

THE WAY OF MUTUAL PROGRESS



YUSHIRO CHEMICAL INDUSTRY CO., LTD.

ANNUAL REVIEW 2005
For the Year Ended March 31, 2005



Yoshiaki Nagai
PRESIDENT

Yushiro Chemical Industry Co., Ltd. has contributed to the progress and material development of Japan by supplying quality oil-fat-wax (yu-shi-ro) products. We have succeeded in developing and offering to virtually all industrial markets such auxiliary products as metalworking oils and fluids, polishing agents for building maintenance. To respond to the needs of the industry, every technology we have acquired will be fed back to our R&D process for the creation of newer technologies and products based on our corporate ideal of “the way of mutual progress.”

PRESIDENT'S MESSAGE

長井禧明

Since its foundation, the Yushiro Group has followed “the way of mutual progress” based on common trust, aiming at sturdy shareholders' equity and the constant and appropriate distribution of its business results to stabilize its management base.

As specific measures under the management policy, we strive to implement the following:

- “Products true to our unique corporate qualities.”
- “R&D of true depth and relevance, rather than superficial broadness.”
- “Continued progress in response to customer demands”

We also emphasize free cash flow to strengthen our financial capabilities.

Business group developments and results

In the automobile industry, in which our principal users operate, the manufacture of commercial vehicles decreased year over year in the domestic market. However, sales and production of passenger vehicles were steady, and overall levels are expected to be maintained year over year. Following the automobile industry's active advance into overseas markets, the Company invested its management resources in reinforcing its overseas operational bases and developed global activities as the Yushiro Group.

In the IT industry, inventory adjustment progressed, leveraged by high demand for digital household appliances triggered by lowered prices; good results are therefore anticipated.

During the consolidated fiscal year under review, the 14th Three-Year Medium-Term Plan was launched. During the first half of the fiscal year, the Company celebrated its 60th anniversary in July and completed its long-anticipated listing on the First Section of the Tokyo Stock Exchange in March.

Further emphasizing the contribution and distribution of business results to shareholders, society and employees based on our corporate philosophy of “the way of mutual progress,” we aim to become a global company focused on improving corporate and shareholder value.

Consequently, Yushiro Chemical Industry achieved the targets of the Plan thanks to aggressive efforts to address global environmental issues and expand operations in the IT, precision cleaning agents and aluminum diecasting lubricant fields as well as dramatic growth in its

mainstay product, cutting and grinding oils and fluids. As a result, net sales increased 7.4% from the previous fiscal year to ¥20,503 million.

In terms of profit, the cost ratio improved due to increased production volume influenced by higher revenue, cost reductions due to a surge in prices of petro-chemistry materials, the withdrawal from the unprofitable textile processing auxiliaries business and thorough efforts to reduce costs. Despite the introduction of a prima facie corporate tax, operating income increased 19.8% year over year to ¥2,289 million and ordinary income rose 15.6% to ¥2,465 million.

Net income advanced 18.2% to ¥1,538 million thanks to a considerable tax deduction for experimental and research costs as provided by a revision of law effective in 2003.

Business segment	Previous Fiscal Year April 1, 2003, through March 31, 2004		Current Fiscal Year April 1, 2004, through March 31, 2005		Increase/ decrease %
	Million yen	%	Million yen	%	
Metalworking oils and fluids business	15,276	80.0	16,783	81.9	109.9
Building maintenance business	2,219	11.6	2,293	11.2	103.3
Industrial waste processing business	1,344	7.0	1,426	6.9	106.1
Textile processing auxiliaries business	248	1.3	-	-	-
Transportation-related business	1	0.1	-	-	-
Total	19,091	100.0	20,503	100.0	107.4

Note: The Company withdrew from the Textile processing auxiliaries business in the previous fiscal year. In the fiscal year under review, a change in business segmentation resulted in the Transportation-related business being integrated into the Metalworking oils and fluids business and the Building maintenance business.

Basic policy for profit distribution

During the consolidated fiscal year under review, the Company launched the 14th Three-Year Medium-Term Plan. We designated a higher priority to the dividend distribution to shareholders.

The Company determined that it was unnecessary to increase retained earnings above current levels and amended its fundamental

dividend policy to return, in principle, almost all after-tax profits. We distributed an extraordinary dividend of ¥200 per share due to TOB in the previous fiscal year. We intend to maintain and propose a basic policy to return almost all after-tax profits to our shareholders (100% payout ratio) at the shareholders' meetings.

