

# Consolidated Financial Statement for Six Months Ended September 30, 2007 (April 1, 2007 - September 30, 2007)

November 9, 2007

**UNITIKA LTD.** Listed on the First Section of TSE and OSE (Stock Code: 3103)  
URL <http://www.unitika.co.jp/e>

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(Amounts less than one million yen are omitted)

## 1. Consolidated Performance for the 1st Half FY2007 (April 1, 2007 - September 30, 2007)

### (1) Consolidated Operating Results

Six months ended September 30

Percentage indicates increase /(decrease) from the previous year

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2007	111,695	7.3	4,456	(16.8)	3,132	(24.9)	1,728	(14.1)
2006	104,060	(1.0)	5,358	(20.5)	4,170	(26.5)	2,011	(1.4)
Year ended March 31, 2007	220,572	-	11,171	-	8,458	-	2,562	-

	Net income per share	Diluted net income per share
	Yen	Yen
2007	3.63	-
2006	4.23	-
Year ended March 31, 2007	5.39	-

(Reference) Equity in earnings of affiliates: September 30, 2007 541 million yen,  
September 30, 2006 97 million yen, March 31, 2007 274 million yen

### (2) Consolidated Financial Position

As of September 30

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2007	320,582	39,584	10.9	73.19
2006	326,488	39,412	10.7	73.24
Year ended March 31, 2007	328,382	39,959	10.8	74.24

(Reference) Shareholders' equity: September 30, 2007 34,807 million yen,  
September 30, 2006 34,835 million yen, March 31, 2007 35,310 million yen

### (3) Consolidated Cash Flows

Six months ended September 30

	From operating activities	From investing activities	From financing activities	Cash and cash equivalents at the end of period
	Million yen	Million yen	Million yen	Million yen
2007	1,846	(1,259)	(3,117)	13,142
2006	7,265	(3,870)	(2,039)	15,744
Year ended March 31, 2007	11,903	(7,097)	(3,779)	15,479

### 2. Dividends

Years ended/ending March 31

Record date	Dividends per share		
	Interim	Year-end	Total annual
	Yen	Yen	Yen
2007	-	2.00	2.00
2008	-		2.00-3.00
2008 (Forecast)		2.00-3.00	

### 3. Forecasts for the Fiscal Year 2007 ending March 31, 2008

Percentage indicates increase from the previous year

	Net sales		Operating income		Ordinary income		Net income		Net income per share
	Million yen	%	Million yen	%	Million yen	%	Million yen	%	Yen
FY2007	240,000	8.8	13,500	20.8	9,000	6.4	4,000	56.1	8.41

### 4. Others

- (1) Changes in major subsidiaries during the subject fiscal year (transfer of specific subsidiaries following a change in the scope of consolidation): None
- (2) Changes in accounting rules, procedures, or method relating to the preparation of the consolidated financial statements (those included in changes in important matters for preparation of consolidated financial statements):
  1. Changes in accordance with revisions to accounting standard: None
  2. Other changes: None
- (3) Number of share outstanding (Common stock)
  1. Number of shares outstanding at the end of period (including treasury stock)  
September 30, 2007: 475,969,000      September 30, 2006: 475,969,000  
March 31, 2007: 475,969,000
  2. Number of treasury stocks at the end of period  
September 30, 2007: 375,970      September 30, 2006: 326,822  
March 31, 2007: 348,409

(Note) For details of basic number of shares to calculate net income per share (consolidated), refer to "Per Share Data" on page 19.

**【Reference】 Non-Consolidated Performance Summary**

**1. Non-Consolidated Performance for the 1st Half FY2007 (April 1, 2007 - September 30, 2007)**

(1) Non-Consolidated Operating Results

Six months ended September 30

Percentage indicates increase /(decrease) from the previous year

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
2007	48,212	2.6	2,887	(26.4)	2,017	(39.8)	1,034	(42.4)
2006	46,970	5.3	3,921	30.7	3,350	16.2	1,796	99.3
Year ended March 31, 2007	96,926		7,212		5,223		2,355	

	Net income per share	
	Yen	
2007	2.18	
2006	3.78	
Year ended March 31, 2007	4.95	

(2) Non-Consolidated Financial Position

As of September 30

	Total assets	Net assets	Shareholders' equity ratio	Net assets per share
	Million yen	Million yen	%	Yen
2007	258,779	40,685	15.7	85.55
2006	250,560	40,586	16.2	85.33
Year ended March 31, 2007	258,149	40,943	15.9	86.09

(Reference) Shareholders' equity: September 30, 2007 40,685million yen,  
September 30, 2006 40,586 million yen, March 31, 2007 40,943 million yen

**2. Non-Consolidated Forecasts for the Fiscal Year 2007 ending March 31, 2008**

Percentage indicates increase /(decrease) from the previous year

	Net sales		Operating income		Ordinary income		Net income	
	Million yen	%	Million yen	%	Million yen	%	Million yen	%
FY 2007	105,000	8.3	7,500	4.0	4,500	(13.8)	2,000	(15.1)

	Net income per share	
	Yen	
FY 2007	4.21	

*\* Note to ensure the appropriate use of the result forecast and the other special information*

