NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2009 and 2010

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Report of Independent Auditors

The Board of Directors
NOF CORPORATION

We have audited the accompanying consolidated balance sheets of NOF CORPORATION and consolidated subsidiaries as of March 31, 2009 and 2010, and the related consolidated statements of income, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOF CORPORATION and consolidated subsidiaries at March 31, 2009 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

1. As described in Note 22, the Company concluded an agreement to convert Nichiyu Giken Kogyo Co., Ltd. into a wholly owned subsidiary of the Company through a stock exchange. The agreement was approved at the Company's Board of Directors' meeting held on May 25, 2010.
2. As described in Note 22, the Company approved the acquisition of treasury stock at its Board of Directors' meeting held on May 25, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 23, 2010

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheets
As of March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
ASSETS			
Current assets:			
Cash and time deposits (Note 4)	¥ 5,185	¥ 5,549	$ 59,637
Notes and accounts receivable (Note 6)	28,341	29,803	320,320
Allowance for doubtful accounts	(100)	(229)	(2,456)
	28,241	29,574	317,864
Inventories	31,091	26,313	282,815
Deferred tax assets (Note 11)	1,731	2,060	22,137
Other current assets (Note 5)	2,681	1,848	19,864
Total current assets	68,929	65,344	702,317
Property, plant and equipment (Note 7 and 17):			
Land	19,257	19,305	207,489
Buildings and structures	56,073	57,516	618,182
Machinery, equipment and vehicles	87,708	90,020	967,545
Construction in progress	2,013	983	10,569
Leased assets	125	171	1,836
Others	14,288	14,029	150,780
Accumulated depreciation	(118,308)	(123,400)	(1,326,302)
Total property, plant and equipment	61,156	58,624	630,099
Investments and other assets:			
Investments in securities (Note 5 and 6)	21,239	25,133	270,135
Deferred tax assets (Note 11)	428	444	4,774
Intangible assets (Note 18)	2,139	1,872	20,116
Prepaid pension expenses (Note 12)	6,858	6,298	67,695
Other assets	1,801	1,696	18,225
Total investments and other assets	32,465	35,443	380,945
Total assets	¥ 162,550	¥ 159,411	$ 1,713,361

The accompanying notes are an integral part of the statements.

Consolidated Balance Sheets
As of March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 6 and 7)	¥ 19,821	¥ 6,422	$ 69,027
Current portion of long-term debt (Note 6 and 7)	5,446	1,440	15,482
Notes and accounts payable (Note 6)	17,773	20,072	215,734
Accrued expenses	4,362	4,408	47,378
Income taxes payable	501	2,370	25,473
Deposits received	3,428	3,470	37,292
Lease obligations	10	22	234
Other current liabilities (Note 11)	4,110	4,098	44,046
Total current liabilities	55,451	42,302	454,666
Long-term liabilities:			
Long-term debt (Note 6 and 7)	9,361	12,931	138,988
Deferred tax liabilities (Note 11)	6,918	8,250	88,669
Retirement benefit provisions (Note 12)	3,729	3,915	42,079
Retirement benefit provisions for directors	279	210	2,262
Retirement benefit provisions for officers	90	103	1,105
Lease obligations	109	135	1,453
Other long-term liabilities (Note 18)	556	754	8,098
Total long-term liabilities	21,042	26,298	282,654
Commitments and contingencies (Note 15)			
Net assets:			
Shareholders' equity			
Common stock:			
Authorised: 783,828,000 shares at March 31, 2009 and 2010			
Issued: 196,682,752 shares and 196,682,752 shares at March 31, 2009 and 2010	17,742	17,742	190,692
Capital surplus	15,113	15,113	162,440
Retained earnings	49,809	51,393	552,370
Treasury stock, at cost	(2,127)	(2,143)	(23,028)
Total shareholders' equity	80,537	82,105	882,474
Valuation, translation adjustments and others			
Unrealized gain on other securities	3,124	5,805	62,395
Foreign currency translation adjustments	(1,385)	(1,035)	(11,131)
Total valuation, translation adjustments and others	1,739	4,770	51,264
Minority interests	3,781	3,936	42,303
Total net assets	86,057	90,811	976,041
Total liabilities and net assets	¥ 162,550	¥ 159,411	$ 1,713,361

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statements of Income
For the years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Net sales	¥ 150,321	¥ 143,385	$ 1,541,110
Cost of sales (Notes 9 and 13)	117,879	109,725	1,179,325
Gross profit	32,442	33,660	361,785
Selling, general and administrative expenses (Notes 8, 9 and 13)	28,819	28,050	301,486
Operating income	3,623	5,610	60,299
Other income (expenses):			
Interest and dividend income	737	585	6,287
Interest expenses	(443)	(330)	(3,548)
Gain on sale of properties	1,212	56	597
Loss on disposal of properties	(78)	(101)	(1,087)
Loss on sale of investments in securities	(147)	(104)	(1,117)
Impairment loss on investment securities	(1,116)	(66)	(715)
Equity in earnings (losses) of affiliates	(3)	34	370
Foreign exchange loss, net	(111)	(102)	(1,097)
Reversal of accrual on warranty expense	-	215	2,307
Environmental expenses	-	(105)	(1,127)
Others, net	379	54	590
	430	136	1,460
Income before income taxes and minority interests in the earnings of consolidated subsidiaries	4,053	5,746	61,759
Income taxes (Note 11)			
Current	1,207	2,759	29,650
Deferred	282	(744)	(7,994)
	1,489	2,015	21,656
Minority interests in the earnings of consolidated subsidiaries	(182)	(230)	(2,478)
Net income	¥ 2,382	¥ 3,501	$ 37,625

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statements of Changes in Net Assets
For the years ended March 31, 2009 and 2010

	Millions of yen										
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Total valuation, translation adjustments and others	Minority interests	Total net assets
Balance at March 31, 2008	201,683	¥ 17,742	¥ 15,113	¥ 52,189	¥ (1,600)	¥ 83,444	¥ 8,258	¥ 39	¥ 8,297	¥ 3,779	¥ 95,520
Effect of application for ASBJ Practical Issues Task Force No.18 (Note 1)	-	-	-	(186)	-	(186)	-	-	-	-	(186)
Net income	-	-	-	2,382	-	2,382	-	-	-	-	2,382
Cash dividends	-	-	-	(2,171)	-	(2,171)	-	-	-	-	(2,171)
Purchase of treasury stock	-	-	-	-	(2,860)	(2,860)	-	-	-	-	(2,860)
Sale of treasury stock	-	-	-	(10)	27	17	-	-	-	-	17
Retirement of treasury stock	(5,000)	-	-	(2,306)	2,306	-	-	-	-	-	-
Change in the scope of equity method	-	-	-	(89)	-	(89)	-	-	-	-	(89)
Net change in items other than shareholders' equity	-	-	-	-	-	-	(5,134)	(1,424)	(6,558)	2	(6,556)
Balance at March 31, 2009	196,683	¥ 17,742	¥ 15,113	¥ 49,809	¥ (2,127)	¥ 80,537	¥ 3,124	¥ (1,385)	¥ 1,739	¥ 3,781	¥ 86,057
Net income	-	-	-	3,501	-	3,501	-	-	-	-	3,501
Cash dividends	-	-	-	(1,917)	-	(1,917)	-	-	-	-	(1,917)
Purchase of treasury stock	-	-	-	-	(18)	(18)	-	-	-	-	(18)
Sale of treasury stock	-	-	-	0	3	2	-	-	-	-	2
Net change in items other than shareholders' equity	-	-	-	-	-	-	2,681	350	3,031	155	3,186
Balance at March 31, 2010	196,683	¥ 17,742	¥ 15,113	¥ 51,393	¥ (2,143)	¥ 82,105	¥ 5,805	¥ (1,035)	¥ 4,770	¥ 3,936	¥ 90,811