Three-Year Medium-and Long-Term Plan

During fiscal 2004 at the consolidated level, we settled on the 14th Three-Year Medium-Term Plan.

Management Policies:

- 1) Provide society with reliable products while emphasizing compliance, safety and the environment.
- 2) Expand IT operations by combining customer needs with our innovative technologies.
- 3) Establish a foundation as a global corporation by strengthening Group (especially overseas) management.
- 4) Increase profitability to enhance corporate and shareholder value.

Targets to achieve by March 2007 (the last year of the Plan)

Consolidated
Sales: ¥22,300 million
Operating income: ¥2,500 million
Ordinary income: ¥2,800 million
Net income: ¥1,800 million

Other:

ROE: More than 10%

EPS: More than ¥100

Outlook

In the overseas markets, there are concerns that aggravated anxieties about global volatility and an increase in crude oil prices could affect prices of other materials and that the sluggish U.S. and Chinese economies could adversely affect the Japanese economy.

In the domestic market, corporate revenues should improve due to the steady growth in demand reflected in corporate capital investment and individual consumption.

We must address the following tasks:

1. Deal with the impact of price increase in raw materials on our product prices
2. Cope with users' overseas relocation of manufacturing bases
3. Respond to globalization of pricing and technical competition
4. Complete overseas manufacturing and sales bases centered in the United States and Asia
5. Address increasingly diversified user needs for products and services
6. Focus management on corporate and shareholders value

Fiscal Years ended March 31,	Yen in millions		U.S. dollars in thousands
	2005	2004	2005
Net sales	¥ 20,503	¥ 19,091	\$ 190,924
Operating income	2,289	1,911	21,323
Net income	1,538	1,301	14,325
Total assets	28,238	28,137	262,949
Total shareholders' equity	18,832	20,363	175,366
Per Share Amounts: Yen U.S. dollars			
Net income per share	¥ 99.53	¥ 83.64	\$ 0.92
Cash dividends per share	69.00	200.00	0.64
Net assets per share	1,270.24	1,373.98	11.82

Notes: 1. U.S. dollar amounts, converted at the rate of ¥107.39 to US\$1.00, are for convenience only.
2. Net income per share is based on the average number of shares outstanding at the end of each fiscal year.
3. Japanese yen amounts of less than one million have been excluded.

The Yushiro Group consists of Yushiro Chemical Industry Co., Ltd., two domestic subsidiaries, six overseas subsidiaries and three affiliates, and its major businesses are the production and sales of metalworking oils and fluids, chemicals for building maintenance and industrial waste processing. We have also expanded our business to include the purchase and sale of products related to each business, logistics and other services.

REVIEW OF OPERATIONS

METALWORKING OILS AND FLUIDS BUSINESS

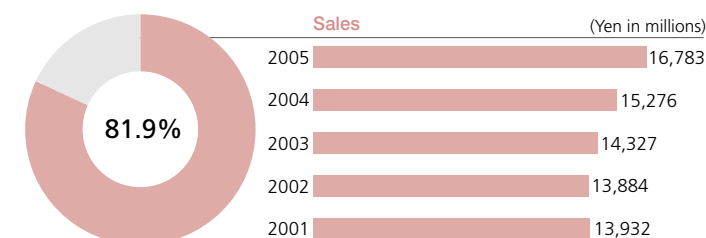
In the automobile industry, in which our major clients operate, production volumes for the domestic market increased, influenced by higher sales of new models, and manufacture for exports progressed steadily, supported by favorable sales overseas including China. Therefore, the entire industry enjoyed better results than the previous fiscal year. Sales for related industries, such as manufacturers of bearings and components, also progressed steadily. Subsequently, sales of our mainstay products, cutting and grinding oils and fluids, jumped, and sales of aluminum diecasting lubricants, cleaning agents and rust preventives rose. Furthermore, sales in the IT industry grew substantially. Sales of advanced material processing oils to companies within the same industry, another important field of business, also saw steady growth.