*Any result forecast and future outlook statements contained in this material are based on the current information available to and judged as reasonable by the company management. Actual performance and results may significantly differ from these descriptions because of a number of factors.*

## **Consolidated Operating Results**

### **(1) Analysis of consolidated operating results**

#### **1. Summary of the current midterm**

During the midterm under review, the Japanese economy on the whole was on a track to recovery as capital investment and export to Asia and Europe remained active. However, the current worldwide destabilization of the financial market triggered by the subprime loan issue in the United States, it was unable to sweep off the sense of uncertainty in the future under such circumstance as the decelerating U.S. economy, decreasing corporate profit margin due to an upward trend of crude oil and raw material prices and apprehensions for a sluggish growth of consumer spending.

Under these circumstances, the Unitika Group has worked at various measures including without limitation the reinforcement of its businesses with a dominant market share, promotion of differentiation strategies and a drastic cost reduction under the 3-year midterm management plan, “New Progress (NP)-8”. However, due to an insufficient revision of product prices to absorb soaring prices of petrochemical feedstock and fuels exceeding the initial forecast, the subject interim period FY2007 recorded net sales of 111,695 million yen (7,635 million yen increase compared to the previous year), operation income of 4,456 million yen (902 million yen decrease compared to the previous year), ordinary income of 3,132 million yen (1,037 million yen decrease compared to the previous year) and net income of 1,728 million yen (283 million yen decrease compared to the previous year).

Following are results by business segment.

#### **[Polymers]**

Profitability of the polymer business as a whole continued to be adversely influenced by sustained high prices of raw materials and fuels. Under such situation, we endeavored to secure earnings by means of a continuous revision of product price and a drastic cost reduction.

In the film business, domestic sales of nylon film increased mainly through differentiated products, and improvement in earnings of overseas subsidiaries was achieved, but an additional increase of raw materials prices put pressure on profits. Polyester film for both packaging and industrial applications saw sluggish growth under the competition with imported products and impact of inventory adjustment. Consequently, the film business as a whole recorded increased sales but a reduced profit.

In the resin business, sales of PET resin for a bottle application decreased due to an inflow of competing overseas products into the Japanese market. On the other hand, the revenue of polyarylate resin “U-Polymer” increased steadily supported by a strong demand from the automobile and electronics industry, and at the same time, sales of nylon resin with a nanocomposite grade resin as a central product also increased generally for automobile applications. Consequently, the resin business as a whole recorded an increased revenue, but its profit remained the same as in the previous year.

In the nonwoven fabrics business, sales of spunbond fabrics for agriculture, civil engineering and roofing applications remained sluggish. However, the sales expanded for hygienic goods including diapers, new applications for automobile interior materials and export market. The cotton spunlace business generally remained steady mainly for cosmetic applications. As a result, the business as a whole recorded an increased revenue, but its profit remained the same as in the previous year. “TERRAMAC®”, biodegradable biomass plastic, was actively promoted as film, resin, nonwoven fabrics and fiber materials, and its applications were extended to food containers for convenience stores, bedding products, lighting equipment for residence. The scope of practical use of “TERRAMAC®” has been steadily expanding backed by the technical improvement in moldability and productivity under the established technology for accelerated crystallization at the fastest level in the world.

As a result, the polymer business recorded sales of 34,693 million yen (1,934 million yen increase compared to the previous year) and operating income of 3,004 million yen (1,012 million yen decrease compared to the previous year).

### **[Environmental Business and Advanced Materials]**

In the environmental business, engineering works of the backlog mainly in the waste treatment segment increased earnings, and the business in private sectors and chemicals for processing continued to be firm. Consequently, earnings of the whole business improved. In the current status of demand orders, the recovery sign of public works spending was slow because of postponed construction plans, and a downward trend of order prices continues reflecting intensified competitions in this industry.

In the advanced materials business, glass fibers for the IC cloth market was affected by their inventory adjustment, but bug filters and glass cloth for fireproof electric wires in the industrial material market marked a steady sales increase. Sales of glass beads for reflective materials increased, and at the same time the business of active carbon fibers for waste water purification and deodorization continued to be firm. Consequently, the business as a whole accounted for increased revenue and profit.

As a result, environmental business and advanced materials business recorded sales of 14,472 million yen (3,009 million yen increase compared to the previous year) and operating income of 701 million yen (415 million yen increase compared to the previous year).

### **[Fibers and Textiles]**

In the synthetic fiber business, amid the cost increase of mainly raw materials and fuels, we focused our efforts on the revision of product prices and the improvement in product mix. Nylon business was slightly dull, but sales of polyester fibers continued to rise firmly mostly owing to the expanded demand mainly for industrial applications including nonwoven. With regard to the vinylon business, sales of vinylon fibers for cement reinforcement used as substitute asbestos continued to increase steadily in both domestic and export markets, and the market demand for construction materials and construction reinforcement materials remained strong. In the natural fiber business, despite a revenue rise from the special procurement demand for uniform wears, the business suffered a slip in earnings under the influence of the unseasonable weather and the strong Chinese yuan in the foreign exchange market. We focused our efforts on shifting of cost increase to product prices to cover jumps in raw material and fuel prices, and reducing selling and administrative expenses, but the revenue as a whole remained weak.