	Thousands of U.S. dollars (Note 3)										
	Number of shares of common stock (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Total valuation and adjustments	Minority interest	Total net assets
Balance at March 31, 2009	196,683	$ 190,692	$ 162,440	$ 535,352	$ (22,863)	$ 865,621	$ 33,580	$ (14,886)	$ 18,694	$ 40,630	$ 924,945
Net income	-	-	-	37,625	-	37,625	-	-	-	-	37,625
Cash dividends	-	-	-	(20,602)	-	(20,602)	-	-	-	-	(20,602)
Purchase of treasury stock	-	-	-	-	(199)	(199)	-	-	-	-	(199)
Sale of treasury stock	-	-	-	(5)	34	29	-	-	-	-	29
Net change in items other than shareholders' equity	-	-	-	-	-	-	28,815	3,755	32,570	1,673	34,243
Balance at March 31, 2010	196,683	$ 190,692	$ 162,440	$ 552,370	$ (23,028)	$ 882,474	$ 62,395	$ (11,131)	$ 51,264	$ 42,303	$ 976,041

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statements of Cash Flows
For the years ended March 31, 2009 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Cash flows from operating activities:			
Income before income taxes and minority interests in the earnings of consolidated subsidiaries	¥ 4,053	¥ 5,746	$ 61,759
Adjustments for:			
Depreciation	7,560	7,647	82,186
Net change in retirement benefit provisions	7	745	8,006
Interest and dividend income	(737)	(585)	(6,287)
Interest expenses	443	330	3,548
Equity in losses (earnings) of affiliates	3	(34)	(370)
Gain on sale of properties	(1,212)	(56)	(597)
Impairment loss on investments in securities	1,116	66	715
Loss on sale of investments in securities, net	147	104	1,117
Decrease(increase) in notes and accounts receivable	96	(1,444)	(15,517)
(Increase) decrease in inventories	(2,336)	4,817	51,778
(Decrease) increase in notes and accounts payable	(6,590)	2,253	24,214
Others, net	9	1,777	19,092
Sub total	2,559	21,366	229,644
Interest and dividends received	766	730	7,849
Interest paid	(445)	(331)	(3,560)
Income taxes paid	(3,225)	(1,148)	(12,338)
Return of income taxes	-	1,289	13,855
Others, net	(41)	-	-
Net cash (used in) and provided by operating activities	(386)	21,906	235,450
Cash flows from investing activities:			
Payments for additional acquisition of interest in subsidiary	-	(484)	(5,202)
Payments for purchase of investments in securities	(688)	(135)	(1,454)
Proceeds from sale of investments in securities	416	468	5,028
Payments for purchase of property, plant and equipment	(5,077)	(5,997)	(64,460)
Proceeds from sale of property, plant and equipment	1,105	173	1,859
Net decrease (increase) in short-term loans receivable	55	(18)	(193)
Payments for long-term loans receivable	(201)	(2)	(26)
Proceeds from long-term loans receivable	23	73	783
Others, net	(97)	(48)	(498)
Net cash used in investing activities	(4,464)	(5,970)	(64,163)

Consolidated Statements of Cash Flows (Continued)
For the years ended March 31, 2009 and 2010

Cash flows from financing activities:			
Net increase(decrease) in short-term bank loans	6,249	(13,409)	(144,124)
Borrowing of long-term debt	550	5,000	53,740
Repayments of long-term debt	(976)	(5,446)	(58,535)
Repayments of lease obligations	(13)	(28)	(300)
Payments for purchase of treasury stock	(2,870)	(18)	(199)
Proceeds from sale of treasury stock	17	3	29
Cash dividends paid	(2,163)	(1,908)	(20,508)
Cash dividends paid to minority shareholders	(84)	(63)	(666)
Net cash provided by and (used in) financing activities	710	(15,869)	(170,563)
Effect of exchange rate changes on cash and cash equivalents	(724)	211	2,270
Net (decrease) increase in cash and cash equivalents	(4,864)	278	2,994
Cash and cash equivalents at beginning of year	9,954	5,090	54,705
Adjustments of new consolidated subsidiaries on cash and cash equivalents	-	-	-
Cash and cash equivalents at end of year (Note 4)	¥ 5,090	¥ 5,368	$ 57,699

The accompanying notes are an integral part of these statements.

Notes to Consolidated Financial Statements
For the years ended March 31, 2009 and 2010

1. Basis of presentation

NOF CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their accounting records in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements for the year ended March 31, 2009 have been prepared by using, the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs. Until March 31, 2008, the accompanying consolidated financial statements had been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with accounting principles generally accepted in their countries of domicile. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year presentation.

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 33 subsidiaries (majority-owned companies) as of March 31, 2010 (34 for 2009). The consolidated financial statements include the accounts of the Company and 23 of its subsidiaries for the year ended March 31, 2010 (24 for 2009).

The remaining 10 (10 for 2009) subsidiaries, whose combined assets, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

Effective from April 1, 2009 Yuka Sangyo Co,. Ltd. and Nichiyu Solution Inc. were merged into one firm. The name of company after reorganization is Yuka Sangyo Co., Ltd.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2009 and 2010

The accompanying consolidated financial statements include the accounts of the 23 majority owned subsidiaries listed below (the Company and these consolidated subsidiaries are together referred to as the "Group"):

Name of subsidiaries	Percentage of voting rights owned by the Company
(Domestic subsidiaries)	%
Nippon Koki Co., Ltd.	95.0
Nichiyu Giken Kogyo Co., Ltd.	66.7
Nippon Dacro Shamrock Co., Ltd.	100.0
Hokkaido NOF Corporation	100.0
Nichiyu Trading Co., Ltd.	100.0
Japex Corporation	70.0
Showa Kinzoku Kogyo Co., Ltd.	97.3
Nippo Kogyo Co., Ltd.	93.2
Nichiyu Logistics Co., Ltd.	100.0
Cactus Co., Ltd.	66.7
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0
Nikka Coating Co., Ltd.	100.0
(Foreign subsidiaries)	
Metal Coatings International Inc.	100.0
Michigan Metal Coatings Co.	100.0
Georgia Metal Coatings Co.	100.0
Dacral S.A.	100.0
Metal Coatings Brazil Ind. E. Com. Ltda.	90.0
Dacral Manufacturing NV	100.0
NOF Europe (Belgium) NV	100.0
P.T. NOF Mas Chemical Industries	89.6
Korea Shamrock Co., Ltd.	100.0
Changshu NOF Chemical Co., Ltd.	100.0