In overseas markets, where the Yushiro Group has expanded, the U.S. and Brazilian economies have been progressing upward, as reflected in the Group's results. YUSHIRO-JET CHEMICALS SDN. BHD. in Malaysia, a former equity-method affiliate was made into a subsidiary, and SHANGHAI YUSHIRO CHEMICAL INDUSTRY CO., LTD., our second Chinese base, was newly established. Thus, overseas sales of the Company jumped.

As a result, sales expanded 9.9% to ¥16,783 million. By market, domestic sales improved 6.0% year over year to ¥13,624 million, contributed by mainstay products. Overseas sales rose 30.5% to ¥3,159 million due to an increase in the number of subsidiaries. Overall operating income increased 22.2% to ¥2,170 million.

Metalworking oils and fluids

- Fluids used for processing steel and other metals into specific shapes.
- Important areas of fluid performance include lubricity, cooling ability, etc.
- Mainly used in the automotive, precision processing and semiconductor processing industries.

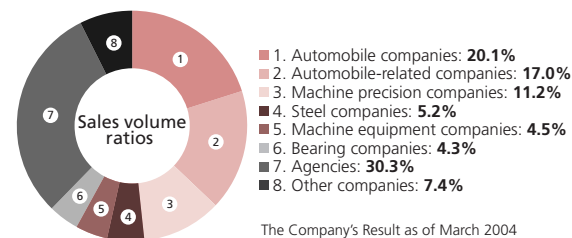


Products

Cutting and Grinding Oils and Fluids
 Aluminum Diecasting Lubricants
 Cutting Oils and Fluids for Advanced-Material Cleaners
 Rust Preventives
 Rolling Oils and Fluids
 Drawing Oils and Fluids
 Forming Oils and Fluids
 Quenching Agents
 Fire Resistant Hydraulic Lubricants
 Other Oils and Fluids

Customers

- Automobile companies
- Precision machine processing companies
- Steel companies
- Electric equipment companies
- Other machine processing companies



Note: Business related to metalworking oils and fluids: Metalworking oils and fluids are manufactured and sold by Yushiro Chemical Industry Co., Ltd. In overseas markets, metalworking oils and fluids are manufactured and sold by the Company's subsidiaries: Yuma Industries, Inc. ("YUMA"), in the United States; Yushiro do Brasil Ind. Quimica Ltda. ("YUBIQ"), in Brazil; Qidong Yushiro Chemical Industry Co., Ltd., and Shanghai Yushiro Chemical Industry Co., Ltd., in China; Yushiro-Jet Chemicals SDN. BHD. in Malaysia; and Yushiro (Thailand) CO., LTD., in Thailand; and our affiliates: Buhmwoo Chemical Industry Co., Ltd., and Buhmwoo Co., Ltd., in South Korea, and San-I Chemical Industry Co., Ltd., in Taiwan.

The Company's advantages in the field of Cutting and Grinding Oils and Fluids

- Our overwhelming share in the automobile industry; more than 60%
- The Company features its production development capacities and quick response to changes in the automobile industry including rationalization, changes in materials and measures to address environmental issues.
- Our wide human network interacts with users in different industries at "The Society of Cutting Fluids & Cutting Technology"

About the Society

The society was launched in 1954 as an on-site research group made up of metal processing technology researchers, and has served as an office bridging academy and industry for 50 years.

Engineers with abundant on-site experience, beginning with those from our automotive manufacturing customers, as well as those from machine manufactures, tooling manufactures, etc., gather to exchange information and work together to develop higher technologies and further nurture their expertise. This group has served as a "training room" for these experts throughout the history of the industry. It is therefore no exaggeration to say that this group is a national asset supporting product development, or *monozukuri*.



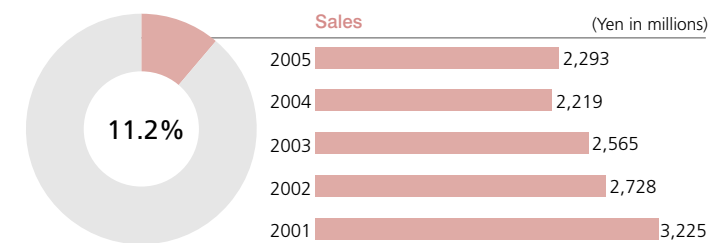
BUILDING MAINTENANCE BUSINESS

Sales in the building maintenance business have been decreasing for the past several years due to cost reductions from a review of consignment management fees for buildings and an increase in chemical-free carpet flooring materials. In such a difficult situation, the Company developed our own brand chemicals for PRTR (Pollutant Release and Transfer Register), or sick house syndrome, to differentiate us from our competitors.

