                 |
| Dividend income  | 124               | <b>148</b>        | 24                     |            | 329                 |
| Equity in earnings of unconsolidated affiliates          | 191               | <b>138</b>        | (53)                   |            | 687                 |
| Other  | 145               | <b>309</b>        | 163                    |            | 799                 |
| Non-operating expenses                                   | 116               | <b>122</b>        | 6                      | 5.4%       | 478                 |
| Interest expenses  | 28                | <b>66</b>         | 38                     |            | 187                 |
| Other  | 88                | <b>55</b>         | (32)                   |            | 290                 |
| <b>Ordinary income</b>                                   | 1,880             | <b>1,987</b>      | 106                    | 5.7%       | 8,024               |
| Extraordinary gain                                       | —                 | <b>2</b>          | 2                      | —          | 47                  |
| gain on sale of fixed assets                             | —                 | <b>2</b>          | 2                      |            | 17                  |
| gain on sale of investments in securities                | —                 | —                 | —                      |            | 29                  |
| Extraordinary expenses                                   | 9                 | <b>32</b>         | 23                     | 244.5%     | 1,599               |
| Loss on assets impairment                                | —                 | —                 | —                      |            | 669                 |
| Loss on disposal of fixed assets                         | 9                 | <b>32</b>         | 23                     |            | 224                 |
| Loss on valuation of inventories                         | —                 | —                 | —                      |            | 505                 |
| Prior license fee  | —                 | —                 | —                      |            | 200                 |
| <b>Income before income taxes and minority interests</b> | 1,871             | <b>1,957</b>      | 85                     | 4.6%       | 6,471               |
| <b>Income taxes</b>                                      | 794               | <b>760</b>        | (33)                   | (4.2%)     | 2,687               |
| <b>Minority interests</b>                                | 194               | <b>164</b>        | (30)                   | (15.6%)    | 732                 |
| <b>Net income</b>  | 882               | <b>1,031</b>      | 149                    | 16.9%      | 3,051               |

# Consolidated Statements of Changes in Net Assets

April 1, 2006 through June 30, 2006

(Millions of Yen)

|   | Shareholders' equity |                            |                   |                |                            | Valuation and translation adjustment |  |  | Minority interests | Total net assets |
|---|----------------------|----------------------------|-------------------|----------------|----------------------------|--------------------------------------|--|--|--------------------|------------------|
|   | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gains on securities       | Foreign currency translation adjustments | Total valuation and translation adjustment |                    |                  |
| Balance at March 31, 2006                                     | 13,051               | 12,198                     | 60,626            | (5,641)        | 80,234                     | 7,169                                | (81)                                     | 7,088                                      | 2,310              | 89,632           |
| Changes in this period  |                      |                            |                   |                |                            |                                      |  |  |                    |                  |
| Cash dividends paid   |                      |                            | (827)             |                | (827)                      |                                      |  |  |                    | (827)            |
| Bonuses to directors and corporate auditors                   |                      |                            | (71)              |                | (71)                       |                                      |  |  |                    | (71)             |
| Net income  |                      |                            | 882               |                | 882                        |                                      |  |  |                    | 882              |
| Gain from disposal of treasury stock                          |                      | 1                          |                   |                | 1                          |                                      |  |  |                    | 1                |
| Purchase of treasury stock                                    |                      |                            |                   | (3)            | (3)                        |                                      |  |  |                    | (3)              |
| Decrease of treasury stock                                    |                      |                            |                   | 9              | 9                          |                                      |  |  |                    | 9                |
| Net changes of other than shareholders' equity in this period |                      |                            |                   |                |                            | (318)                                | 78                                       | (239)                                      | (104)              | (344)            |
| Total changes in this period                                  |                      | 1                          | (16)              | 5              | (9)                        | (318)                                | 78                                       | (239)                                      | (104)              | (353)            |
| Balance at June 30, 2006                                      | 13,051               | 12,199                     | 60,609            | (5,635)        | 80,224                     | 6,851                                | (2)                                      | 6,848                                      | 2,205              | 89,278           |

