Consolidated Balance Sheets

As of March 31	Millions of Yen		Thousands of U.S. Dollars (Note 3)
ASSETS	2004	2005	2005
Current Assets:			
Cash and bank deposits (Notes 2 (5), 4)	¥ 13,851	¥ 6,862	$ 64,126
Notes and accounts receivable	49,287	53,408	499,138
Less: Allowance for doubtful accounts (Note 2 (9))	(40)	(39)	(362)
	49,247	53,369	498,776
Inventories (Notes2 (6), 6)	22,509	23,754	222,001
Deferred tax assets-current (Note 12)	1,430	1,464	13,680
Others	4,950	5,032	47,037
Total current assets	91,987	90,481	845,620
Investments and Advances:			
Investments in securities (Notes 2 (4), 5)	11,064	11,530	107,756
Investments in and advances to unconsolidated subsidiaries and affiliates	9,118	10,038	93,816
Others	2,902	2,542	23,756
Total Investments and Advances	23,084	24,110	225,328
Property, Plant and Equipment, at Cost: (Notes 2 (7), (14) 9,)			
Buildings and structures	54,134	54,273	507,225
Machinery and equipment	107,950	108,791	1,016,736
Tool, furniture and fixtures	9,289	9,313	87,037
Less: Accumulated depreciation	(121,848)	(125,907)	(1,176,694)
	49,525	46,470	434,304
Land	16,232	16,092	150,391
Construction in progress	751	1,097	10,253
Total Property, Plant and Equipment, at Cost	66,508	63,659	594,948
Deferred Charges and Intangibles (Note 2 (8))			
Goodwill	—	5,215	48,741
Others	791	1,518	14,187
Total Deferred Charges and Intangibles	791	6,733	62,928
Difference between Investment Costs and Equity in Net Assets Acquired (Note 2 (2))	311	158	1,477
Deferred tax assets-non-current (Notes 12)	1,942	2,097	19,590
Total Fixed Assets	92,636	96,757	904,271
	¥ 184,623	¥ 187,238	$ 1,749,891

The accompanying notes are an integral part of the statements.

As of March 31	Millions of Yen		Thousands of U.S. Dollars (Note 3)
LIABILITIES	2004	2005	2005
Current Liabilities:			
Short-term debt (Note 9)	¥ 49,350	¥ 44,330	$ 414,299
Current portion of long-term debt (Note 9)	13,092	10,795	100,890
Notes and accounts payable	24,030	25,487	238,199
Income taxes payable (Note 12)	538	987	9,225
Others	9,690	9,686	90,523
Total Current Liabilities	96,640	91,285	853,136
Long-Term liabilities			
Long-term Debt (Note 9)	18,049	23,163	216,479
Deferred tax liabilities-non-current (Note 12)	748	871	8,142
Provision for Retirement Benefits (Notes 2(10), 11)	5,284	5,956	55,665
Others	631	757	7,065
Total Long-term liabilities	24,712	30,747	287,351
Total Liabilities	121,352	122,032	1,140,487
Commitments and Contingent Liabilities (Note 7)			
Minority Interest in Consolidated Subsidiaries	3,802	3,965	37,058
SHAREHOLDERS' EQUITY			
Common stock;			
Authorised: 240,000,000 shares			
Issued: 142,412,870 shares as at March 31, 2004 and 2005	26,667	26,667	249,221
Additional paid-in capital	23,594	23,594	220,506
Retained earnings	8,975	10,205	95,378
Net unrealised gains (losses) on available-for-sale securities, net of tax	1,531	1,895	17,712
Foreign currency translation adjustment (Note 2 (11))	(772)	(585)	(5,470)
Less: Treasury stock	(526)	(535)	(5,001)
Total Shareholders' Equity	59,469	61,241	572,346
	¥ 184,623	¥ 187,238	$ 1,749,891

The accompanying notes are an integral part of the statements.

Consolidated Statements of Income

For the years ended March 31	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Net Sales (Note 12)	¥ 136,154	¥ 135,265	¥ 144,372	$ 1,349,271
Cost of Sales (Note 12)	(108,395)	(107,425)	(114,018)	(1,065,589)
Gross profit	27,759	27,840	30,354	283,682
Selling, General and Administrative Expenses	(22,905)	(23,228)	(25,286)	(236,318)
Income from operations	4,854	4,612	5,068	47,364
Other Income (Expenses):				
Interest and dividend income	397	294	263	2,458
Interest expense	(928)	(905)	(935)	(8,738)
Rental income and expenses, net	172	177	147	1,374
Equity in earnings (loss) of affiliates	365	759	1,093	10,215
Fee for using Nippon Soda data	423	—	—	—
Gain on sale of property, plant and equipment, net	482	423	0	0
Gain on sale of investments in securities, net	0	361	259	2,421
Gain on reversal of law suit related loss (Note 16)	574	—	—	—
Amortization of unrecognised transition amount arising from adopting the new standard for retirement benefits	(2,405)	(2,405)	(2,405)	(22,478)
Loss on disposal of inventories, net	(199)	(376)	(330)	(3,084)
Loss on disposal of property, plant and equipment, net	(478)	(618)	(536)	(5,009)
Loss on write-down of investments in securities	(802)	—	0	1
Others, net	192	(279)	331	3,093
Total Other Income (Expenses)	(2,207)	(2,569)	(2,113)	(19,747)
Income (Loss) before income taxes	2,646	2,043	2,955	27,617
Income Taxes (Note 12)				
Current income taxes	712	1,227	1,142	10,672
Deferred income taxes	582	(550)	(323)	(3,019)
Total Income Taxes	1,294	677	819	7,653
Minority Interests in Net Income (Loss) of Consolidated Subsidiaries	215	216	204	1,916
Net Income (Loss)	1,137	1,150	1,932	18,057

For the year ended March 31	Yen			U.S. Dollars (Note 3)
	2003	2004	2005	2005
Per share:(Note 2 (14))				
Net income (loss) - primary	¥ 7.95	¥ 8.09	¥ 13.77	$ 0.129
Net income - fully diluted	¥ —	¥ —	¥ —	$ —

The accompanying notes are an integral part of the statements.