As a result, sales of fibers business rose to 51,809 million yen (1,649 million yen increase compared to the previous year) but operating income dropped to 696 million yen (62 million yen decrease compared to the previous year).

### **[Healthcare & Amenity and Others]**

In the healthcare & amenity business, while the wellness market remained in the doldrums owing to the cooled consumer interest in health foods, sales of the business as a whole stayed strong reflecting reinforced sales policies including a release of new health supplements in the market and the promotion of an over-the-counter sale in drug stores. In the medical business, the biochemistry field was slightly weak. However, earnings of anti-thrombotic catheter which is a core product in the biomedical materials field increased supported by the intensified sales promotion to remain the sales of the business on the whole flat and improve earnings, accordingly. In other businesses, sales of condominiums proceeded smoothly, but revenue from other real estate businesses decreased.

As a result, sales of the healthcare & amenity and other businesses increased to 10,719 million yen (1,041 million yen increase compared to the previous year), but operating income decreased to 1,087 million yen (221 million yen decrease compared to the previous year).

## **2. Outlook for the fiscal year ending March 31, 2008**

In the fiscal year 2007 ending March 31, 2008, while the domestic economy is on a recovery track, the business environment will remain uncertain under the influence of skyrocketing costs of raw materials and fuels and also the financial uncertainty.

Under these business environment, the Unitika Group continues to exert its best efforts to strengthen its businesses with a dominant market share, promote differentiation strategies and also reduce costs drastically to cope with surging prices of raw materials and fuels, optimize the product mix under the

3-year midterm management plan “New Progress (NP)-8” aiming for a high-level stabilization of earnings. In addition, the Group will strive to further improve its financial standing.

For the fiscal year ending March 31, 2008, we envisage net sales of 240,000 million yen, operating income of 13,500 million yen, ordinary income of 9,000 million yen, and net income of 4,000 million yen as originally estimated.

## (2) Analysis of Financial Position

Total assets decreased by 7,799 million yen from the end of fiscal year 2006 to 320,582 million yen, mainly due to a decreased account receivable and selling of investment securities.

The status of cash flows is as follows.

(Cash flow from operating activities)

Net cash provided by operating activities increased by 1,846 million yen reflecting the decrease of cash inflow consisting of interim net income and depreciation expense and the decrease of accounts receivable.

(Cash flow from investing activities)

Net cash used in investing activities decreased by 1,259 million yen reflecting an expense of 3,552 million yen for capital investment.

(Cash flow from financial activities)

Net cash used in financial activities decreased by 3,117 million yen reflecting the cut-down of interest-bearing debts and the payment of dividend.

As a result, the balance of cash and cash equivalents at the end of the interim period under review decreased by 2,337 million yen from March 31, 2007, to 13,142 million yen.

Indicators of Financial Position are shown below:

	Sept 30, 2007	Sept 30, 2006	Mar 31, 2007	Mar 31, 2006
(1) Shareholders' equity ratio (%)	10.9	10.7	10.8	10.6
(2) Shareholders' equity ratio based on market value (%)	20.3	23.7	23.8	31.4
(3) Interest-bearing debt to cash flow ratio (Years)	-	-	17.1	18.6
(4) Interest coverage ratio (Times)	0.9	4.1	3.1	3.0

(Notes)

Shareholders' equity ratio..... shareholders' equity / total assets

Shareholders' equity ratio based on market value ..... aggregate market value / total assets

Interest-bearing debt to cash flow ratio..... interest-bearing debt / operating cash flows  
(not listed in the interim report)

Interest coverage ratio..... operating cash flows / interest expense

※ Ratios above are computed using consolidated financial data.

※ Operating cash flows is used for the ratio computation purpose. Interest-bearing debt consist of all interest-paid debt among liabilities accounted for in the balance sheet.

## (3) Basic policy concerning distribution of profits and dividend for the fiscal year ending March 31, 2008

The Unitika Group considers that the distribution of profits to its shareholders is one of material management issues, and makes it a basic policy to maintain a continuous and stable distribution of dividend taking its earnings into consideration. Internal reserve will be utilized with shareholder interests in mind for future investments, etc. aiming further improvement of our financial strength and expansion of our businesses.

Under this policy, we intend to distribute a dividend of 2 to 3 yen per share for the fiscal year ending March 31, 2008, and to withhold the declaration of dividend for the interim term under review.

## **Status of Corporate Group**

No material change was made in the “organization chart of business (business description)” and the “status of associated companies” in the latest financial statements (submitted on June 28, 2007) and their disclosure was omitted.

## **Management Policies**

### **(1) Basic management policies**

The management principle of the Unitika Group is the “linkage between human living and technologies” and the Group is aiming for “contribution to human living and environment, and a company with a social presence.” While promoting the “expansion of its core businesses and consolidated business performance,” “reinforcement of its businesses related to environment and daily living,” “strengthening of its corporate structure and shareholders’ equity,” the Group is confident that the contribution to the society will enhance its corporate value and result in the contribution to its shareholders.