In addition, as a result of the reorganization of sales routes and new product campaigns, sales increased 3.3% year over year to ¥1,727 million.

Sales of cleaning equipment purchased products increased 2.4% year over year to ¥565 million, with a significant contribution to sales from Chubu New International Airport, which we have aggressively courted for some time.

As a result of such efforts, sales in the building maintenance business rose 3.3% to ¥2,293 million.



Note: Building maintenance business: Yushiro Chemical Industry Co., Ltd., manufactures and sells chemicals for building maintenance.

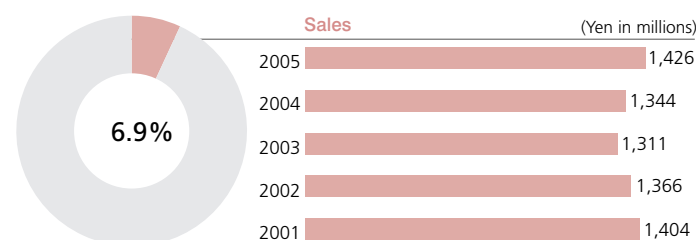
REVIEW OF OPERATIONS

INDUSTRIAL WASTE PROCESSING BUSINESS

In the industrial waste processing business, major users strove to reduce their industrial waste and clients reevaluated companies to which to consign their buildings, which led to reorganization of the overall industry.

A natural increase in waste volume subsequent to economic recovery and an increase in spot orders contributed to favorable sales results.

Consequently, sales by our industrial waste processing business increased 6.1% year over year to ¥1,426 million. Operating income, however, decreased 0.6% to ¥275 million.



Note: The industrial waste processing business is conducted by a subsidiary, Nihon Seiyu Co., Ltd.

Subsidiaries and Associated Companies

Overseas Subsidiaries

Yuma Industries, Inc.
783 West Mausoleum Road, P.O. Box 217
Shelbyville, Indiana 46176 U.S.A.
Phone: (1) 317-398-9862 Fax: (1) 317-392-4818
URL: <http://www.yumaindustries.com>

Yushiro do Brasil Indústria Química Ltda.
Av. Henry Néstle, 3100 Caçapava, CEP 12281-970
São Paulo, Brazil
Phone: (55) 12-3653-1155 Fax: (55) 12-3653-1176
URL: <http://www.yushiro.com.br>

Qidong Yushiro Chemical Industry Co., Ltd.
New Qidong Port North
Qidong City, Jiangsu, Province, China
Phone: (86) 513-3699-942 Fax: (86) 513-3699-943

Shanghai Yushiro Chemical Industry Co., Ltd.
881 Fulian Road, Baoshan, Shanghai,
P.R. China 201905
Phone: (86) 21-3604-0908 Fax: (86) 21-3604-0916

Yushiro-Jet Chemicals Sdn. Bhd.
14, Jalan Utama 2/28, Pusat Perindustrian Maju Jaya,
47100 Puchong, Malaysia
Phone: (60) 3-8061-9737 Fax: (60) 3-8062-2731

Yushiro (Thailand) Co., Ltd.
AMATA Nakorn Industrial Estate 700/533 Moo7,
Don Hua Roh, Muang, Chonburi 20000, Thailand
Phone: (66) 38-454-873 Fax: (66) 38-454-879

Overseas Associated Companies

Buhmwoo Chemical Ind. Co., Ltd. & Buhmwoo Co., Ltd.
70-3, Yangjae-Dong, Seocho-Ku, Seoul, Korea
Phone: (82) 2-571-6321 Fax: (82) 2-571-6329
URL: <http://www.buhmwoo.com>

San-I Chemical Industry Co., Ltd.
7th Fl. No.48 Ming Chuang W. Rd., Taipei, Taiwan R.O.C.
Phone: (886) 2-2522-1313 Fax: (886) 2-2522-1363



OVERVIEW OF OPERATION BY REGION

1. Japan

Sales in Japan increased 4.0% year over year to ¥17,344 million, which accounted for 84.6% of consolidated net sales. Operating income rose 18.5% to ¥1,824 million, which accounted for 79.7% of consolidated operating income.