Consolidated Statements of Shareholders' Equity

For the years ended March 31	Number of shares of common stock (thousands)	Millions of Yen: Common stock	Additional paid-in capital	Retained earnings	Unrealized gains (losses) on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock, at cost
Balance as of March 31, 2002	142,413	¥ 26,667	¥ 23,594	¥ 7,116	¥ 135	¥ 914	¥ (4)
Net income for the year ended March 31, 2003	—	—	—	1,137	—	—	—
Increase due to addition of subsidiaries for consolidation	—	—	—	191	—	—	—
Decrease due to exclusion of an affiliate and a subsidiary for consolidation	—	—	—	103	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(5)	—	—	—
Net change in unrealized losses on available-for-sale securities	—	—	—	—	(348)	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	(785)	—
Net change in treasury stock	—	—	—	—	—	—	(8)
Balance as of March 31, 2003	142,413	¥ 26,667	¥ 23,594	¥ 8,542	¥ (213)	¥ 129	¥ (12)
Net income for the year ended March 31, 2004	—	—	—	1,150	—	—	—
Cash dividends	—	—	—	(712)	—	—	—
Directors' and corporate auditors' bonuses	—	—	—	(5)	—	—	—
Net change in unrealized gains on available-for-sale securities	—	—	—	—	1,744	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	(901)	—
Net change in treasury stock	—	—	—	—	—	—	(514)
Balance as of March 31, 2004	142,413	¥ 26,667	¥ 23,594	¥ 8,975	¥ 1,531	¥ (772)	¥ (526)
Net income for the year ended March 31, 2005	—	—	—	1,932	—	—	—
Cash dividends	—	—	—	(702)	—	—	—
Net change in unrealized gains on available-for-sale securities	—	—	—	—	364	—	—
Net change in foreign currency translation adjustments	—	—	—	—	—	187	—
Net change in treasury stock	—	—	—	—	—	—	(9)
Balance as of March 31, 2005	142,413	¥ 26,667	¥ 23,594	¥ 10,205	¥ 1,895	¥ (585)	¥ (535)

	Thousands of U.S. Dollars (Note 3): Common stock	Additional paid-in capital	Retained earnings	Unrealized gains (losses) on available-for-sale securities, net of tax	Foreign currency translation adjustments	Treasury stock, at cost
Balance as of March 31, 2004	$ 249,221	$ 220,506	$ 83,880	$ 14,307	$ (7,218)	$ (4,916)
Net income for the year ended March 31, 2005	—	—	18,057	—	—	—
Cash dividends	—	—	(6,559)	—	—	—
Net change in unrealized gains on available-for-sale securities	—	—	—	3,405	—	—
Net change in foreign currency translation adjustments	—	—	—	—	1,748	—
Net change in treasury stock	—	—	—	—	—	(85)
Balance as of March 31, 2005	$ 249,221	$ 220,506	$ 95,378	$ 17,712	$ (5,470)	$ (5,001)