April 1, 2007 through June 30, 2007

(Millions of Yen)

|   | Shareholders' equity |                            |                   |                |                            | Valuation and translation adjustment |  |  | Minority interests | Total net assets |
|---|----------------------|----------------------------|-------------------|----------------|----------------------------|--------------------------------------|--|--|--------------------|------------------|
|   | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gains on securities       | Foreign currency translation adjustments | Total valuation and translation adjustment |                    |                  |
| Balance at March 31, 2007                                     | 13,051               | 12,200                     | 61,951            | (5,657)        | 81,544                     | 6,616                                | 305                                      | 6,921                                      | 2,734              | 91,220           |
| Changes in this period  |                      |                            |                   |                |                            |                                      |  |  |                    |                  |
| Cash dividends paid   |                      |                            | (827)             |                | (827)                      |                                      |  |  |                    | (827)            |
| Bonuses to directors and corporate auditors                   |                      |                            |                   |                |                            |                                      |  |  |                    |                  |
| Net income  |                      |                            | 1,031             |                | 1,031                      |                                      |  |  |                    | 1,031            |
| Gain from disposal of treasury stock                          |                      | 0                          |                   |                | 0                          |                                      |  |  |                    | 0                |
| Purchase of treasury stock                                    |                      |                            |                   | (6)            | (6)                        |                                      |  |  |                    | (6)              |
| Decrease of treasury stock                                    |                      |                            |                   | 1              | 1                          |                                      |  |  |                    | 1                |
| Net changes of other than shareholders' equity in this period |                      |                            |                   |                |                            | 75                                   | 36                                       | 112  | (181)              | (69)             |
| Total changes in this period                                  |                      | 0                          | 203               | (4)            | 198                        | 75                                   | 36                                       | 112  | (181)              | 129              |
| Balance at June 30, 2007                                      | 13,051               | 12,200                     | 62,155            | (5,662)        | 81,743                     | 6,692                                | 341                                      | 7,034                                      | 2,552              | 91,330           |

April 1, 2006 through March 31, 2007

(Millions of Yen)

|   | Shareholders' equity |                            |                   |                |                            | Valuation and translation adjustment |  |  | Minority interests | Total net assets |
|---|----------------------|----------------------------|-------------------|----------------|----------------------------|--------------------------------------|--|--|--------------------|------------------|
|   | Common stock         | Additional paid-in capital | Retained earnings | Treasury stock | Total shareholders' equity | Unrealized gains on securities       | Foreign currency translation adjustments | Total valuation and translation adjustment |                    |                  |
| Balance at March 31, 2006                                     | 13,051               | 12,198                     | 60,626            | (5,641)        | 80,234                     | 7,169                                | (81)                                     | 7,088                                      | 2,310              | 89,632           |
| Changes in this period  |                      |                            |                   |                |                            |                                      |  |  |                    |                  |
| Cash dividends paid   |                      |                            | (1,655)           |                | (1,655)                    |                                      |  |  |                    | (1,655)          |
| Bonuses to directors and corporate auditors                   |                      |                            | (71)              |                | (71)                       |                                      |  |  |                    | (71)             |
| Net income  |                      |                            | 3,051             |                | 3,051                      |                                      |  |  |                    | 3,051            |
| Gain from disposal of treasury stock                          |                      | 1                          |                   |                | 1                          |                                      |  |  |                    | 1                |
| Purchase of treasury stock                                    |                      |                            |                   | (28)           | (28)                       |                                      |  |  |                    | (28)             |
| Decrease of treasury stock                                    |                      |                            |                   | 12             | 12                         |                                      |  |  |                    | 12               |
| Net changes of other than shareholders' equity in this period |                      |                            |                   |                |                            | (553)                                | 386                                      | (166)                                      | 424                | 257              |
| Total changes in this period                                  |                      | 1                          | 1,325             | (15)           | 1,310                      | (553)                                | 386                                      | (166)                                      | 424                | 1,568            |
| Balance at March 31, 2007                                     | 13,051               | 12,200                     | 61,951            | (5,657)        | 81,544                     | 6,616                                | 305                                      | 6,921                                      | 2,734              | 91,200           |