2. The United States

The U.S. economy remained stagnant with a low GDP growth rate: 4.5% during the first quarter, 2.8% during the second quarter, 4.0% during the third quarter and 3.8% during the fourth quarter, and the severe economic situation is expected to continue.

The U.S. economy was negatively affected by high crude oil prices due to concerns over the Iraq war, persistent fear of terrorism and the special procurement boom in China.

Under these circumstances, sales of cutting fluids to Japanese automotive manufacturers were steady, and we succeeded with new entrance into one member of the "Big-Three" as well as a South Korean owned engine plant. However, manufacturing costs expanded due to price increases in base oil and chemical agents, which are the main materials of our products.

Sales rose 9.1% year over year to ¥1,107 million, but operating income declined 22.4% to ¥65 million.

3. Brazil

During fiscal 2004, the Brazilian economy improved due to the comparative stabilization of exchange rates and export profitability. Reflecting revived corporate enthusiasm for investment, the domestic economy recovered dramatically during the second half of the fiscal year.

In such a situation, sales of cutting and grinding oils and fluids, rust preventives and forming fluids and oils to the automobile industry jumped and contributed to an increase in revenue.

Foreign exchange rates, which resulted in low domestic rates the previous fiscal year, were revised and high purchase costs subsequently declined, which led to improvement of the cost ratio despite comparatively high costs influenced by a surge in international crude oil prices around the fiscal year-end.

As a result, sales increased 17.2% year over year to ¥713 million and operating income surged 74.7% to ¥102 million.

4. China

The GDP growth rate in China was 9.5%, exceeding that of the previous fiscal year, reflecting favorable consumer spending and foreign demand. Intensifying enthusiasm for capital investment apparently led the government to a posture of working toward an economic soft landing, through measures such as regulating loans.

In such a situation, Qidong Yushiro Chemical Industry Co., Ltd., developed markets to the north of Chang Jiang and Shanghai Yushiro Chemical Industry Co., Ltd., acquired markets in the south. The Company provided metalworking oils and fluids for major users in the steel industry and Japanese companies expanding to China to extend our business in the Chinese market. We regard Shanghai Yushiro Chemical Industry Co., Ltd., as a technical center in China for follow-up technical service for users.

Consequently, although total sales of China Yushiro increased 14.0% year over year to ¥909 million operating income, operating income dropped 2.0% to ¥221 million.

5. Malaysia

The GDP growth rate in Malaysia during fiscal 2004 increased 1.9 percentage points year over year to 7.1%.

The Malaysian economy will continue to face a difficult situation regarding exports, reflected in a review of foreign exchange rates amid the harsh Malaysian and Chinese competition, although a rise in consumer spending from an improved employment environment leveraged the economy.

In such a difficult situation, exports of metalworking oils and fluids to ASEAN countries including Thailand and Indonesia surged dramatically.

As a result, sales amounted to ¥428 million and operating income was ¥56 million.

CONSOLIDATED BALANCE SHEETS

(Unaudited)
As of March 31, 2005 and 2004

Assets	Millions of yen		U.S. dollars in thousands (Note 5)
	2005	2004	2005
Current assets:			
Cash and time deposits	¥ 4,680	¥ 5,997	\$ 43,584
Notes and accounts receivable–trade	5,186	5,040	48,296
Marketable securities	362	479	3,372
Inventories	1,567	1,402	14,593
Deferred tax assets	260	263	2,421
Other current assets	178	154	1,657
Allowance for doubtful accounts	(12)	(11)	(120)
Total current assets	12,221	13,326	113,805
Fixed assets:			
Buildings and structures	3,300	3,540	30,735
Machinery, equipment and vehicle	959	935	8,935
Tools, furnitures and fixtures	306	351	2,853
Land	4,631	4,558	43,126
Construction in progress	1,745	757	16,249
Total long-term assets	10,943	10,143	101,901
Total intangible assets	106	58	994
Investments and other assets:			
Investment in securities	1,724	1,396	16,062
Investment in subsidiaries and associated companies	2,010	1,923	18,722
Long-term loans receivable	51	64	477
Savings premium	685	653	6,384
Deferred tax assets	193	215	1,804
Other assets	371	424	3,460
Allowance for doubtful accounts	(77)	(77)	(717)
Total investments and other assets	4,960	4,600	46,195
Deferred assets	5	8	51
Total assets	¥ 28,238	¥ 28,137	\$ 262,949