Consolidated Statements of Cash Flows

For the years ended March 31	Millions of Yen			Thousands of U.S. Dollars (Note 3)
	2003	2004	2005	2005
Cash flows from operating activities:				
Net income before income taxes and minority interest	¥ 2,646	¥ 2,043	¥ **2,955**	$ **27,617**
Adjustments for:				
Depreciation and amortization	7,184	7,066	**8,600**	**80,374**
Amortization of difference between investment cost and equity in net assets acquired	152	152	**151**	**1,411**
Equity in earnings of affiliates	(365)	(759)	**(1,093)**	**(10,215)**
Exchange Loss (Gain)	(32)	30	**34**	**318**
Provision for retirement benefits	1,022	1,062	**672**	**6,280**
Increase (Decrease) in accrued bonuses	(210)	133	**14**	**131**
Provision for (Reversal of) allowance for doubtful accounts	56	(30)	**(3)**	**(28)**
Interest and dividend income	(397)	(294)	**(263)**	**(2,458)**
Interest expenses	928	905	**935**	**8,738**
Gain on sale of investments in securities, net	(67)	(333)	**(259)**	**(2,421)**
Loss (Gain) on sale of property, net	(482)	(421)	**77**	**720**
Loss on disposal of property	499	636	**569**	**5,318**
Loss on write-down of land	25	—	**—**	**—**
Gain on reversal law suit related loss	(574)	—	**—**	**—**
Decrease (Increase) in notes and accounts receivable	1,590	(371)	**(4,105)**	**(38,364)**
Decrease (Increase) in inventories	746	727	**(14)**	**(131)**
Increase (Decrease) in notes and accounts payable	(9,444)	108	**1,389**	**12,981**
Directors' bonuses paid	(5)	(5)	**—**	**—**
Directors' bonuses charged to minority interests	(1)	(1)	**—**	**—**
Others	792	456	**983**	**9,187**
Sub Total	4,063	11,104	**10,642**	**99,458**
Interest and dividend income received	397	292	**1,015**	**9,486**
Interest expenses paid	(914)	(882)	**(924)**	**(8,636)**
Income taxes paid	(578)	(748)	**(933)**	**(8,720)**
Law suit expenses paid	(1,246)	—	**—**	**—**
Net cash provided by operating activities	1,722	9,766	**9,800**	**91,588**
Cash flows from investing activities:				
Decrease in time deposits	(127)	(26)	**(0)**	**(0)**
Increase in time deposits	46	24	**153**	**1,430**
Payments for purchase of property, plant and equipment	(5,725)	(6,712)	**(4,392)**	**(41,047)**
Proceeds from sales of property, plant and equipment	574	1,072	**87**	**813**
Payments for purchase of intangibles	(444)	(187)	**(215)**	**(2,009)**
Payments for purchase of investments in securities	(1,347)	(357)	**(1,291)**	**(12,065)**
Proceeds from sales of investments in securities	126	2,435	**537**	**5,019**
Payments for purchase a business (Note 15 (2))	—	—	**(8,853)**	**(82,738)**
Increase in loans receivable	(469)	(1,147)	**(78)**	**(729)**
Proceeds from collections of loans receivable	717	557	**512**	**4,785**
Others	(646)	(114)	**(225)**	**(2,103)**
Net cash used in investing activities	(7,295)	(4,455)	**(13,765)**	**(128,644)**
Cash flows from financing activities				
Increase (Decrease) in short-term bank loans, net	8,279	(8,584)	**(5,020)**	**(46,916)**
Borrowings of long-term debt	6,750	14,500	**17,400**	**162,617**
Repayment of long-term debt	(5,788)	(10,246)	**(14,522)**	**(135,720)**
Purchase of subsidiary's treasury stock by subsidiary	(15)	—	**—**	**—**
Cash dividends paid	(4)	(713)	**(703)**	**(6,570)**
Cash dividends paid for minority interests of consolidated subsidiaries	(55)	(63)	**(62)**	**(579)**
Others	(8)	(514)	**(10)**	**(93)**
Net cash provided by (used in) financing activities	9,159	(5,620)	**(2,917)**	**(27,261)**
Effect of exchange rate changes on cash and cash equivalents	(24)	(56)	**45**	**421**
Net increase (decrease) in cash and cash equivalents	3,562	(365)	**(6,837)**	**(63,896)**
Cash and cash equivalents at beginning of year	9,830	14,041	**13,676**	**127,813**
Increase in cash and cash equivalents due to consolidation of additional subsidiaries	702	—	**—**	**—**
Decrease in cash and cash equivalents due to exclusion of consolidated subsidiaries	(53)	—	**—**	**—**
Cash and cash equivalents at end of year	¥ 14,041	¥ 13,676	¥ **6,839**	$ **63,917**

The accompanying notes are an integral part of the statements.

Notes to the Consolidated Financial statements

1. Basis of Presenting the Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts of Nippon Soda Co., Ltd. (the "Company") and its consolidated subsidiaries, in accordance with the provisions set forth in the Commercial Code of Japan and the Securities and exchange law, and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Accounting Standards.

Certain items presented in the consolidated financial statements submitted to the Director of Kanto Finance Bureau in Japan have been reclassified in these accounts for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. Summary of Significant Accounting Policies

(1) Scope of Consolidation

The consolidated financial statements include the accounts of the Company and 11 of its subsidiaries. The 11 major subsidiaries which have been consolidated with the Company are listed below:

	Equity ownership percentage	Paid-in capital ¥ millions
Nisso Shoji Co., Ltd.	74.5%	401
Sanwa Soko Co., Ltd.	53.9%	1,831
Nisso Metallochemical Co., Ltd.	88.0%	1,000
Ibaraki Kasei Co., Ltd.	100.0%	150
Nisso Engineering Co., Ltd.	100.0%	1,000
Nisso Construction Co., Ltd.	100.0%	45
Shinfuji Kaseiyaku Co., Ltd.	99.3%	70
Koriyama Kasei Co., Ltd.	100.0%	180
Nisso Jyushi Co., Ltd.	100.0%	97
NISSO AMERICA INC.	100.0%	127 (1 millions US$)
NISSO CHEMICAL EUROPE GmbH	100.0%	32 (255 thousands EUR)

The Company and its consolidated subsidiaries above are hereinafter referred to as the "Companies".

The remaining subsidiaries whose combined total assets, net sales, net income and total retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Companies, have not been consolidated with the Company.

The foreign consolidated subsidiaries, NISSO AMERICA INC. and NISSO CHEMICAL EUROPE GmbH, have a December 31 year end which does not accord with that of the company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of the foreign subsidiaries and the year end of the Company.

(2) Consolidation

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealised profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Adjustment is made to computation of depreciation in relation to the elimination of unrealised profits included in depreciable assets among the Companies.

Full portion of the assets and liabilities of the subsidiaries is marked to fair value as of the acquisition of the control.

Any difference between the cost of an investment in a subsidiary and the amount of underlying equity in net assets of the subsidiary, which may arise in connection with the elimination of investment, is treated as an asset or a liability, as the case may be, and amortised over a period of five years on a straight-line basis.

(3) Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

The Company applied the equity method to the investment in Novus International Inc., and IHARABRAS S/A. INDUSTRIAS QUIMICAS.