### **(2) Targeted management index**

The Unitika Group gives greater importance on amount of sales, operating income and ordinary income representing the achievement of its business activities. The Group also put a high priority on shareholders’ equity ratio, and its performance goal of shareholders’ equity ratio is 20% in the FY 2008 which is the last year for the midterm management plan “New Progress (NP)-8”. With the deduction of interest-bearing debt in mind, the Group will place the focus on cash flows through its intensive management.

### **(3) Long-term management and business strategies and issues to approach**

Under the influence of cost increase caused by sustained high prices of raw materials and fuels on its corporate performance, the Unitika Group strives to improve profitability taking necessary measures at each stage of manufacture, sales and distribution, and at the same time to improve and strengthen continuously its revenue base by promoting reinforcement measures listed in the 3-year midterm management plan, “New Progress (NP)-8,” in other words, promoting sales in the major field centered by the polymers business and differentiation strategies in the field of functional materials including functional resins and glass-related materials, etc.

Respective business strategies and issues to be addressed are as follows.

**Polymers:** In the film business, we will further advance the global operation for nylon film “Emblem®” including promotion of strategies in Asia and strengthened operations in Europe and the U.S. markets, and strive to expand sales of differentiated products centering on high-barrier films such as “SEVIX®”. In the resins business, we will strengthen the presence of “U-Polymer®” in the established field and expand sales through development of its new applications. Further, we will vigorously develop automotive applications for nano-composite nylon resin and establish a firm business operation structure for the sensor components business. In the nonwoven fabrics business, we will address the sales expansion in overseas markets and the development of new applications in highly value added fields for both spunbond and spunlace fabrics to increase the sales volume. With regard to biomass plastic “TERRAMAC®”, we will promote its commercialization based on the development of our unique technologies, and introduce “TERRAMAC®” extensively to the electronic equipment, automobile and food container industries aiming at an increased sales volume.

**Environmental Business and Advanced Materials:** In the environmental business, we will review our business management system, and endeavor to strengthen our cost competitiveness and also our operating base securing an order inflow for business projects and focusing our business efforts on the strategic businesses. In the advanced materials business, we will strive to expand sales of glass fibers, highly value added IC cloth and high grade glass beads for industrial applications in the markets domestic and overseas, and concentrate on the development of applications of activated carbon fibers

for various types of filters and on the reinforcement of their sales.

Fibers and Textiles: In the synthetic fiber business, we continue to shift their application toward industrial use and expand sales of differentiated products to improve product mix. In the vinylon business, we will promote the sales expansion for high-strength vinylon fibers and, at the same time, increase and bolster sales of vinylon fibers for cement reinforcement in the domestic and overseas markets, of which production is scheduled to be increased in 2008. In the natural fiber business, we will focus our efforts on the development of owned differentiated products and the expansion of their export and also improvement of profits by means of thorough cost reduction.

Healthcare & Amenity and Others: In the healthcare & amenity business, we will diversify its sales channel, promote sales of newly launched products including “Hanabiratake Club®”, and expand sales of functional food materials such as ceramide. In the medical business, we will strengthen the sales promotion of competitive anti-thrombotic catheter for the circulatory system, and promote the sales expansion of enzyme and diagnostic products through the development of prospective customers.

For overseas business development, we will further promote operations mainly for polymers, functional materials and fibers and textiles in Asian countries focusing our efforts on the operations in the Chinese market as well as the European and the U.S. markets in a positive manner. In addition, with regard to measures aiming for the expansion of consolidated business area, we will continue to review such activities as M&A, mainly in the field in which a synergistic effect of existing businesses of the Unitika Group is expected.

We consider that the total cost reduction is a permanent issue, and will review the cost structure drastically to reduce manufacturing cost, allocate selling and administrative expenses to the fully effective extent, implement effective fund management, reduce interest-bearing debt, and to enhance energy efficiency by switching to environment-friendly natural gas.



# Consolidated Financial Statements

## (1) Consolidated Statements of Income

Unit:Millions of yen

	Six months ended September 30		Increase (Decrease)	Year ended March 31,2007
	2006	2007		
I. Net sales	104,060	111,695	7,635	220,572
II. Cost of sales	83,384	91,751	8,367	178,211
Gross profit	20,675	19,943	(731)	42,360
III. Selling, general and administrative expenses	15,316	15,487	170	31,189
Operating income	5,358	4,456	(902)	11,171
IV. Non-operating incomes				
Interest income	123	109	(14)	252
Dividend income	106	99	(7)	146
Gain on sale of investment securities	499	2	(496)	578
Retirement benefits for employees for prior period	484	299	(185)	975
Rent	107	72	(34)	225
Equity in income of unconsolidated subsidiaries and affiliates	97	541	444	274
Other incomes	606	1,010	403	1,295
Total non-operating incomes	2,025	2,135	109	3,748
V. Non-operating expenses				
Interest expense	1,872	2,024	151	3,875
Salaries paid to dispatched employees	702	702	0	1,368
Other expenses	638	731	92	1,217
Total non-operating expenses	3,213	3,458	245	6,461
Ordinary income	4,170	3,132	(1,037)	8,458
VI. Extraordinary incomes				
Gain on sale of property, plant and equipment	5	747	742	41
Gain on sale of affiliate securities	-	512	512	-
Total extraordinary incomes	5	1,260	1,255	41
VII. Extraordinary losses				
Loss on sale of property, plant and equipment	350	373	22	974
Write-down of inventories	112	265	153	496
Loss on restructuring of businesses	799	479	(320)	2,477
Other losses	482	671	189	1,181
Total extraordinary losses	1,744	1,789	45	5,129
Income before income taxes	2,431	2,603	171	3,369
Income taxes - Current	586	678	91	1,303
Income taxes - Deferred	(52)	253	305	(355)
Minority interest in income of consolidated subsidiaries	(114)	(57)	57	(140)
Net income	2,011	1,728	(283)	2,562