Current liabilities and shareholders' equity	Millions of yen		U.S. dollars in thousands (Note 5)
	2005	2004	2005
Current liabilities:			
Notes and accounts payable–trade	¥ 3,055	¥ 2,745	\$ 28,454
Short-term borrowings	289	110	2,693
Current portion of bonds payable	40	–	372
Accounts payable–other	380	403	3,545
Accrued corporate taxes	559	441	5,209
Accrued bonuses	464	457	4,328
Deferred tax liabilities	7	–	68
Other current liabilities	569	519	5,300
Total current liabilities	5,366	4,676	49,971
Long-term liabilities:			
Corporate bonds	360	400	3,352
Long-term liabilities	1,258	534	11,721
Reserve for retirement allowances	1,277	1,311	11,894
Directors retirement allowance	306	283	2,857
Deferred tax liabilities	36	19	338
Other long-term liabilities	154	159	1,441
Total long-term liabilities	3,394	2,708	31,605
Total liabilities	8,760	7,385	81,577
Minority interests	644	389	6,005
Shareholders' equity:			
Common stock	4,249	4,249	39,569
Capital surplus	3,994	3,994	37,197
Earned surplus	12,972	14,720	120,798
Net unrealized gains on securities	379	287	3,529
Foreign currency gain (loss)	(2,467)	(2,596)	(22,980)
Treasury stock	(295)	(293)	(2,749)
Total shareholders' equity	18,832	20,363	175,366
Total liabilities, minority interests and shareholders' equity	¥ 28,238	¥ 28,137	\$ 262,949

CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)
For the Years Ended March 31, 2005 and 2004

	Millions of yen		U.S. dollars in thousands (Note 5)
	2005	2004	2005
Net sales	¥ 20,503	¥ 19,091	\$ 190,924
Cost of sales	12,852	12,140	119,679
Gross profit	7,650	6,950	71,244
Selling, general and administrative expenses	5,361	5,038	49,921
Operating income	2,289	1,911	21,323
Interest and dividend income	56	45	525
Equity in earnings of associated companies	170	222	1,585
Other income	83	80	780
Interest expenses	38	20	355
Other expenses	96	106	896
Ordinary income	2,465	2,132	22,962
Gains from sale of fixed assets	1	2	13
Other extraordinary income	2	3	22
Loss on disposal of fixed assets	7	15	71
Other extraordinary deductions	6	5	59
Income before income taxes	2,455	2,117	22,867
Corporate, local income enterprise taxes	800	740	7,457
Deferred taxes	(32)	(44)	(304)
Minority interest	(149)	(120)	(1,388)
Net income	¥ 1,538	¥ 1,301	\$ 14,325

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS

(Unaudited)
For the Years Ended March 31, 2005 and 2004

	Millions of yen		U.S. dollars in thousands (Note 5)
	2005	2004	2005
Consolidated retained earnings at beginning of year	¥ 14,720	¥ 13,717	\$ 137,077
Increase of consolidated retained earnings	1,538	1,301	14,325
Net income	1,538	1,301	14,325
Decrease of consolidated retained earnings	3,286	297	30,604
Cash dividends	3,205	221	29,852
Bonus paid to director	67	64	633
The Employees' Welfare Incentive Fund	12	11	118
Consolidated retained earnings at end of year	¥ 12,972	¥ 14,720	\$ 120,798

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)
For the Years Ended March 31, 2005 and 2004

	Millions of yen		U.S. dollars in thousands (Note 5)
	2005	2004	2005
Cash flows from operating activities:	¥ 2,191	¥ 959	\$ 20,402
Cash flows from investing activities:	(238)	(1,526)	(2,222)
Cash flows from financing activities:	(2,370)	327	(22,074)
Effect of exchange rate changes on cash and cash equivalents	11	(15)	104
Net decrease in cash and cash equivalents	(407)	(254)	(3,790)
Cash and cash equivalents at beginning of year	4,176	4,431	38,892
Net decrease in cash and cash equivalents due to additional consolidated subsidiaries	20	-	195
Cash and cash equivalents at end of year	¥ 3,790	¥ 4,176	\$ 35,297

IMPORTANT POINTS FORMING THE BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