The investments in the remaining unconsolidated subsidiaries and affiliates are carried at cost or less since these investments would have had no material effect on the consolidated financial statements.

(4) Financial Instruments

(a) Securities

Securities held by the Company and its subsidiaries are, classified into two categories. Investments of the Company in equity securities issued by unconsolidated subsidiaries and affiliates are accounted for by the equity method. Exceptionally, investments in certain unconsolidated subsidiaries and affiliates are stated at cost because the effect of application of the equity method would be immaterial.

Other securities for which market quotations are available are stated at fair value. Net unrealised gains or losses on these securities are reported as a separate item in the shareholders' equity at a net-of-tax amount.

Other securities for which market quotations are unavailable are stated at cost, except as stated in the paragraph below.

In cases where the fair value of held-to-maturity debt securities, equity securities issued by unconsolidated subsidiaries and affiliates, or other securities has declined significantly and such impairment of the value is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(b) Derivatives

All derivatives are stated at fair value, with changes in fair value included in net profit or loss for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see (c) Hedge Accounting below).

(c) Hedge Accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognized.

In accordance with the special measure under the Accounting Standard for Financial Instruments, the Company does not record certain interest swap arrangements at market value but net proceeds or payments resulting from the hedging instruments, which is equal to the difference between the receiving floating rate and the paying fixed rate, is accounted for as an adjustment to the interest expense for the underlying loan.

The derivatives designated as hedging instruments by the Companies are principally interest swap, cap, coupon swap and exchange contracts. The related hedged items are long-term bank loans, receivables and payables denominated in foreign currencies.

The Companies have a policy to utilise the above hedging instruments in order to reduce the Companies' exposure to the risk of interest rate fluctuation. Thus, the Companies' purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(5) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits able to be with drawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(6) Inventories

Inventories are stated at cost. Cost is determined by the average method.

Appropriate write-downs are recorded for inventory items, the net realisable value of which declined substantially from the carrying (cost) and such decline of value is considered not to be temporary.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation is computed generally by the straight line method for property, plant and equipment based on the estimated useful lives of assets.

Buildings and structures	..........2-60 years
Machinery, equipment	..........2-22 years

(8) Deferred Charges and Intangibles

Goodwill is being amortised over a period of 5years on a straight-line basis.

Software for internal use is being amortised over their estimated useful lives(5years) on a straight- line basis.

(9) Allowance for doubtful accounts

The companies provide the allowance for doubtful accounts by the method which uses the percentage of its own actual loss against the balance of total receivables plus the amount of uncollectible receivables estimated on an individual basis.

(10) Provision for Retirement Benefits

Effective from the year ended March 31, 2001, the Company and its subsidiaries adopted the new Japanese accounting standard for retirement benefits, which is effective for periods beginning on or after April 1, 2000.

In accordance with the new standard, the reserve for retirement benefits as of March 31, 2001 represents the estimated present value of projected benefit obligations in excess of the fair value of the plan assets except that, as permitted under the new standard, the unrecognised transition amount arising from adopting the new standard of 12,885 million yen at April 1, 2000 (the beginning of year) is amortised on a straight-line basis 5 years, Unrecognised prior service cost is expensed as incurred.

Unrecognised actuarial differences are amortised on a straight-line basis in the period of 9-12 years from the next year in which they arise

(11) Foreign currency translation

All monetary assets and liabilities denominated in foreign currencies, whether long-term or short-term, are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. Resulting gains and losses are included in net profit or loss for the period.

Assets, liabilities, and profit and loss of the foreign subsidiaries and affiliates are translated into Japanese yen at the exchange rates prevailing at the balance sheet date. The shareholders' equity at beginning of the year is translated into Japanese yen at the historical rates. Differences in yen amounts arising from the use of different rates are presented as "foreign currency translation adjustments" in the shareholders' equity.

(12) Accounting for leases

Finance leases other than those which are deemed to transfer the ownership of the leased assets to lessees are accounted for by the method similar to that applicable to ordinary operating leases.

(13) Net Income (Loss) per share

Net income (loss) per share is based upon the weighted average number of shares of common stock outstanding during each year.

(14) Accounting Standard for Impairment of Fixed Assets

On August 9, 2002, the Business Accounting Council in Japan issued "Accounting Standard for Impairment of Fixed Assets". The standard requires that fixed assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss shall be recognized in the income statement by reducing the carrying amount of impaired assets or a group of assets to the recoverable amount to be measured as the higher of net selling price and value in use.

The standard shall be effective for fiscal years beginning April 1, 2005.

3. United States Dollars Amounts

For the basis of translating the Japanese Yen amounts to the U.S. Dollar amounts at the exchange rate of ¥107=U.S.$1 included in the accompanying consolidated financial statements. Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realised or settled in U.S. dollars at this or any other rate.