The Company and all of its consolidated subsidiaries use a fiscal year ended March 31, except for Nippon Dacro Shamrock Co., Ltd., Nikka Coating Co., Ltd. and foreign subsidiaries. Those subsidiaries use a fiscal year ended December 31. The accounts of those subsidiaries have been consolidated by using the results of operations and account balances for the fiscal year, and necessary adjustments have been made for any material transactions that occurred between the different fiscal year-ends.

Effective April 1, 2010, Nippon Dacro Shamrock Co., Ltd. was renamed to NOF Metal Coatings Asia Pacific Co., Ltd., Metal Coatings International Inc. was renamed to NOF Metal Coatings North America Inc., Dacral S.A. was renamed to NOF Metal Coatings Europe S.A., Metal Coatings Brazil Ind. E. Com. Ltda., was renamed to NOF Metal Coatings South America Ind. E. Com. Ltda. Dacral Manufacturing NV was renamed to NOF Metal Coatings Europe NV, Korea Shamrock Co., Ltd. was renamed to NOF Metal Coatings Korea Co.,Ltd..

(2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in the net assets of such subsidiaries are amortized on a straight-line basis over their estimated useful lives or over a period of 5 years.

(3) Translation of financial statements of foreign subsidiaries

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen using the current exchange rate at the balance sheet date except for shareholders' equity, which is translated using the historical rate. The income statements of the consolidated foreign subsidiaries are translated into Japanese yen using the average rate for the fiscal year. Related translation adjustments are recorded as "Foreign currency translation adjustments" in a separate component of net assets.

Effective the year ended March 31, 2010, the Company changed the method for translation of revenues and expenses of foreign subsidiaries to yen from one using the current exchange rate at the end of the fiscal year to one using the average rate for the fiscal year. This change was made to report revenues and expenses more appropriately by eliminating the effects of exchange rate fluctuations.
As a result, net sales increased by ¥17 million ($180 thousand), operating income decreased by ¥52 million ($560 thousand) and income before income taxes and minority interests decreased by ¥48 million ($516 thousand), compared to the amounts that would have been reported if the previous method had been applied.

(4) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn 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.

(5) Accounting for investments in unconsolidated subsidiaries and affiliates

The equity method is applied to investments in 1 affiliate for the year ended March 31, 2009.

Company management divested its whole shares in Autoliv Nichiyu Co., Ltd. which had been accounted for by the equity method. The investee has not been accounted for by the equity method as of March 31, 2010.

The unconsolidated subsidiaries and affiliates, whose combined assets, net sales and net income in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from equity method.

(6) Financial instruments

(a) Securities

Available-for-sale securities for which market quotations are available are stated at an amount based on the average market price over a period of one month prior to the balance sheet date. Net unrealized gains or losses on those securities are reported as a separate component of net assets at a net-of-tax amount.

Held-to-maturity debt securities are stated at amortized cost.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

(b) Hedge accounting

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of fluctuation in foreign exchange rates related to its trade accounts receivables and payables, and the Company also has entered into interest rate swap contracts to reduce its exposure to the risk of fluctuation in interest rates related to long-term bank loans. It is the Company’s policy not to enter into any speculative derivatives transactions.

Gains or losses arising from changes in fair value of hedging instruments are deferred as assets or liabilities until the related gains or losses on the hedged items are recognized.

If forward foreign exchange contracts meet certain hedging criteria, however, the existing foreign currency receivables or payables are translated at their forward rates.

In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed.

The Company evaluates the 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.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

(8) Inventories

Inventories are principally stated at the total-average method.
On July 5, 2006, the Accounting Standard Board of Japan(“ASBJ”) issued ASBJ Statement No. 9 “Accounting Standard for measurement of inventories”, which is effective for fiscal years beginning on or after April 1, 2008.
This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.
The company applied the new accounting standard for measurement of inventories from the year ended March 31, 2009. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2009, decreased by ¥946 million, respectively, compared to the amounts that would have been reported if the previous method had applied.
Under the previous accounting standard, the Company classified prior year’s loss on disposal of obsolete inventory items as a non-operating expense which arises from the ordinary course of business. For the year ended March 31, 2009, as the result of application of the new accounting standard for measurement of inventories, the Company classifies the expense as cost of goods sold.
As a result, gross profit and operating income for the year ended March 31, 2009, decreased by ¥146 million, respectively, compared to the amounts that would have been reported if the previous methods had been applied.

(9) Property, plant and equipment (except for leased assets)

Depreciation of property, plant and equipment (excluding buildings) is principally computed using the declining-balance method, based on the estimated useful lives of the assets. Depreciation of buildings (excluding attachments to buildings) is principally computed using the straight-line method, based on the estimated useful lives of the assets. The principal range of useful lives is principally from 7 to 50 years for buildings and structures and from 5 to 10 years for machinery, equipment and vehicles.

Effective the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries changed the estimated useful life of machinery and equipment due to the revision of Japanese Corporation Tax Law and its regulations. As a result, operating income and income before income taxes and minority interests for the year ended March 31, 2009, decreased by ¥133 million, respectively, compared to the amounts that would have been reported if the previous methods had been applied.

(10) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the useful life of the software, which is 5 years.

(11) Retirement benefit provisions

The employees of the Company and certain consolidated subsidiaries are covered by a funded retirement plan. Benefits under this retirement plan are generally based on employees' average basic salary during the period and length of service.

Unrecognized actuarial gains or losses are amortized by straight-line method over the period of 10 years from the next year in which they arise.
Prior service costs are amortized by straight-line method over the period of 10 years.

On July 31, 2008, ASBJ issued ASBJ Practical Issues Task Force (PITF) No.19 "Partial Amendments to Accounting Standards for Retirement Benefits(Part 3)".
The Company and its domestic consolidated subsidiaries have adopted this accounting standard for the year end March 31, 2009. The adaption of this accounting standard had no effect on projected benefit obligations, operating income and income before income taxes and minority interests for the year end March 31, 2009.

(12) Retirement benefit provisions for directors

Certain domestic subsidiaries calculate the amount that would be required, based on the pertinent rules of these companies, if all directors are to retire at the balance sheet dates, and accounts for it as retirement benefit provisions for directors, which was presented as retirement benefit provisions for directors and corporate auditors.