## (2) Consolidated Balance Sheet

Unit:Millions of yen

	Mar 31,2007	Sept 30,2007	Increase (Decrease)	Sept 30,2006
<b>ASSETS</b>				
<b>I.Current assets</b>				
Cash and cash equivalents	16,501	14,142	(2,359)	16,735
Notes and accounts receivable	49,734	47,653	(2,081)	45,873
Securities	-	-	-	30
Inventories	65,266	66,178	912	62,925
Deferred income taxes	1,639	1,767	128	1,694
Other current assets	7,016	6,550	(465)	7,383
Allowance for doubtful receivables	(93)	(65)	28	(70)
Total current assets	140,065	136,228	(3,837)	134,572
<b>II.Fixed assets</b>				
<b>(1) Property,plant and equipment</b>				
Buildings and structures	26,666	25,950	(716)	27,411
Machinery and equipments	27,967	28,548	580	27,960
Furniture and fixtures	1,290	1,402	111	1,313
Land	107,009	107,369	359	107,280
Construction in progress	1,180	1,327	147	1,016
Total property,plant and equipment	164,115	164,598	482	164,981
<b>(2) Intangible fixed assets</b>				
Goodwill	704	624	(79)	629
Others	947	985	38	963
Total intangible fixed assets	1,651	1,610	(41)	1,592
<b>(3) Investments and other assets</b>				
Investment securities	11,517	8,580	(2,937)	12,126
Contribution	37	35	(1)	37
Long-term loans	1,917	513	(1,404)	1,595
Deferred income taxes	6,937	6,835	(101)	9,065
Other assets	2,505	2,693	187	3,077
Allowance for doubtful receivables	(365)	(512)	(146)	(562)
Total investments and other assets	22,550	18,146	(4,404)	25,340
Total fixed assets	188,317	184,354	(3,962)	191,915
<b>Total assets</b>	<b>328,382</b>	<b>320,582</b>	<b>(7,799)</b>	<b>326,488</b>

Unit:Millions of yen

	Mar 31,2007	Sept 30,2007	Increase (Decrease)	Sept 30,2006
<b>LIABILITIES</b>				
<b>I.Current liabilities</b>				
Notes and accounts payable	41,999	37,907	(4,091)	34,988
Short-term debt	66,391	68,803	2,411	64,454
Long-term debt due within one year	39,968	57,269	17,300	35,742
Bonds due within one year	400	400	-	400
Accrued income taxes	1,063	1,087	23	825
Accrued bonuses	2,390	2,347	(42)	2,378
Reserve for compensation for completed works	36	29	(6)	8
Other current liabilities	16,749	16,203	(545)	17,209
Total current liabilities	168,999	184,048	15,049	156,008
<b>II.Long-term liabilities</b>				
Bonds	1,200	1,000	(200)	1,400
Long-term debt	88,998	67,509	(21,489)	96,544
Deferred income taxes on land revaluation	2,874	2,851	(23)	2,904
Deferred income taxes	18,599	18,623	23	21,151
Allowance for retirement benefits	3,926	3,443	(483)	4,830
Allowance for directors' retirement bonuses	494	408	(86)	499
Other long-term liabilities	3,329	3,114	(215)	3,736
Total long-term liabilities	119,423	96,950	(22,473)	131,067
Total liabilities	288,423	280,998	(7,424)	287,075
<b>NET ASSETS</b>				
<b>I.Shareholders' equity</b>				
Common stock	23,798	23,798	-	23,798
Capital surplus	1,661	1,661	-	1,661
Retained earnings	6,660	7,382	722	5,968
Treasury stock	(37)	(41)	(4)	(33)
Total shareholders' equity	32,082	32,801	718	31,394
<b>II.Valuation and translation adjustments</b>				
Unrealized gain (loss) on other securities	1,039	694	(345)	1,292
Deferred gain (loss) on derivatives under hedges accounting	2	(5)	(7)	9
Land revaluation excess	3,444	3,475	31	3,645
Foreign currency translation adjustments	(1,258)	(2,158)	(900)	(1,506)
Total valuation and translation adjustments	3,227	2,006	(1,221)	3,440
<b>III.Minority interests in consolidated subsidiaries</b>				
	4,649	4,777	128	4,576
Total net assets	39,959	39,584	(375)	39,412
Total liabilities and net assets	328,382	320,582	(7,799)	326,488