4. Cash and Cash Equivalents

Reconciliation of cash and cash equivalent of consolidated statements of cash flows and account balances of consolidated balances sheets

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Cash and bank deposits	¥ 13,851	**¥ 6,861**	**$ 64,122**
Time deposits with deposit term of over 3 months	(175)	**(22)**	**(209)**
Cash and cash equivalents	¥ 13,676	**¥ 6,839**	**$ 63,917**

5. Securities

(1) The acquisition cost, carrying amount, gross unrealised holding gains and gross unrealised holding losses for securities with fair value by security type at March 31, 2004 and 2005 are as follows:

	Millions of Yen			
	2004			
	Cost	Carrying Amount	Gross unrealised gains	Gross unrealised losses
Equity securities	¥ 4,311	¥ 7,062	¥ 2,811	¥ (60)
Others	5	8	3	(0)
	¥ 4,316	¥ 7,070	¥ 2,814	¥ (60)

	Millions of Yen			
	2005			
	Cost	Carrying Amount	Gross unrealised gains	Gross unrealised losses
Equity securities	**¥ 4,070**	**¥ 7,470**	**¥ 3,446**	**¥ (46)**
Others	**50**	**50**	**0**	**—**
	¥ 4,120	**¥ 7,520**	**¥ 3,446**	**¥ (46)**

	Thousands of U.S. Dollars			
	2005			
	Cost	Carrying Amount	Gross unrealised gains	Gross unrealised losses
Equity securities	**$38,037**	**$69,813**	**$32,206**	**$ (430)**
Others	**467**	**467**	**0**	**—**
	$38,504	**$70,280**	**$32,206**	**$ (430)**

(2) The realized gains and losses on sale of other securities for the year ended March 31, 2004 and 2005 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Selling amount	¥ 2,370	**¥ 278**	**$ 2,598**
Gains on sale of securities	361	**259**	**2,421**
Losses on sale of securities	(29)	**—**	**—**

(3) The carrying amount of securities, for which a fair value is not available, at March 31, 2004 and 2005 are summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Equity investment in funds	¥ —	**¥ 31**	**$ 290**
Unlisted equity securities	1,675	**1,661**	**15,523**
Unlisted corporate debt securities	19	**16**	**150**
Other investments	2,300	**2,300**	**21,495**

(4) Maturities of investment securities classified as available-for-sale at March 31, 2004 and 2005 by contractual maturity are shown below.

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Due within one year	¥ 3	**¥ 2**	**$ 19**
Due after one year through five years	9	**7**	**65**
Due after five years through ten years	8	**5**	**47**
Total	¥ 20	**¥ 14**	**$ 131**

6. Inventories

Inventories at March 31, 2004 and 2005 comprised the following:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Finished goods	¥ 17,829	**¥ 18,825**	**$175,936**
Raw materials	3,455	**3,957**	**36,981**
Work in process	649	**432**	**4,037**
Supplies	576	**540**	**5,047**
	¥ 22,509	**¥ 23,754**	**$222,001**

7. Contingent Liabilities

As at March 31, 2004 and 2005, the Company provides guarantees to bank loans drawn mainly by the companies other than consolidated subsidiaries as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2004	**March 31, 2005**	**March 31, 2005**
Loans borrowed by:			
Novus International, Inc.	¥ 7,125	**¥ 6,972**	**$ 65,158**
Others	157	**172**	**1,608**
Total	¥ 7,282	**7,144**	**$ 66,766**

8. Lease Transactions

All finance lease contracts other than those by which the ownership of the leased assets is to be transferred to lessees, are accounted for by the method similar to the operating lease method.

(Lessee side)

Lease rental expenses on finance lease contracts without ownership-transfer for the year ended March 31, 2004 and 2005 were summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Lease rental expenses	¥ 574	**¥ 527**	**$ 4,923**

The amount of outstanding future lease payments due at March 31, 2004 and 2005 was summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Future lease payments			
Within one year	¥ 439	**¥ 447**	**$ 4,176**
Over one year	708	**926**	**8,657**
Total	¥ 1,147	**¥ 1,373**	**$ 12,833**

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expenses of the leased assets (machinery, equipment and tools, deferred charges), which included the portion of interest thereon, were summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Acquisition cost	¥ 2,589	**¥ 2,356**	**$ 22,021**
Accumulated depreciation	1,442	**983**	**9,188**
Net book value	¥ 1,147	**¥ 1,373**	**$ 12,833**
Depreciation	¥ 574	**¥ 527**	**$ 4,923**

Depreciation is based on the straight-line method over the lease term of the leased assets.

(Lessor side)

Lease rental incomes and interest incomes on finance lease contracts without ownership-transfer for the year ended March 31, 2004 and 2005 were summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Lease rental incomes	¥ 30	**¥ 41**	**$ 382**
Interest incomes	6	**6**	**59**

The amount of outstanding future lease receipts due at March 31, 2004 and 2005 was summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Future lease receipts			
Within one year	¥ 24	**¥ 41**	**$ 382**
Over one year	48	**99**	**927**
Total	¥ 72	**¥ 140**	**$ 1,309**

Interest is allocated based on the interest method over the lease term of the leased assets.

Assumed data as to acquisition cost, accumulated depreciation, net book value and depreciation expense of the leased assets (machinery, equipment and tools, deferred charges), were summarised as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Acquisition cost	¥ 146	**¥ 233**	**$ 2,184**
Accumulated depreciation	101	**127**	**1,189**
Net book value	¥ 45	**¥ 106**	**$ 995**
Depreciation	¥ 25	**¥ 34**	**$ 316**

9. Short-term Debt and Long-term Debt

Short-term debt and long-term debt consists principally of banks and insurance companies. The weighted average interest rates on the short-term debt was 0.6% in 2004 and 2005, and long-term debt was 1.5% in 2004 and 1.1% in 2005.