(13) Retirement benefit provisions for officers

The Company calculates the amount that would be required, based on the pertinent rules of the Company, if all officers are to retire at the balance sheet dates, and accounts for it as retirement benefit provisions for officers, which was presented as retirement benefit provisions for officers.

(14) Leases

On March 30, 2007, the ASBJ issued Statement No.13 "Accounting Standard for Lease transactions." The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008.
Under the previous accounting standard, finance leases that transfer ownership of the leased asset to the lessee were to be capitalized. However, the leased transactions that do not transfer ownership of the assets at the end of the lease term were permitted to be accounted for as operating lease transactions if certain "as if capitalized" (see Note 13) information was disclosed in the notes to the lessee's financial statements.

The revised accounting standard requires that all finance lease transactions and lease obligations be reflected on the balance sheets. However, it permits leases in existence at the transition date that do not transfer the ownership at the end of lease term to continue to be accounted for as operating leases.
The Company applied the revised accounting standard from the year ended March 31, 2009.
The change did not affect the consolidated statements of income for the year ended March 31, 2009.
Leased assets are depreciated over the lease term by the straight-line method with no residual value.

(15) Construction contracts

On December 27, 2007, ASBJ issued ASBJ Practical Issues Task Force (PITF) No.15 "Accounting Standard for Construction Contracts" and ASBJ Guidance No.18 "Guidance on Accounting Standard for Construction Contracts".
PITF No.15 and ASBJ Guidance No.18 requires that the percentage of completion method shall be applied if the extent of progress toward the construction contract or contractor contract to build machineries is dependable, otherwise the completed contract method shall be applied.
The percentage of completion at the end of the reporting period shall be estimated based on a method that can rationally reflect the percentage of performance of the contractor's obligation at the end of the reporting period in comparison with the whole obligation of the contractor as promised in the contract(for example, the percentage of the cost incurred to the estimated total cost).
Under previous Accounting Standard, the Company applied completed contract method.
The Company adopted this accounting standard from the year ended March 31, 2010.
The adaption of this accounting standard had no effect on operating income and income before income taxes and minority interests in the year ended March 31, 2010, because there is no construction contract or contractor contract in the current fiscal year.

(16) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(17) Consumption tax

Consumption tax is imposed at the flat rate of 5% on all domestic consumption of goods and services (with certain exemptions). The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is shown in the accompanying consolidated balance sheets as "Other current liabilities".

(18) Related party disclosures

On October 17, 2006, ASBJ issued ASBJ Practical Issues Task Force (PITF) No.11"Accounting Standard for Related party disclosures".
The Company has adopted this accounting standard from the year ended March 31, 2009.

(19) Reclassification of accounts

Certain prior year amounts have been reclassified to conform to the current year's presentation.

3. United States dollar amounts

The Company maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥93.04 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2010. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥93.04 = U.S.$1 or at any other rate.

4. Supplementary cash flow information

(1) Cash and cash equivalents as of March 31, 2009 and 2010 are reconciled to accounts reported in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Cash and time deposits	¥ 5,185	¥ 5,549	$ 59,637
Time deposits with maturity of more than three months	(95)	(180)	(1,938)
Cash and cash equivalents	¥ 5,090	¥ 5,369	$ 57,699

(2)Material nonmonetary transactions for the year ended March 31, 2009

Amount of leased assets and lease obligations recognized for the year ended March 31, 2009 were ¥125 million and ¥132 million, respectively.

5. Investments in securities

(1) The book value and aggregate fair market value of the securities classified as held-to-maturity debt securities for which market quotations at March 31, 2009, and 2010 were as follows:

	Millions of yen		
	2009		
Description	Book value	Fair market value	Unrealized gain or loss
Fair market value does not exceed book value			
Government and municipal bonds	¥ 0	¥ 0	¥ 0
Total	¥ 0	¥ 0	¥ 0

	Millions of yen		
	2010		
Description	Book value	Fair market value	Unrealized gain or loss
Fair market value does not exceed book value			
Government and municipal bonds	¥ 0	¥ 0	¥ 0
Total	¥ 0	¥ 0	¥ 0

	Thousands of U.S. dollars (Note 3)		
	2010		
Description	Book value	Fair market value	Unrealized gain or loss
Fair market value does not exceed book value			
Government and municipal bonds	$ 1	$ 1	$ 0
Total	$ 1	$ 1	$ 0

(2) The cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2009 and 2010 were as follows:

	Millions of yen		
	2009		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 9,158	¥ 15,704	¥ 6,546
Sub total	¥ 9,158	¥ 15,704	¥ 6,546
Fair market value does not exceed acquisition cost			
Stocks	¥ 4,720	¥ 3,468	¥ (1,252)
Others	48	43	(5)
Sub total	¥ 4,768	¥ 3,511	¥ (1,257)
Total	¥ 13,926	¥ 19,215	¥ 5,289

	Millions of yen		
	2010		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 10,628	¥ 21,366	¥ 10,738
Bonds	10	10	0
Sub total	¥ 10,638	¥ 21,376	¥ 10,738
Fair market value does not exceed acquisition cost			
Stocks	¥ 3,200	¥ 2,302	¥ (898)
Others	46	44	(2)
Sub total	¥ 3,246	¥ 2,346	¥ (900)
Total	¥ 13,884	¥ 23,722	¥ 9,838

Description	Thousands of U.S. dollars (Note 3) 2010 Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	$ 114,235	$ 229,639	$ 115,404
Bonds	105	105	0
Sub total	$ 114,340	$ 229,744	$ 115,404
Fair market value does not exceed acquisition cost			
Stocks	$ 34,393	$ 24,742	$ (9,651)
Others	490	472	(18)
Sub total	$ 34,883	$ 25,214	$ (9,669)
Total	$ 149,223	$ 254,958	$ 105,735

The Company recorded impairment loss on the investment in securities in the amount of ¥1,116 million at March 31, 2009, and ¥66 million (US$715 thousand) at March 31, 2010 respectively. Impairment losses are recorded for securities whose fair values have declined by 50% or more over or for those that have declined in range of 30% to 50% if the decline is deemed to be irrecoverable.

(3) Available-for-sale securities sold during the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Proceeds from sale of available-for-sale securities	¥ 506	¥ 8	$ 84
Realized gain	7	3	27
Realized loss	154	-	-

(4) The book value of major securities without fair value as of March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Unlisted stocks	¥ 656	¥ 759	$ 8,159
Fund certificates	5	5	58

(5) Schedule for redemption of investments in securities with maturities as of March 31, 2009 was as follows:

	Millions of yen			
	2009			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Government and municipal bonds	¥ -	¥ 0	¥ -	¥ -

6. Financial instruments

On March 10, 2008, the ASBJ issued revised ASBJ Statement No.10 “Accounting Standard for Financial Instruments” and ASBJ Guidance No.19 “Guidance on Disclosures about Fair Value of Financial Instruments”. The revised accounting standard and new guidance shall be applied to financial instruments and related disclosures after the end of fiscal years ending on or after March 31, 2010. The Company has adopted the revised accounting standard and new guidance from the year ended March 31, 2010.