1. Scope of Consolidation

- (1) Consolidated subsidiaries include Nihon Seiyu Co., Ltd., Yushiro Unso Co., Ltd., Yuma Industries, Inc., Yushiro do Brasil Indústria Química Ltda., Qidong Yushiro Chemical Industry Co., Ltd., Shanghai Yushiro Chemical Industry Co., Ltd., Yushiro-Jet Chemicals Sdn. and Yushiro (Thailand) Co., Ltd.
- (2) Yushiro Shoji Co., Ltd., is a non-consolidated subsidiary.
- (3) Our non-consolidated subsidiary, Yushiro Shoji Co., Ltd., is excluded from consolidation because it is a small enterprise and the effect of the subsidiary is immaterial on total assets, net sales and net income (amounts corresponding to equity-method accounting) as well as retained earnings (amounts corresponding to equity-method accounting).

2. Application of the Equity Method

Buhmwoo Chemical Industry Co., Ltd., Buhmwoo Co., Ltd., and San-I Chemical Industry Co., Ltd., are included in the scope of application of the equity method. Our non-consolidated subsidiary, Yushiro Shoji Co., Ltd., is accounted for on a cost basis without applying the equity method as the effect of the subsidiary is immaterial on our net income and loss as well as retained earnings and is not important as a whole.

3. Fiscal Years of the Consolidated Subsidiaries

The fiscal year-end of all six overseas subsidiaries is December 31. In preparing the consolidated financial statements, results as of that date are used, provided that necessary adjustments are made regarding material transactions conducted between December 31 and the consolidation closing date.

4. Significant Accounting Policies

(1) Valuation of securities

In other securities, quoted securities are stated at market value at the fiscal year-end. Unrealized gains are included in shareholders' equity, and the disposal price is computed using the moving-average method. Unquoted securities are accounted for on a cost basis using the moving-average method.

(2) Valuation of inventories

Inventories are stated at cost using the gross-average method.

(3) Depreciation method of important fixed assets

The depreciation of tangible fixed assets of the Company and its domestic consolidated subsidiaries is computed by the declining-balance method, however, the straight-line method is adopted for the Company's technical research center, which was established in 1997. The straight-line method is adopted for buildings acquired after April 1, 1998, except annexed facilities, and for overseas and domestic consolidated subsidiaries.

The main terms of useful service life are 3 – 50 years for buildings and structures, and 2 – 20 years for other tangible fixed assets. Inexpensive tangible fixed assets costing ¥100,000 - ¥200,000 are equally amortized over three years on a straight line basis.

The amortization of intangible fixed assets is computed by the straight-line method. Computer software for internal use is amortized by the straight-line method over the estimated useful life (5 years).

(4) Reserves

Allowance for doubtful accounts

The allowance for doubtful accounts is provided for possible bad debt at the amount estimated based on the past bad debt experience for normal receivables, plus uncollectible amounts determined by reference to the collectibility of individual doubtful receivables.

Reserve for bonuses

The reserve for bonuses is provided at an estimated amount based on the internal payment prediction standard.

Accrued retirement benefits for employees

The accrued retirement benefits for employees are provided for possible payment of employees' post-retirement benefits at the amount to be accrued at the balance sheet date, and are calculated based on the retirement benefit obligation and fair value of pension plan assets at the end of this fiscal year.

The actuarial gain or loss is amortized by the straight-line method over a period of 10 years, which is shorter than the average remaining service years for employees at the time of recognition, from the following year of recognition.

Accrued retirement allowances for directors

The accrued retirement allowances for directors of the Company and its subsidiaries, Nihon Seiyu Co., Ltd., and Yushiro Unso Co., Ltd., are provided for retirement benefits for Directors and Corporate Auditors at the amount that would be required to be paid in accordance with the Company's internal rule if all eligible Directors and Corporate Auditors resigned their positions as of the balance sheet date.

(5) Translation of assets and liabilities denominated in foreign currencies into yen

Monetary receivables and payables denominated in foreign currencies are translated into yen at the spot rate of exchange in effect at the consolidated balance sheet date. The resulting exchange differences are charged or credited to income.

(6) Accounting for leases

Finance leases that do not transfer the ownership of leased property to the lessee are accounted for as operating leases.

(7) Other

Transactions subject to the consumption tax and the local consumption tax are accounted for using the tax exclusion method.