### (3) Consolidated Statements of Changes in Net Assets

Six months ended September 30, 2006

Unit:Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	23,798	1,661	4,766	(30)	30,195
Change of items during the period					
Cash dividends paid (Note)			(951)		(951)
Net income			2,011		2,011
Reversal adjustment of land revaluation excess			141		141
Treasury stock purchased /disposed				(3)	(3)
Net change of items other than shareholders' equity					
Total	-	-	1,202	(3)	1,198
Balance as of September 30, 2006	23,798	1,661	5,968	(33)	31,394

	Valuation and translation adjustments					Minority interests in consolidated subsidiaries	Total net assets
	Unrealized gain (loss) on other securities	Deferred gain (loss) on derivatives under hedges accounting	Land revaluation excess	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	2,749	-	3,987	(1,625)	5,111	4,684	39,992
Change of items during the period							
Cash dividends paid (Note)							(951)
Net income							2,011
Reversal adjustment of land revaluation excess			(141)		(141)		-
Treasury stock purchased /disposed							(3)
Net change of items other than shareholders' equity	(1,457)	9	(200)	118	(1,529)	(108)	(1,637)
Total	(1,457)	9	(342)	118	(1,670)	(108)	(580)
Balance as of September 30, 2006	1,292	9	3,645	(1,506)	3,440	4,576	39,412

(Note) items in appropriation of earning resolved in General Shareholders Meeting held in June, 2006

Six months ended September 30, 2007

Unit:Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2007	23,798	1,661	6,660	(37)	32,082
Change of items during the period					
Cash dividends paid			(951)		(951)
Net income			1,728		1,728
Reversal adjustment of land revaluation excess			(54)		(54)
Treasury stock purchased /disposed				(4)	(4)
Net change of items other than shareholders' equity					
Total	-	-	722	(4)	718
Balance as of September 30, 2007	23,798	1,661	7,382	(41)	32,801

	Valuation and translation adjustments					Minority interests in consolidated subsidiaries	Total net assets
	Unrealized gain (loss) on other securities	Deferred gain (loss) on derivatives under hedges accounting	Land revaluation excess	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2007	1,039	2	3,444	(1,258)	3,227	4,649	39,959
Change of items during the period							
Cash dividends paid							(951)
Net income							1,728
Reversal adjustment of land revaluation excess			54		54		-
Treasury stock purchased /disposed							(4)
Net change of items other than shareholders' equity	(345)	(7)	(22)	(900)	(1,276)	128	(1,148)
Total	(345)	(7)	31	(900)	(1,221)	128	(375)
Balance as of September 30, 2007	694	(5)	3,475	(2,158)	2,006	4,777	39,584

Year ended March 31, 2007

Unit:Millions of yen

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance as of March 31, 2006	23,798	1,661	4,766	(30)	30,195
Change of items during the period					
Cash dividends paid (Note)			(951)		(951)
Net income			2,562		2,562
Reversal adjustment of land revaluation excess			282		282
Treasury stock purchased /disposed				(6)	(6)
Net change of items other than shareholders' equity					
Total	-	-	1,893	(6)	1,886
Balance as of March 31, 2007	23,798	1,661	6,660	(37)	32,082

	Valuation and translation adjustments					Minority interests in consolidated subsidiaries	Total net assets
	Unrealized gain (loss) on other securities	Deferred gain (loss) on derivatives under hedges accounting	Land revaluation excess	Foreign currency translation adjustments	Total valuation and translation adjustments		
Balance as of March 31, 2006	2,749	-	3,987	(1,625)	5,111	4,684	39,992
Change of items during the period							
Cash dividends paid (Note)							(951)
Net income							2,562
Reversal adjustment of land revaluation excess			(282)		(282)		-
Treasury stock purchased /disposed							(6)
Net change of items other than shareholders' equity	(1,709)	2	(260)	366	(1,601)	(35)	(1,637)
Total	(1,709)	2	(543)	366	(1,884)	(35)	(33)
Balance as of March 31, 2007	1,039	2	3,444	(1,258)	3,227	4,649	39,959

(Note) items in appropriation of earning resolved in General Shareholders Meeting held in June, 2006