(1) Policy for financial instruments
In consideration of plans for capital investment, the Company and its consolidated subsidiaries (collectively, the “Group”) raise funds through bank borrowings. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk and risk management system
Trade receivables—Trade notes and accounts receivable—are exposed to credit risk in relation to customers.
In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships, or affiliated companies.
Regarding the shares of common stock of other listed companies, the Group evaluates market value quarterly to reduce fluctuation risk.
The Group has also loans receivable from other companies with which it has business relationships.
Short-term borrowings are raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments.
Long-term debt with variable interest rates is exposed to interest rate fluctuation risk.
However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as hedging instruments.
The group policy for derivative and hedge accounting is indicated in Note 14 “Derivative

financial instruments".

(3)Supplemental information on the fair value of financial instruments
The Group calculates the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors and are subject to fluctuation due to changes in underlying assumptions. The contract amounts of the derivatives indicated in Note 14 "Derivative financial instruments"are not an indicator of the market risk associated with derivatives transactions.

(4) Fair value of financial instruments
The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheet as of March 31, 2010 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2010		
	Carrying value	Estimated fair value	Difference
Assets			
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥ 29,574	¥ 29,574	¥ -
Available-for-sale securities	¥ 23,721	¥ 23,721	¥ 0
Liabilities			
Notes and accounts payable	¥ 20,072	¥ 20,072	¥ -
Short-term bank borrowings	¥ 6,422	¥ 6,422	¥ -
Long-term borrowings from banks and other financial institutions	¥ 14,372	¥ 14,418	¥ (46)
Derivative transactions	¥ -	¥ -	¥ -

	Thousands of U.S. dollars (Note 3)		
	2010		
	Carrying value	Estimated fair value	Difference
Assets			
Trade notes and accounts receivable (less allowance for doubtful accounts)	$ 317,864	$ 317,864	$ -
Available-for-sale securities	$ 254,959	$ 254,959	$ 0
Liabilities			
Notes and accounts payable	$ 215,734	$ 215,734	$ -
Short-term bank borrowings	$ 69,027	$ 69,027	$ -
Long-term Borrowings from banks and other financial institutions	$ 154,470	$ 154,970	$ (500)
Derivative transactions	$ -	$ -	$ -

Financial instruments for which it is extremely difficult to determine the fair value

	Millions of yen	Thousands of U.S. dollars (Note 3)
	2010	2010
Unlisted stock	¥ 1,407	$ 15,120
Fund certificate	¥ 5	$ 58

These items are not included in short-term investments in securities and investments in securities because the fair values are not readily determinable as market prices do not exist.

The carrying value of monetary assets as of March 31, 2010 is as follows;

	Millions of yen			
	2010			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Notes and Account receivable	¥ 29,803	¥ -	¥ -	¥ -
Held to maturity securities				
Governmental and Municipal bond	¥ 0	¥ -	¥ -	¥ -
Available for sale securities				
Governmental and Municipal bond	¥ -	¥ 10	¥ -	¥ -

	Thousands of U.S. dollars (Note 3)			
	2010			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Notes and Account receivable	$ 320,320	$ -	$ -	$ -
Held to maturity securities				
Governmental and Municipal bond	$ 1	$ -	$ -	$ -
Other securities which has maturity				
Governmental and Municipal bond	$ -	$ 107	$ -	$ -

7. Short-term bank loans and long-term debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks with a weighted average interest rate of 1.14% at March 31, 2009, and 0.95% at March 31, 2010.

Long-term debt as of March 31, 2009 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Loans, principally from banks and insurance companies, due fiscal 2010 to 2023 with average interest rates of 1.71% at March 31, 2009, and 1.43% at March 31, 2010	¥ 14,807	¥ 14,371	$ 154,470
Less: Current maturities of:			
Long-term loans	5,446	1,440	15,482
	¥ 9,361	¥ 12,931	$ 138,988

Aggregate annual maturities of long-term debt subsequent to March 31, 2010 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 3)
2012	¥ 5,936	$ 63,795
2013	6,375	68,521
2014	463	4,973
2015	156	1,681
2016 and thereafter	2	18
	¥ 12,931	$ 138,988

The Company's assets pledged as collateral for long-term loans and to obtain credit from banks, other financial institutions (including current maturity), and suppliers of ¥1,763 million at March 31, 2009, and ¥1,471 million (US$15,812 thousand) at March 31, 2010 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Marketable securities	¥ 11	¥ 21	$ 231
Property, plant and equipment at book value	15,218	17,375	186,751
	¥ 15,229	¥ 17,396	$ 186,982

8. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2009 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Delivery and storage charges	¥ 4,098	¥ 4,054	$ 43,572
Salaries and bonuses	7,464	7,218	77,579
Retirement benefit costs	569	784	8,431
Retirement benefit costs for directors	78	88	947
Retirement benefit costs for officers	40	39	423
Research and development costs	5,599	5,497	59,085
Amortization of goodwill	0	41	442
Accrued bonuses	779	905	9,730
Allowance for doubtful accounts	39	12	132

9. Research and development costs

Research and development costs for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Research and development costs	¥ 6,352	¥ 6,270	$ 67,395

10. Net Assets

Information regarding changes in net assets for the years ended March 31, 2009 and 2010 is as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	Number of shares at March 31, 2009	Increase	Decrease	Number of shares at March 31, 2010
Common stock	196,682	-	-	196,682
Treasury stock	4,988	46	7	5,028

(2) Cash dividends

Appropriations are not accrued in the consolidated financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained.

Dividends paid for the year ended March 31, 2010

		Millions of yen	Thousands of U.S. dollars (Note 3)	Yen	U.S. dollars (Note 3)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
Meeting of the Board of Directors on June 26, 2009	Common stock	¥ 1,150	$ 12,362	¥ 6	$ 0.06
Meeting of the Board of Directors on November 5, 2009	Common stock	¥ 767	$ 8,240	¥ 4	$ 0.04

Dividends with the cut-off date in the year ended March 31, 2010 and the effective date in the year ending March 31, 2011

		Millions of yen	Thousands of U.S. dollars (Note 3)	Yen	U.S. dollars (Note 3)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
Meeting of the Board of Directors on June 29, 2010	Common stock	¥ 958	$ 10,300	¥ 5	$ 0.05

(3) Stock option

Stock Option Plan
The stock options outstanding as of March 31, 2009 are as follows:

Name		Stock Option 2003
Position and number of grantee	Directors of the Company:	9
	Employees of the Company:	17
Number of options	Common stocks of the Company:	277,000
Date of grant		July 28, 2003
Vesting period		From July 28, 2003 to July 31, 2005

There is no stock option outstanding as of March 31, 2010.