Long-term debts as at March 31, 2004 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Long-term brrowings from banks and insurance companies	¥ 30,781	**¥ 33,958**	**$317,369**
Secured yen bonds due 2005	300	**—**	**—**
	31,081	**33,958**	**317,369**
Less: Portion due within one year	13,032	**10,795**	**100,890**
	¥ 18,049	**¥ 23,163**	**$216,479**

Annual maturities of long-term debt are as follows:

Year ending on 31st March,	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
2007	¥ 9,303	$ 86,947
2008	6,691	62,533
2009	5,191	48,518
2010	1,692	15,809
2011	286	2,672
	¥ 23,163	$ 216,479

Assets pledged as collateral for short-term debt, long-term debt at March 31, 2004 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Buildings and structures	¥ 15,170	**¥ 14,652**	**$136,932**
Machinery and equipment	22,046	**20,164**	**188,444**
Tool, furniture and fixtures	793	**758**	**7,094**
Land	9,864	**9,864**	**92,182**
Investment in securities	84	**26**	**242**
	¥ 47,957	**¥ 45,464**	**$424,894**

10. Financial Derivative Transactions

(1) Transactions, Companies' Policy and Purpose of Derivative Transactions

The Companies enter into the interest swap, cap, coupon swap and exchange contracts in order to avoid the risk of increase in the financial cost due to the future interest changes for the long-term loans in order to avoid the exchange risk.

The Companies do not try to enter into the speculative derivative transactions in order to seek trading gains.

All of these derivatives are designated as hedging instruments.

· Hedge Accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net profit or loss in the same period during which the gains and losses on the hedged items or transactions are recognised.

The derivatives designated as hedging instruments by the Companies are principally interest swap, cap, coupon swap and exchange contracts. The related hedged items are long-term bank loans and receivables and payables denominated in foreign currencies.

The Companies have a policy to utilise the above hedging instruments in order to reduce the Companies' exposure to the risk of interest rate fluctuation. Thus, the Companies' purchase of the hedging instruments are limited to, at maximum, the amounts of the hedged items.

The Companies evaluate effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(2) Risk of transactions

The derivative transactions have market risk associated with the market price volatility and credit risk related to the possibility of a counterpart's default.

It is considered that the interest swap and cap transactions, in which the Companies exchange the floating interest rate for the fixed interest rate, coupon swap and exchange contracts do not have credit risk, as the Companies deal only with major financial institutions.

The Companies are not engaged in the derivative transactions which is subject to high market price volatility, therefore deemed to give a significant impact on the Companies' result.

(3) Risk management

The Companies can enter into the derivative transactions, only after the transactions are approved by the management.

The interest swap transactions, objective of which is to avoid the increase of financial cost, are limited to the total interest-bearing liabilities.

All the derivative contracts should be approved by the director in charge of the accounting as well as by the corporate auditor, before the Company enters into the contracts. The recording on the book and the payment and receipt of money are carried out by the staff other than those in charge of the derivative transactions. In addition, the head of the accounting department checks, on a monthly basis, the report made by the accounting staff on the outstanding contract balance and unrealised profit and loss etc. to the confirmations received from the financial institutions.

11. Retirement Benefit Plan

The Companies have funded plans administered by independent trustees and unfunded benefit plan on a lump-sum payment basis, as a defined benefit retirement plans.

And the Companies may pay additional benefits at the time of termination.

The reserve for retirement benefits as of March 31, 2004 and 2005 is analyzed as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Projected benefit obligations	¥ (23,794)	**¥(23,412)**	**$(218,800)**
Plan assets	10,309	**13,461**	**125,801**
	(13,485)	**(9,951)**	**(92,999)**
Unrecognised transition amount	2,405	**—**	**—**
Unrecognised actuarial differences	5,796	**3,995**	**37,334**
Net liability recognized	(5,284)	**¥ (5,956)**	**$ (55,665)**

Net pension expense related to the retirement benefits for the year ended March 31, 2004 and 2005 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2004	**2005**	**2005**
Service cost	¥ 1,035	**¥ 1,030**	**$ 9,626**
Interest cost	528	**425**	**3,969**
Expected return on plan assets	(378)	**(479)**	**(4,477)**
Amortization of transition amount	2,405	**2,405**	**22,480**
Actuarial losses	470	**579**	**5,407**
Net pension expense	¥ 4,060	**¥ 3,960**	**$ 37,005**

Note: In addition to the above costs, additional benefits amounting to ¥167 million and ¥90 million (US$839 thousand) were charged to income for the year ended March 31, 2004 and 2005.

Assumptions used in calculation of the above information were as follows:

	March 31,	
	2004	**2005**
Discount rate	2.0%	**2.0%**
Expected rate of return on plan assets	2.0%–5.0%	**2.0–5.0%**
Method of attributing the projected benefits to periods of Services	Straight-line basis	**Straight-line basis**
Amortization of unrecognised prior service cost	Expensed as incurred	**Expensed as incurred**
Amortization of transition amount	9–12 years	**9–12 years**
Amortization of unrecognised actuarial differences	5 years	**5 years**

12. Income Taxes

The Company and its subsidiaries are subject to several taxes based on income, which in the aggregate resulted in the statutory tax rate of approximately 41.0% and 40.0% for the years ended 31st March, 2004 and 2005, respectively.