#### (4) Consolidated Statements of Cash Flow

Unit:Millions of yen

	Six months ended September 30		Year ended
	2006	2007	March 31,2007
<b>I.Cash flow from operating activities</b>			
Income before income taxes	2,431	2,603	3,369
Depreciation and amortization	3,230	3,205	6,897
Increase (decrease) in allowance for doubtful receivables	(15)	124	(18)
Interest expense	1,872	2,024	3,875
Loss on sale of investment securities	(499)	(2)	(578)
Loss on sale of affiliate securities	-	(512)	-
Decrease in accounts receivable	6,999	2,530	3,309
Increase in inventories	(2,029)	(236)	(4,268)
Increase (decrease) in accounts payable	(1,093)	(4,327)	5,733
Other, net	(1,583)	(1,028)	(1,795)
Subtotal:	9,313	4,379	16,525
Interest and dividends received	242	229	453
Interest paid	(1,783)	(2,079)	(3,839)
Income taxes paid	(507)	(683)	(1,235)
Net cash provided by operating activities	7,265	1,846	11,903
<b>II.Cash flow from investing activities</b>			
Decrease in time deposit	73	22	43
Purchase of investment securities	(10)	(20)	(30)
Proceeds from sale of investment securities	1,893	1,795	2,144
Purchase of property, plant and equipment	(2,560)	(3,552)	(5,170)
Proceeds from sale of property, plant and equipment	33	887	147
Other, net	(3,301)	(391)	(4,231)
Net cash used in investing activities	(3,870)	(1,259)	(7,097)
<b>III.Cash flow from financial activities</b>			
Increase in short-term bank loans, net	1,951	2,302	3,837
Proceeds from long-term debt	17,180	19,166	31,547
Repayment of long-term debt	(19,881)	(23,450)	(37,670)
Redemption of debenture	(350)	(200)	(550)
Cash dividends paid	(935)	(936)	(939)
Other, net	(4)	-	(4)
Net cash used in financial activities	(2,039)	(3,117)	(3,779)
<b>IV.Adjustment for foreign currency translation</b>	60	192	124
<b>V.Net increase in cash and cash equivalents</b>	1,415	(2,337)	1,150
<b>VI.Cash and cash equivalents at beginning of the period</b>	14,328	15,479	14,328
<b>VII.Cash and cash equivalents at end of the period</b>	15,744	13,142	15,479

## **Basic matters for preparation of consolidated interim financial statements**

### **1. Scope of consolidation**

58 subsidiaries are consolidated as of the end of the interim term under review. 7 subsidiaries are not consolidated. Major consolidated subsidiaries are Unitika Fibers Co., Ltd., Nippon Ester Co., Ltd., Unitika Textiles Co., Ltd., etc. Total assets, net sales, interim net income/loss (corresponding to equity) and retained earnings (corresponding to equity) of non-consolidated subsidiaries (Akoh Unitec Service Co., Ltd., Unitika Uji Kosan Co., Ltd., etc.) are small in value and do not have a significant influence on the consolidated interim financial statements. There was one subsidiary increased.

### **2. Adoption of equity method**

The equity method is adopted on 7 non-consolidated subsidiaries and 4 affiliated companies (major company: Ador Co., Ltd.).

### **3. Interim closing date for consolidated subsidiaries**

Among consolidated subsidiaries, Thai Nylon Co., Ltd., Unitika America Corp., Unitika (Shanghai ) Ltd., Emblem Asia Co., Ltd., Unitika Emblem China Ltd., Unitika Do Brasil LLC, Brascot LLC, Peking Unitika Garments LLC and Unitex Co., Ltd. close their accounts on June 30, and Unitika Hong Kong Ltd. on August 31. For the purpose of preparing the consolidated interim financial statements, the interim financial statements on respective dates are used, and a necessary adjustment is made with regard to material transactions conducted during the period between the above-mentioned closing date and the date of consolidated interim closing.

### **4. Accounting policies**

#### **(1) Evaluation standards and method for material assets**

Marketable securities

Other marketable securities

With market values: market value method based on market values, etc. on the closing date (variance from valuation is reported as a component of shareholders' equity, and sales cost is computed under moving average method)

Without market values: cost method under moving average method

Derivatives

Stated at fair value

Inventories

Stated at cost principally determined by using the moving average method

#### **(2) Depreciation method for important depreciable assets**

Tangible fixed assets

Principally computed using the declining balance method

#### **(3) Accounting standards for important allowances**

Allowance for doubtful receivables

In order to cover losses arising from bad debts, collectibility of general receivables is reviewed based on the loan loss ratio and specific receivables including possible bad debts, etc. are evaluated individually to account for non-recoverable amounts.

Accrued bonuses

The allowance for bonus is accounted for based on the estimated bonus amount for payment to employees.

Reserve for compensation for completed works

The amount computed by multiplying the construction revenue by the ratio of past repair results is accounted for to appropriate it for free repairs under the liability of security for completed works. Some of consolidated subsidiaries account for the reserve for compensation for completed works as



an expense when paid out.

#### Allowance for retirement benefits

The amount for payment of retirement benefits to employees which may be regarded as due and payable at the end of the midterm under review based on the estimated amount of the trust estate and pension assets related to retirement benefit obligations and retirement benefits at the end of the fiscal year ending March 31, 2008 is accounted for.

The transition difference due to a change in the accounting standards is treated as an expense equally dividing the difference in 15 years.

The past service liability is accounted for using the straight-line method based on the average years of remaining service by employees when the liability is incurred.

A difference in the mathematical calculation is treated as an expense in and after the fiscal year following the year when the difference is incurred, using the straight-line method based on the number of years not more than the average years of remaining service by employees when the difference is incurred.

#### Allowance for directors' retirement bonuses

In the past, the amount payable at the end of the subject midterm under the internal rule was accounted for to appropriate it for directors' retirement bonuses payable upon retirement of directors (including executive officers). However, we abolished the system of providing a bonus to retiring directors for the company and its consolidated subsidiaries in June of 2006 and suspended the transfer of such amount to allowance for directors' retirement bonuses.