11. Income taxes

The statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2009 and 2010 was 41.0%. At March 31, 2009 and 2010, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Deferred tax assets:			
Accrued bonus	¥ 917	¥ 1,078	$ 11,591
Retirement benefit provisions	1,158	1,377	14,802
Elimination of intercompany profits	326	330	3,546
Accrued enterprise tax	42	230	2,476
Retirement benefit provisions for directors and officers	113	121	1,300

Impairment loss on investment securities	231	234	2,517
Valuation difference	321	321	3,450
Valuation loss on inventories	396	298	3,197
Others	907	1,647	17,704
	4,411	5,636	60,583
Valuation allowance	(600)	(1,305)	(14,031)
Total deferred tax assets	3,811	4,331	46,552
Deferred tax liabilities:			
Unrealized gain on investments in securities	(2,159)	(4,036)	(43,381)
Reserve for advanced depreciation of property plant and equipment	(2,749)	(2,648)	(28,461)
Prepaid pension expenses	(524)	(266)	(2,861)
Valuation differences	(2,056)	(2,102)	(22,590)
Gain on revaluation of assets trusted for retirement benefit	(838)	(838)	(9,009)
Others	(244)	(187)	(2,008)
Total deferred tax liabilities	(8,570)	(10,077)	(108,310)
Net deferred tax liabilities	¥ (4,759)	¥ (5,746)	$ (61,758)

A reconciliation of the tax rate to the Company's effective tax rate for years ended March 31, 2009 and 2010 are summarized as follows:

	2009	2010
Statutory tax rate	41.0%	41.0%
Non-deductible expenses	2.4	1.3
Tax credits	(6.8)	(6.6)
Valuation allowance	(3.4)	(1.9)
Inhabitants' per capita taxes	1.1	0.7
Equity method	1.0	1.5
Effects of Tax loss companies	-	4.1
Dividends received deduction	(0.7)	(3.0)
Other	2.1	(2.0)
Effective tax rate	36.7%	35.1%

12. Retirement benefit provisions

The Company has a pension plan (funded and non-contributory) to cover the employees (excluding directors and corporate auditors) of the Company. The benefits under this plan are determined generally by reference to the employees' average rate of pay, length of service and the conditions under which retirement occurs.

The following tables show the funded and accrued status of the employees' retirement benefits, and the amounts recognized in the consolidated balance sheets as of March 31, 2009 and 2010.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Projected benefit obligations	¥ (19,656)	¥ (20,098)	$ (216,015)
Plan assets	14,084	16,257	174,727
Unfunded projected benefit obligations	(5,572)	(3,841)	(41,288)
Unrecognized actuarial differences	8,887	6,375	68,515
Unrecognized prior service costs	(186)	(150)	(1,611)
Book value – net	3,129	2,384	25,616
Prepaid pension expenses	(6,858)	(6,298)	(67,695)
Retirement benefit provisions	¥ (3,729)	¥ (3,914)	$ (42,079)

Net pension expenses related to retirement benefits for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Service costs *1	¥ 1,166	¥ 1,216	$ 13,070
Interest costs	387	399	4,287
Expected return on plan assets	(594)	(431)	(4,634)
Amortization of actual differences	837	1,318	14,163
Amortization of prior service costs	(28)	(16)	(170)
Net pension expenses	¥ 1,768	¥ 2,486	$ 26,716

Notes:

*1 The pension expenses of consolidated subsidiaries which applied the expediency method are included in “Service costs”.

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

	2009	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	4.0%	3.5%
Amortization of unrecognized prior service costs	10 years	10 years
Amortization of unrecognized actuarial gains or losses	10 years	10 years

13. Leases

The Group leases certain machinery and equipment, and other assets. The following is information of the leases in existence at the transition date of new accounting standard adaption and accounted for as operating lease.

Total lease payments under these leases were ¥147 million and ¥110 million (US$1,177 thousand) for the years ended March 31, 2009 and 2010, respectively.

Information relating to acquisition costs, accumulated depreciation and future minimum payments for assets held under finance leases which do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended March 31, 2009 and 2010, is as follows:

	Millions of yen		
	2009		
	Furniture and fixtures	Others	Total
Acquisition costs	¥ 235	¥ 410	¥ 645
Accumulated depreciation	165	158	323
Net leased assets	¥ 70	¥ 252	¥ 322

	Millions of yen		
	2010		
	Furniture and fixtures	Others	Total
Acquisition costs	¥ 340	¥ 165	¥ 505
Accumulated depreciation	141	130	271
Net leased assets	¥ 199	¥ 35	¥ 234

	Thousands of U.S. dollars (Note 3)		
	2010		
	Furniture and fixtures	Others	Total
Acquisition costs	$ 3,657	$ 1,774	$ 5,431
Accumulated depreciation	1,518	1,392	2,910
Net leased assets	$ 2,139	$ 382	$ 2,521

Future minimum lease payments under finance leases as of March 31, 2009 and 2010 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Due within one year	¥ 114	¥ 82	$ 882
Due over one year	209	152	1,638
Total	¥ 323	¥ 234	$ 2,520

The acquisition costs and future minimum lease payments under finance leases include the interest expense portion because the amount of accrued lease payments was immaterial to the balance of property, plant and equipment as of March 31, 2009 and 2010.

The depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed using the straight-line method, would have been ¥148 million and ¥110 million (US$1,177 thousand) for the years ended March 31, 2009 and 2010, respectively.

Obligations under non-cancelable operating leases as of March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Due within one year	¥ 54	¥ 42	$ 451
Due after one year	209	179	1,928
Total	¥ 263	¥ 221	$ 2,379

14. Derivative financial instruments

The Group uses derivative financial instruments, which comprise principally forward exchange contracts and interest rate swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Group has established a control environment, which includes policies and procedures for the approval and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties to the currency and interest. However, the Group does not anticipate non-performance by any of these counterparties all of whom are domestic financial institutions with high credit ratings.

The Company doesn't enter derivative contract which doesn't meet hedge accounting criteria.
Summarized below are derivative transactions which meet hedge accounting criteria.

	Millions of yen		
	2010		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	¥ 6,300	¥ 6,300	¥ -

	Thousands of U.S. dollars (Note 3)		
	2010		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	¥ 67,713	¥ 67,713	¥ -

Difference between fair market value of interest rate swap and book value of interest rate swap is included in the fair market value of long-term loans payable.

15. Commitments and contingencies

(1) As of March 31, 2009 and 2010, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥ 310	¥ 169	$ 1,814
Shanghai NDS CO., LTD	25	55	591
Others	0	0	1
	¥ 335	¥ 224	$ 2,406

(2) As of March 31, 2009 and 2010, the Company was contingently liable for the conditional assignment of ¥1,338 million at 2009 and ¥2,536 million (US$27,260 thousand) at 2010 of trade notes and accounts receivable with recourse obligation.