5. Matters related to the valuation of assets and liabilities of the Company's consolidated subsidiaries

The assets and liabilities of consolidated subsidiaries are valued at their fair value.

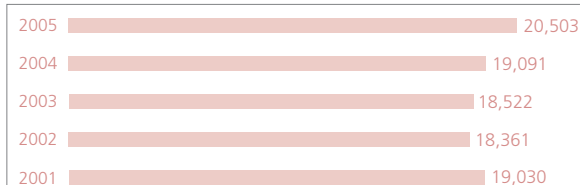
6. Amortization of the consolidation adjustments account

The amount of the consolidation adjustments account is equally amortized over 5 years on a straight-line basis.

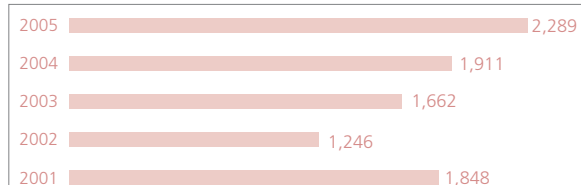
7. The U.S. dollar amounts in the financial statements for the fiscal year ended March 31, 2005, represent translation of Japanese yen at the rate of ¥107.39=US\$1.00.

FINANCIAL INDICATORS

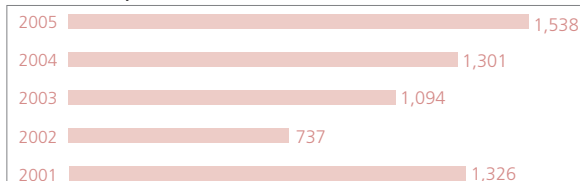
Net Sales (yen in million)



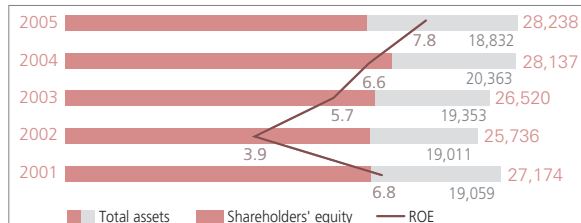
Operating Income (yen in million)



Net Income (yen in million)



Total Assets, Shareholders' Equity (yen in million), and ROE(%)



CORPORATE DATA (as of March 31, 2005)

Head Office	34-16, 2-chome, Chidori, Ota-ku, Tokyo 146-8510, Japan Phone: (03) 3750-3100 Fax: (03) 3750-9915 URL: http://www.yushiro.co.jp
Capital	¥4,249 million
Employees	383
Established	July 24, 1944
Branch Offices	Tokyo, Nagoya and Osaka
Sales Offices	Hokkaido, Tohoku, Kitakanto, Hamamatsu, Hokuriku, Hiroshima and Kyushu

Directors and Auditors (as of June 28, 2005)

President	Yoshiaki Nagai	Director Counselor	Takatsugu Yoshida
Managing Directors	Yasuo Chiba	Director	Hirotohi Takeda
	Toyomi Kohana	Standing Auditors	Hiromichi Tomihari
	Kazuyuki Muraki		Hisataka Terakura
Directors	Aisaku Ota		Tsuneo Onda
	Itaru Oda	Auditor	Toshio Abe
	Masahisa Hirobe		
	Yukinao Namiki		
	Ryuichi Matsuno		

STOCK INFORMATION (as of March 31, 2005)

Number of shares issued	15,200,065
Trading unit	100
Total number of shareholders	4,170
Stock listing	First section ,Tokyo Stock Exchange
Securities code	5013
Transfer agent for common stock	Daiko Clearing Services Corporation
Independent certified public accountants	Ernst & Young ShinNihon
Main underwriter	Nomura Securities Co., Ltd.
Stock prices	

Term	2004.4	2004.5	2004.6	2004.7	2004.8	2004.9	2004.10	2004.11	2004.12	2005.1	2005.2	2005.3
High (Yen/share)	1,497	1,550	1,699	1,710	1,560	1,621	1,588	1,605	1,750	1,840	2,300	2,385
Low (Yen/share)	1.385	1,450	1,510	1,512	1,490	1,500	1,520	1,552	1,587	1,750	1,830	1,955
Trading volume (Hundred of shares)	9,220	5,270	6,420	6,250	4,077	4,956	2,370	2,523	5,845	4,650	16,462	15,895