## Consolidated Statements of Cash Flows

|   | 1Q-FY 2006<br>Apr., 2006 through<br>Jun., 2006<br>Millions of Yen | 1Q-FY 2007<br>Apr., 2007 through<br>Jun., 2007<br>Millions of Yen | Reference : FY 2006<br>Apr., 2006 through<br>Mar., 2007<br>Millions of Yen |
|---|---|---|--|
| <b>Operating Activities</b>   |   |   |  |
| Income before income taxes and minority interests                                     | 1,871   | 1,957   | 6,471  |
| Depreciation and amortization   | 1,909   | 1,938   | 8,166  |
| Loss on fixed assets impairment   | —   | —   | 669  |
| Amortization of difference between investment costs and equity in net assets acquired | 44  | 44  | 178  |
| Interest and dividend income  | (134)   | (185)   | (462)  |
| Interest expenses   | 28  | 66  | 187  |
| Equity in losses (earnings) of unconsolidated affiliates                              | (191)   | (138)   | (687)  |
| Decrease (increase) in notes and accounts receivable                                  | (1,157)   | 759   | (7,831)  |
| Decrease (increase) in inventories  | (284)   | (23)  | (1,964)  |
| Decrease (increase) in other assets net   | (692)   | (837)   | (73)   |
| Loss on valuation of inventories  | —   | —   | 505  |
| Increase (decrease) in notes and accounts payable                                     | (107)   | 497   | 6,350  |
| Increase (decrease) in other liabilities  | 1,188   | 861   | 946  |
| Other   | (1,262)   | (1,464)   | (857)  |
| Sub-total   | 1,212   | 3,476   | 11,598   |
| Interest and cash dividends received  | 323   | 364   | 925  |
| Interest paid   | (25)  | (70)  | (188)  |
| Income taxes paid   | (1,745)   | (869)   | (3,376)  |
| Other   | 111   | 74  | 330  |
| <b>Net cash provided by operating activities</b>                                      | (123)   | 2,975   | 9,289  |
| <b>Investing activities</b>   |   |   |  |
| Increase (decrease) of time deposit   | 5,000   | —   | 5,000  |
| Payments for purchase of fixed assets   | (4,434)   | (2,930)   | (12,998)   |
| Payments for purchase of investments in securities                                    | (586)   | (1)   | (2,950)  |
| Payments for additional acquisition of stocks of consolidated subsidiaries            | —   | —   | 67   |
| Disbursements for loans   | (138)   | (70)  | (141)  |
| Payments received on loans  | 23  | 3   | 266  |
| Other   | 318   | (50)  | 113  |
| <b>Net cash used in investing activities</b>  | 181   | (3,048)   | (10,643)   |
| <b>Financing Activities</b>   |   |   |  |
| Proceeds from short-term debt   | 296   | 1,151   | 1,277  |
| Repayments of short-term debt   | (107)   | (815)   | (1,209)  |
| Proceeds from long-term loans   | 2,783   | 200   | 4,066  |
| Repayments of long-term loans   | —   | —   | (308)  |
| Purchase of treasury stock  | (3)   | (6)   | (28)   |
| Dividends paid  | (755)   | (800)   | (1,655)  |
| Other   | (307)   | (359)   | (385)  |
| <b>Net cash used in financing activities</b>  | 1,905   | (630)   | 1,758  |
| <b>Effects of exchange rate changes on cash and cash equivalents</b>                  | 23  | 147   | 122  |
| <b>Net increase (decrease) in cash and cash equivalents</b>                           | 1,987   | (556)   | 527  |
| <b>Cash and cash equivalents at beginning of period</b>                               | 14,405  | 15,287  | 14,405   |
| <b>Proceeds from purchase of newly consolidated subsidiaries</b>                      | —   | —   | 354  |
| <b>Cash and cash equivalents at the end of period</b>                                 | 16,392  | 14,730  | 15,287   |

## Supplement Data

### Trend of Each Quarter Results

Previous Fiscal Year

(Millions of Yen)

|                  | FY 2006                             |                                     |                                     |                                     |                                     |
|------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                  | 1Q                                  | 2Q                                  | 3Q                                  | 4Q                                  | Total                               |
|                  | Apr., 2006<br>through<br>Jun., 2006 | Jul., 2006<br>through<br>Sep., 2006 | Oct., 2006<br>through<br>Dec., 2006 | Jan., 2007<br>through<br>Mar., 2007 | Apr., 2006<br>through<br>Mar., 2007 |
| Net sales        | 28,973                              | 28,889                              | 32,023                              | 32,510                              | 122,397                             |
| Gross profit     | 6,025                               | 5,585                               | 6,527                               | 6,618                               | 24,757                              |
| Operating income | 1,526                               | 1,110                               | 2,097                               | 1,819                               | 6,553                               |
| Ordinary income  | 1,880                               | 1,431                               | 2,447                               | 2,263                               | 8,024                               |
| Net income       | 882                                 | 820                                 | 1,212                               | 136                                 | 3,051                               |

Current Fiscal Year

(Millions of Yen)

|                  | FY 2007                             | Reference: FY 2006                  |                                     |
|------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|                  | 1Q                                  | 1Q                                  | 4Q                                  |
|                  | Apr., 2007<br>through<br>Jun., 2007 | Apr., 2006<br>through<br>Jun., 2006 | Jan., 2007<br>through<br>Mar., 2007 |
| Net sales        | 31,667                              | 9.3%                                | (2.6%)                              |
| Gross profit     | 6,100                               | 1.2%                                | (7.8%)                              |
| Operating income | 1,477                               | (3.2%)                              | (18.8%)                             |
| Ordinary income  | 1,987                               | 5.7%                                | (12.2%)                             |
| Net income       | 1,031                               | 16.9%                               | 656.6%                              |