Details of deferred tax assets and liabilities are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	March 31, 2004	**March 31, 2005**	**March 31, 2005**
Deferred tax assets:			
Adjustments for unrealised gains	¥ 1,356	**¥ 1,484**	**$ 13,876**
Provision for retirement benefits	1,952	**2,206**	**20,623**
Accrued bonuses	956	**962**	**8,991**
Loss on write-down	561	**537**	**5,016**
Others	1,002	**905**	**8,453**
Sub total	5,827	**6,094**	**56,959**
Less: Valuation allowance	(545)	**(506)**	**(4,738)**
Total deferred tax assets	5,282	**5,588**	**52,221**
Deferred tax liabilities:			
Special tax-purpose reserves	(1,554)	**(1,537)**	**(14,369)**
Net unrealised gain on available-for-sale securities	(1,101)	**(1,359)**	**(12,702)**
Others	(3)	**(3)**	**(21)**
Total deferred tax liabilities	(2,658)	**(2,899)**	**(27,092)**
Total deferred tax assets, net	¥ 2,624	**¥ 2,689**	**$ 25,129**

The reconciliation from the statutory tax rate to the income tax rate is as follows:

	2004	**2005**
Statutory tax rate	41.0%	**40.0%**
Increase (decrease) in taxes resulting from		
Permanent differences	(9.8)	**2.5**
Equity in earnings of affiliates	(7.8)	**(9.1)**
Local taxes on per capita basis	2.7	**1.9**
Foreign tax credit	—	**(4.4)**
Valuation allowance	(1.1)	**(1.3)**
Amortization of difference between cost of investment and equity in net assets acquired	3.1	**2.1**
Adjustment for unrealised gains	6.6	**(1.9)**
Others	(1.6)	**(2.1)**
Effective tax rate	33.1%	**27.7%**

13. Segment Information

(1) Sales of the Company and subsidiaries for the years ended March 31, 2003, 2004 and 2005 classified by industry segments are summarised as follows:

	Millions of Yen				
	Year ended March 31, 2003				
	Industry Segment			Elimination of Inter-segment sales/transfers	Consolidated Total
	Chemicals	Others	Total		
I. Sales and Operating income					
Sales:					
Sales to outside customers	¥ 103,458	¥ 32,696	¥ 136,154	¥ —	¥ 136,154
Inter-segment sales/transfers	11	5,990	6,001	(6,001)	—
Total sales	103,469	38,686	142,155	(6,001)	136,154
Operating expenses	99,347	38,097	137,444	(6,144)	131,300
Operating income	¥ 4,122	¥ 589	¥ 4,711	¥ 143	¥ 4,854
II. Asset Depreciation and Capital Expenditure					
Asset	¥ 147,218	¥ 33,228	¥ 180,446	¥ 4,178*	¥ 184,624
Depreciation	¥ 6,669	¥ 915	¥ 7,584	¥ (400)*	¥ 7,184
Capital expenditure	¥ 5,110	¥ 1,098	¥ 6,208	¥ (410)*	¥ 5,798

	Millions of Yen				
	Year ended March 31, 2004				
	Industry Segment			Elimination of Inter-segment sales/transfers	Consolidated Total
	Chemicals	Others	Total		
I. Sales and Operating income					
Sales:					
Sales to outside customers	¥ 99,899	¥ 35,366	¥ 135,265	¥ —	¥ 135,265
Inter-segment sales/transfers	24	8,417	8,441	(8,441)	—
Total sales	99,923	43,783	143,706	(8,441)	135,265
Operating expenses	96,739	42,370	139,109	(8,456)	130,653
Operating income	¥ 3,184	¥ 1,413	¥ 4,597	¥ 15	¥ 4,612
II. Asset Depreciation and Capital Expenditure					
Asset	¥ 148,396	¥ 32,518	¥ 180,914	¥ 3,708*	¥ 184,622
Depreciation	¥ 6,604	¥ 901	¥ 7,505	¥ (439)*	¥ 7,066
Capital expenditure	¥ 7,395	¥ 630	¥ 8,025	¥ (636)*	¥ 7,389

	Millions of Yen					Thousands of U.S. Dollars
	Year ended March 31, 2005					
	Industry Segment			Elimination of Inter-segment sales/transfers	Consolidated Total	Consolidated Total
	Chemicals	Others	Total			
I. Sales and Operating income						
Sales:						
Sales to outside customers	**¥ 103,998**	**¥ 40,375**	**¥ 144,373**	**¥ —**	**¥ 144,373**	**$1,349,279**
Inter-segment sales/transfers	**16**	**5,327**	**5,343**	**(5,343)**	**—**	**—**
Total sales	**104,014**	**45,702**	**149,716**	**(5,343)**	**144,373**	**1,349,279**
Operating expenses	**100,509**	**44,345**	**144,854**	**(5,550)**	**139,304**	**1,301,907**
Operating income	**¥ 3,505**	**¥ 1,357**	**¥ 4,862**	**¥ 207**	**¥ 5,069**	**$ 47,372**
II. Asset Depreciation and Capital Expenditure						
Asset	**¥ 157,452**	**¥ 32,639**	**¥ 190,091**	**¥ (2,852)***	**¥ 187,238**	**$1,749,891**
Depreciation	**¥ 8,111**	**¥ 874**	**¥ 8,985**	**¥ (385)***	**¥ 8,600**	**$ 80,378**
Capital expenditure	**¥ 4,311**	**¥ 730**	**¥ 5,041**	**¥ (416)***	**¥ 4,625**	**$ 43,224**

Notes: * The Companies' assets unallowable to segments are included in this column.
1.The Company and its subsidiaries operate principally in two industrial segments: chemicals division and non-chemical division.
2.The main products of each Industry Segment