#### **(4)Settlement method for important leasing operations**

Finance lease transactions other than those in which the ownership of leased property is acknowledged as transferable to lessee was accounted for in accordance with the method conforming to that regarding ordinary leasing transactions.

#### **(5)Important hedge accounting method**

The deferred hedge accounting is adopted. We employ appropriation procedures for forward foreign exchange contracts which may satisfy requirements for appropriation, and preferential procedures for interest rate swaps which may satisfy requirements for preferential procedures.

#### **(6)Settlement of consumption tax, etc.**

Settled based on the net of tax method

### **5. Scope of funds in statement of cash flows**

Funds (cash and cash equivalents) stated in the consolidated interim cash flows consist of cash on hand, deposits which may be withdrawn from time to time and short term investments in securities easily available for sale with a maturity of 3 months or less from time of purchase and with a negligible risk exposure against price fluctuation.

# Segment Information

## 1. Business Segment Information

Six months ended September 30, 2006

Unit: Millions of yen

	Polymers	Environmental Business and Advanced Materials	Fibers and Textiles	Healthcare & Amenity and Others	Total	Elimination or Corporate	Consolidated total
Net sales and operating income							
I. Net sales							
(1) Outside customers	32,759	11,462	50,160	9,678	104,060	-	104,060
(2) Inter-segment net sales and transfers	1,951	349	279	1,589	4,170	(4,170)	-
Total	34,710	11,811	50,439	11,267	108,230	(4,170)	104,060
II. Operating expenses	30,693	11,525	49,681	9,958	101,859	(3,157)	98,701
Operating income	4,017	285	758	1,308	6,370	(1,012)	5,358

(Note) Unallocated operating expenses disclosed in "Elimination or Corporate" amounted to 1,041 million yen.

Six months ended September 30, 2007

Unit: Millions of yen

	Polymers	Environmental Business and Advanced Materials	Fibers and Textiles	Healthcare & Amenity and Others	Total	Elimination or Corporate	Consolidated total
Net sales and operating income							
I. Net sales							
(1) Outside customers	34,693	14,472	51,809	10,719	111,695	-	111,695
(2) Inter-segment net sales and transfers	1,951	287	346	1,843	4,429	(4,429)	-
Total	36,644	14,759	52,156	12,563	116,125	(4,429)	111,695
II. Operating expenses	33,640	14,058	51,460	11,475	110,635	(3,396)	107,239
Operating income	3,004	701	696	1,087	5,489	(1,033)	4,456

(Note) Unallocated operating expenses disclosed in "Elimination or Corporate" amounted to 1,040 million yen.

Fiscal year ended March 31, 2007

Unit: Millions of yen

	Polymers	Environmental Business and Advanced Materials	Fibers and Textiles	Healthcare & Amenity and Others	Total	Elimination or Corporate	Consolidated total
Net sales and operating income							
I. Net sales							
(1) Outside customers	66,198	28,947	103,236	22,190	220,572	-	220,572
(2) Inter-segment net sales and transfers	3,832	703	561	3,372	8,470	(8,470)	-
Total	70,031	29,650	103,798	25,562	229,042	(8,470)	220,572
II. Operating expenses	62,390	27,374	101,685	23,391	214,842	(5,441)	209,400
Operating income	7,640	2,276	2,112	2,170	14,200	(3,028)	11,171

(Note) Unallocated operating expenses disclosed in "Elimination or Corporate" amounted to 3,088 million yen.

## 2. Geographic Segment Information

This information is omitted because sales generated in Japan accounted for more than 90% of sales generated in all geographic segments.

## 3. Overseas Sales

Unit:Millions of yen

	Six months ended September 30		Year ended March 31, 2007
	2006	2007	
I Overseas sales	15,168	16,721	30,063
II Consolidated sales	104,060	111,695	220,572
III Percentage of overseas sales to total consolidated sales	14.6%	15.0%	13.6%

(Note) No single business segment has an overseas sales more than 10% of total consolidated sales.

## Per Share Data

As of September 30,2006	As of September 30, 2007	As of March 31, 2007
Net assets per share 73.24 yen	Net assets per share 73.19 yen	Net assets per share 74.24 yen
Net income per share 4.23 yen	Net income per share 3.63 yen	Net income per share 5.39 yen
Diluted net income per share - yen	Diluted net income per share - yen	Diluted net income per share - yen

(Note) Basis for the calculation of net income per share for the current midterm are as follows:

	Six months ended September 30		Year ended March 31, 2007
	2006	2007	
Net income (Million yen)	2,011	1,728	2,562
Net income not attributable to common stock (Million yen)	-	-	-
Net income on common stocks (Million yen)	2,011	1,728	2,562
Average number of common stock (Thousand share)	475,652	475,607	475,641

(Material subsequent events)

None

(Other notes, etc.)

Notes regarding matters relating to lease transactions, marketable securities, derivative transactions, etc., have been excluded because they are considered to be less necessary to disclose in the consolidated midterm financial results.