(3) As of March 31, 2009 and 2010, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥110 million at 2009 and ¥157 million (US$1,690 thousand) at 2010.

(4) As of March 31, 2009 and 2010, the Company has unused commitment agreements amounting to ¥10,000 million at 2009 and ¥10,000 million (US$107,481 thousand) at 2010 with banks and other financial institutions.

16. Per share information

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

	Yen		U.S. dollars (Note 3)
	2009	2010	2010
Per share:			
Net income - basic	¥ 12.2	¥ 18.3	$ 0.20
Net income - diluted	12.2	18.3	0.20
Cash dividends applicable to the year	11.0	10.0	0.11
Net assets	429.21	453.29	4.87

Basis for calculating net income per share:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Net income per share			
Net income	¥ 2,382	¥ 3,501	$ 37,625
Amount not available to shareholders			
Earnings appropriated for directors' bonuses	-	-	-
Net income related to common stock	¥ 2,382	¥ 3,501	$ 37,625
Average number of shares outstanding (1,000 shares)	194,889	191,674	191,674
Net income per share (diluted)			
Net income adjustment	-	-	-
Stock options (1,000 shares)	3	-	-
Increase in number of shares (1,000 shares)	3	-	-
Shares not included in diluted net income per share calculation due to lack of dilution effect (1,000 shares)	277	277	-

17. Deferred income tax on property, plant and equipment

Deferred income tax on property, plant and equipment for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Buildings and structures	¥ 516	¥ 511	$ 5,494
Machinery and equipment	389	387	4,154
Other	17	16	174
Total	¥ 922	¥ 914	$ 9,822

18. Goodwill

As of March 31, 2009 and 2010, goodwill included in “Intangible assets” amounted to ¥1 million and ¥368 million (US$3,954 thousand), respectively.
As of March 31, 2009 and 2010, negative goodwill included in other “Other long-term liabilities” amounted to ¥1 million and ¥0 million (US$4 thousand), respectively.

19. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2009 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Investments in securities	¥ 1,363	¥ 648	$ 6,961
Capital contribution	61	61	651
Total	¥ 1,424	¥ 709	$ 7,612

Notes to Consolidated Financial Statements
For the years ended March 31, 2009 and 2010

20. Segment information

(1) Business segments

As of March 31, 2009 and 2010, the Group operates principally in the following business segments categorized based on similarity of products and markets.

(Millions of yen)

2009	Oleo chemicals & foods	Chemicals	Explosive & propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	¥ 63,767	¥ 52,420	¥ 33,057	¥ 1,077	¥ 150,321	¥ -	¥ 150,321
Inter-segment	149	2,855	73	7,174	10,251	(10,251)	-
Total	63,916	55,275	33,130	8,251	160,572	(10,251)	150,321
Operating expenses	65,055	52,119	31,486	8,299	156,959	(10,261)	146,698
Operating income (loss)	¥ (1,139)	¥ 3,156	¥ 1,644	¥ (48)	¥ 3,613	¥ 10	¥ 3,623
Assets	¥ 48,173	¥ 44,122	¥ 47,702	¥ 2,478	¥ 142,475	¥ 20,075	¥ 162,550
Depreciation	2,239	3,405	1,790	126	7,560	-	7,560
Capital expenditure	¥ 1,303	3,603	1,529	68	6,503	-	6,503

2010	Oleo chemicals & foods	Chemicals	Explosive & propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	¥ 61,017	¥ 48,165	¥ 33,309	¥ 894	¥ 143,385	¥ -	¥ 143,385
Inter-segment	264	2,412	28	6,918	9,622	(9,622)	-
Total	61,281	50,577	33,337	7,812	153,007	(9,622)	143,385
Operating expenses	59,790	47,882	31,936	7,793	147,401	(9,626)	137,775
Operating income	¥ 1,491	¥ 2,695	¥ 1,401	¥ 19	¥ 5,606	¥ 4	¥ 5,610
Assets	¥ 43,150	¥ 43,967	¥ 45,563	¥ 2,629	¥ 135,309	¥ 24,103	¥ 159,412
Depreciation	2,129	3,536	1,875	105	7,645	-	7,645
Capital expenditure	966	2,133	1,655	26	4,780	-	4,780

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2009 and 2010

(Thousands of U.S.dollars (Note 3))

	2010						
	Oleo chemicals & foods	Chemicals	Explosive & propulsion	Others	Total	Elimination/ Corporate	Consolidated
Sales							
Sales to customers	$ 655,815	$ 517,684	$ 358,003	$ 9,608	$ 1,541,110	$ -	$ 1,541,110
Inter-segment	2,834	25,927	304	74,355	103,420	(103,420)	-
Total	658,649	543,611	358,307	83,963	1,644,530	(103,420)	1,541,110
Operating expenses	642,626	514,634	343,249	83,762	1,584,271	(103,460)	1,480,811
Operating income	$ 16,023	$ 28,977	$ 15,058	$ 201	$ 60,259	$ 40	$ 60,299
Assets	$ 463,774	$ 472,556	$ 489,716	$ 28,253	$ 1,454,299	$ 259,062	$ 1,713,361
Depreciation	22,887	38,009	20,156	1,134	82,186	-	82,186
Capital expenditure	10,380	22,928	17,787	285	51,380	-	51,380

The Company's business are segmented into "Oleo chemicals & foods", "Chemicals", "Explosive & propulsion" and "Others" based on their similarity of the type of products and sales markets.
The main products or services of each segment are as follows.

1. Oleo chemicals & foods --- fatty acids, fatty acid derivatives, surfactants, edible oils, health-related products
2. Chemicals --- organic peroxides, polybutene, ethylene oxide and propylene oxide derivatives, functional polymers, materials for anti corrosion
3. Explosive & propulsion --- industrial explosives, rocket propellant, automotive safety devices, defense-related explosives
4. Others --- logistics, real estate services

The amounts of assets included in the column "Elimination/Corporate" are ¥21,665 million and ¥26,049 million (US$279,978 thousand) for the years ended March 31, 2009 and 2010, respectively, which includes surplus working funds (cash and securities), long-term investment funds (investments in securities), and deferred tax assets.

As described in Note 2(9), effective the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2008 due to the revision of Japanese Corporate Tax Law and its regulation. As a result, operating expenses increased by ¥70 million in Oleo chemicals & foods, ¥94 million in Chemicals, ¥31 million in Explosive & propulsion, and ¥0 million in Others, compared to the amounts that would have been reported if the previous methods had been applied consistently, and operating income decreased by the same amounts for the year ended March 31, 2009.

As described in Note 2(8), effective the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries applied the new accounting standard for measurement of inventories. As a result, operating expenses increased by ¥358 million in Oleo chemicals & foods, ¥447 million in Chemicals, and ¥141 million in Explosive & propulsion, compared to the amounts that would have been reported if the previous methods has been applied consistently, and operating income decreased by the same amounts for the year ended March 31, 2009.