### Investment in Plant and Equipment

(Millions of Yen)

|                  | 1Q-FY 2007 | 1Q-FY 2006 | FY 2006 |
|------------------|------------|------------|---------|
| Consolidated     | 2,017      | 1,687      | 10,468  |
| Non-consolidated | 911        | 1,300      | 5,004   |

### Depreciation and Amortization

(Millions of Yen)

|                  | 1Q-FY 2007 | 1Q-FY 2006 | FY 2006 |
|------------------|------------|------------|---------|
| Consolidated     | 1,937      | 1,902      | 8,146   |
| Non-consolidated | 1,456      | 1,432      | 6,136   |

### Research and Development Expenses

(Millions of Yen)

|                  | 1Q-FY 2007 | 1Q-FY 2006 | FY 2006 |
|------------------|------------|------------|---------|
| Consolidated     | 1,183      | 1,158      | 4,540   |
| Non-consolidated | 1,027      | 998        | 3,884   |

## Net Sales by Product Group

|                                   | 1Q-FY 2006                    |             | 1Q-FY 2007                    |             | Reference : FY 2007           |             |
|-----------------------------------|-------------------------------|-------------|-------------------------------|-------------|-------------------------------|-------------|
|                                   | Apr., 2006 through Jun., 2006 |             | Apr., 2007 through Jun., 2007 |             | Apr., 2006 through Mar., 2007 |             |
|                                   | Millions of Yen               | Composition | Millions of Yen               | Composition | Millions of Yen               | Composition |
| Surfactants                       | 5,560                         | 19.2%       | 5,615                         | 17.7%       | 22,480                        | 18.4%       |
| Polyurethane chemicals            | 7,035                         | 24.3%       | 8,032                         | 25.4%       | 30,669                        | 25.1%       |
| Lipophilic high-molecular agents  | 6,476                         | 22.3%       | 6,752                         | 21.3%       | 27,714                        | 22.6%       |
| Hydrophilic high-molecular agents | 6,137                         | 21.2%       | 7,165                         | 22.6%       | 25,596                        | 20.9%       |
| Specialty products                | 3,340                         | 11.5%       | 3,636                         | 11.5%       | 14,137                        | 11.5%       |
| Total of chemical products        | 28,550                        | 98.5%       | 31,202                        | 98.5%       | 120,598                       | 98.5%       |
| Non-chemical products, and other  | 422                           | 1.5%        | 464                           | 1.5%        | 1,798                         | 1.5%        |
| Total                             | 28,973                        | 100.0%      | 31,667                        | 100.0%      | 122,397                       | 100.0%      |

## Sales to Foreign Customers

|            | 1Q-FY 2006                    |                    | 1Q-FY 2007                    |                    | Reference : FY 2006           |                    |
|------------|-------------------------------|--------------------|-------------------------------|--------------------|-------------------------------|--------------------|
|            | Apr., 2006 through Jun., 2006 |                    | Apr., 2007 through Jun., 2007 |                    | Apr., 2006 through Mar., 2007 |                    |
|            | Millions of Yen               | Ratio to net sales | Millions of Yen               | Ratio to net sales | Millions of Yen               | Ratio to net sales |
| Asia       | 5,170                         | 17.8%              | 5,582                         | 17.6%              | 19,842                        | 16.2%              |
| Only China | 2,401                         | 8.3%               | 2,653                         | 8.4%               | 8,835                         | 7.2%               |
| America    | 1,755                         | 6.1%               | 2,322                         | 7.3%               | 8,618                         | 7.1%               |
| Other      | 2,114                         | 7.3%               | 2,487                         | 7.9%               | 9,303                         | 7.6%               |
| Total      | 9,039                         | 31.2%              | 10,392                        | 32.8%              | 37,764                        | 30.9%              |

### Notes:

- Overseas sales refer to sales generated by the parent company or its consolidated subsidiaries outside Japan.
- Areas included in each country or region are determined based on their degree of proximity.
- Main countries or regions included in the areas other than Japan.
  - Asia: Korea, China, Indonesia, Thailand, and others
  - America: U.S.A., Mexico, Brazil, and others
  - Other: Australia, Europe, Middle East, and others