Industry Segment	Operating Section	Major Products/ Services
Chemicals division	Basic chemicals	Industrial products (Caustic Soda, Caustic Potash and Sodium Cyanide) Eco-Business (Water Treatment Chemicals: NISSO HI-CHLON)
	Speciality & Performance chemical	Feed additives (DL-Methionine) Specialty Products (NISSO-PB, ITO Coated Glass and BISTRATER) Dye Stuff Chemicals (Fluorescent Whitening Dyes and PSD) Pharmaceuticals and Intermediates (AOSA, FAROPENEM-Sodium and NISSO-HPC)
	Agro Products	Fungicides (TOPSIN-M • TRIFMINE • BEFRAN • BELLKUTE) Insecticides/Acaricides (MOSPILAN • NISSORUN) Herbicides (HOENEST • NABU) Biocides (BIOCUT • MILLCUT)
Non-chemical division	Traffic and Warehouse	Trucking business and warehousing business
	Construction	Plant construction, civil engineering and others
	Non-ferrous metals and others	Zinc metal, resin product

Notes: Effective from the year ended March 31,2004,Speciality & Performance chemical section and Pharmaceuticals section, in Chemical division, had unified and reorganized into Speciality & Performance chemical section.

(2) Export sales of the company and subsidiaries are summarised as follows:

	Millions of Yen							Thousands of U.S. Dollars
	For the years ended March 31							
	2003	2004	**2005**					**2005**
	Total	Total	Asia	Europe	North America	Other	Total	Total
Overseas Sales	**¥ 33,739**	**¥ 31,953**	**¥ 16,463**	**¥ 7,792**	**¥ 6,692**	**¥ 4,562**	**¥ 35,509**	**$ 331,864**
Consolidate Sales:	**136,154**	**135,265**	**—**	**—**	**—**	**—**	**144,372**	**1,349,279**
Rate	**24.8%**	**23.6%**	**11.4%**	**5.4%**	**4.6%**	**3.2%**	**24.6%**	**24.6%**

Note: Asia — China, Korea, Taiwan, Philippine, Indonesia, Thailand, and others
Europe — Germany, France, England, Russia, Holland, Italy, and others
North America — USA, Canada
Other — Brazil, Australia, Mexico, Argentina, and others

14. Related Party Transactions

Material transactions of the Company with its unconsolidated subsidiary and related companies for the years ended March 31st, 2003, 2004 and 2005 other than those indicated elsewhere in these statements were as follows:

				Millions of Yen								Thousands of U.S. Dollars	
			Direct equity ownership percentage by the Company		Transactions for the years ended March 31,			Resulting account balances at March 31,				Transaction for the year ended March 31,	Resulting account balances at March 31,
Name of related company	Paid-in capital	Principal business		Description of transactions	2003	2004	2005	Account	2003	2004	2005	2005	2005
	(million)		(%)										
Novus Internation-al Inc.	US$100	Manufacture and sale of chemicals	35.0	Guarantee of loans	¥ 9,856	¥ 7,125	¥ 6,971	Contingent liabilities	¥ —	¥ —	¥ —	$ 65,155	$ —

The terms and conditions applicable to the above-mentioned transactions have been determined on the basis of arm's length and by reference to normal market price levels.

15. Subsequent Event

Subsequent to March 31, 2005, the Company's Board of Directors, with the subsequent approval by shareholders on June 29, 2005, declared a cash dividend of ¥701 million ($6,551 thousand), equal to ¥5.0 per share, which was applicable to earings for the year ended March 31, 2005, and payable to shareholders on the register as of March 31, 2005.

16. Other Information

(1) Lawsuits

Some lawsuits seeking compensation for damages have been filed against the Company and Novus International, Inc ("Novus") before U.S. Federal District Court and several U.S. State Courts by methionine purchasers, who are claiming that there was a violation of the U.S. antitrust laws regarding methionine, an animal feed additive. Following the agreement for settlement with Class Action plaintiffs reached in May 2002 under which Novus paid US$37 Million, Novus reached agreement for settlement in November 2002 with the plaintiffs who opted out of that Class Action under which Novus paid US$58 Million.
Novus paid these settlement amounts in the fiscal year ended March 31, 2003, which is based on accrual for antitrust litigation as of March 31, 2002.
Other lawsuits which were filed before several U.S. State Courts by methionine purchasers are still pending.

(2) Merger of Agrichemicals business

On April 1, 2004, the Company was transferred the Agrichemicals business from DAINIPPON INK AND CHEMICALS, INCORPORATED. The transferred assets were all of its Agrichemicals business, including Pesticides, Industrial fungicides, Research and development and others.
The assets which have increased due to the merger were as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2005	**2005**
Inventories	¥ 1,187	$ 11,094
Other current assets	96	897
Goodwill	6,519	60,925
Other fixed assets	1,051	9,822
Total	¥ 8,853	$ 82,738

Report of Independent Auditors

To the Board of Directors
of Nippon Soda Co., Ltd.

We have audited the accompanying consolidated balance sheets of Nippon Soda Co., Ltd. and its subsidiaries as of March 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended March 31,2005, all expressed in Japanese Yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Soda Co., Ltd. and its subsidiaries as of March 31, 2005 and 2004, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31,2005, in conformity with accounting principles generally accepted in Japan.

The amounts expressed in U.S. dollars, which are provided solely for the convenience of the reader, have been translated on the basis set forth in Note 3 to the accompanying consolidated financial statements.

ChuoAoyama PricewaterhouseCoopers

ChuoAoyama PricewaterhouseCoopers
Tokyo, Japan
June 29, 2005