Under the previous accounting standard, the Company classified prior year's loss on disposal of obsolete inventory items as a non-operating expense which arises from the ordinary course of business. For the year ended March 31, 2009, as the result of application of the new accounting standard for measurement of inventories, the Company classifies the expense as cost of goods sold.
As a result, operating expenses for the year ended March 31, 2009, increased by ¥52 million in Oleo chemicals & foods, ¥40 million in Chemicals, ¥50 million in Explosive & propulsion, and ¥4 million in Others, respectively, compared to the amounts that would have been reported if the previous methods had been applied consistently, and operating income decreased by the same amounts for the year ended March 31, 2009.

As described in Note 2(3), effective the year ended March 31, 2010, the Company changed the translation method of foreign subsidiaries.
As a result, net sales decreased by ¥34 million ($361 thousand) in Oleo chemicals & foods, and increased in ¥50 million ($541 thousand) in Chemicals, operating profit decreased by ¥30 million ($327 thousand) in Oleo chemicals & foods, and decreased in ¥22 million ($232 thousand) in Chemicals compared to the amounts that would have been reported if the previous methods has been applied consistently for the year ended March 31, 2010.

(2) Geographical segments

Segment information classified by geographic area (inside and outside Japan) for the years ended March 31, 2009 and 2010 is as follows:

(Millions of yen)

	2009				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	¥ 137,871	¥ 12,450	¥ 150,321	¥ -	¥ 150,321
Inter-segment	3,314	373	3,687	(3,687)	-
Total	141,185	12,823	154,008	(3,687)	150,321
Operating expenses	137,905	12,557	150,462	(3,764)	146,698
Operating income	¥ 3,280	¥ 266	¥ 3,546	¥ 77	¥ 3,623
Assets	¥ 138,137	¥ 9,003	¥ 147,710	¥ 15,410	¥ 162,550

	2010				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	¥ 132,518	¥ 10,867	¥ 143,385	¥ -	¥ 143,385
Inter-segment	2,797	211	3,008	(3,008)	-
Total	135,315	11,078	146,393	(3,008)	143,385
Operating expenses	129,421	11,447	140,868	(3,094)	137,774
Operating income	¥ 5,894	¥ (369)	¥ 5,525	¥ 86	¥ 5,611
Assets	¥ 130,677	¥ 9,814	¥ 140,491	¥ 18,920	¥ 159,411

(Thousands of U.S. dollars (Note 3)

	2010				
	Japan	Others (Note 1)	Total	Elimination/ Corporate	Consolidated
Sales					
Sales to customers	$ 1,424,312	$ 116,798	$ 1,541,110	$ -	$ 1,541,110
Inter-segment	30,059	2,270	32,329	(32,329)	-
Total	1,454,371	119,068	1,573,439	(32,329)	1,541,110
Operating expenses	1,391,026	123,034	1,514,060	(33,250)	1,480,810
Operating income	$ 63,345	$ (3,966)	$ 59,379	$ 921	$ 60,300
Assets	$ 1,404,528	$ 105,483	$ 1,510,011	$ 203,349	$ 1,713,360

Others represent --- North America, Europe, and Asia

As described in Note 2(9), effective the year ended March 31, 2009, the Company and its consolidated domestic subsidiaries changed the depreciation method for the property, plant and equipment acquired on or after April 1, 2008 due to the revision of Japanese Corporation Tax Law and its regulation. As a result, operating expenses increased by ¥133 million and operating income decreased by the same amounts in Japan for the year ended March 31, 2009, compared to the amounts that would have been reported if the previous methods had been applied.

As described in Note 2(8), effective the year ended march 31, 2009, the Company and its consolidated domestic subsidiaries applied the new accounting standard for measurement of inventories. As a result, operating expenses increased by ¥946 million and operating income decreased by the same amounts in Japan for the year ended march 31, 2009, compared to the amounts that would have been reported if the previous methods had been applied.

Under the previous accounting standard, the Company classified prior year’s loss on disposal of obsolete inventory items as a non-operating expense which arises from the ordinary course of business. For the year ended March 31, 2009, as the result of

application of the new accounting standard for measurement of inventories, the Company classifies the expense as cost of goods sold.
As a result, operating expenses for the year ended March 31, 2009, increased by ¥146 million in Japan, and ¥0 million in Others, respectively, compared to the amounts that would have been reported if the previous methods had been applied consistently, and operating income decreased by the same amounts for the year ended March 31, 2009.

As described in Note 2(3), effective the year ended March 31, 2010, the Company changed the translation method of foreign subsidiaries.
As a result, net sales increased by ¥17 million ($180 thousand) in Others, operating profit decreased by ¥52 million ($560 thousand) in Others compared to the amounts that would have been reported if the previous methods has been applied consistently for the year ended march 31, 2010.

(3) Sales to foreign customers

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2009	2010	2010
Overseas sales	¥ 22,671	¥ 21,881	$ 235,173
Consolidated sales	150,321	143,385	1,541,110
Ratio	15.08%	15.26%	

Overseas sales represents … North America, Europe and Asia

As described in Note 2(3), effective the year ended March 31, 2010, the Company changed the translation method of foreign subsidiaries.
As a result, net sales increased by ¥17 million ($180 thousand) compared to the amounts that would have been reported if the previous methods has been applied consistently for the year ended march 31, 2010.

21. Business combinations

Transactions under common control during the year ended March 31, 2010.

(1)Merger of Yuka Sangyo Co,. Ltd. and Nichiyu Solution Inc.
On April 1, 2010, Yuka Sangyo Co., Ltd. a wholly owned subsidiary of the Company merged with Nichiyu Solution Inc.
1) Name and business of combined entity
Yuka Sangyo Co., Ltd.
(Distribution of functional chemical products, oleo and specialty chemicals)
Nichiyu Solution Inc.
(Distribution of oleo and specialty chemicals)

2) Legal form of the combination
Yuka Sangyo Co., Ltd. is the surviving company and Nichiyu Solution Inc. is the dissolved company.

3) The name of company after reorganization
Yuka Sangyo Co., Ltd.

4) Outline and purpose of the transaction
The company entered this merger to strengthen management efficiency and exploit the corporate synergy to improve profitability.

5) Overview of accounting procedure
This combination was accounted for as under common control transaction in accordance with “Accounting Standard for Business Combinations” and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures”.

(2) Conversion of Korea Shamrock Co., Ltd. into wholly owned subsidiary by Nippon Dacro Shamrock Co., Ltd.
On September 30, Nippon Dacro Shamrock Co., LTD which is wholly owned subsidiary of the Company converted Korea Shamrock Co., Ltd. into wholly owned subsidiary.

1) Name and business of combined entity
Korea Shamrock Co., Ltd
(Distribution and manufacturing of functional chemical products)

2) Legal form of the combination
Through the additional acquisition in interest in Korea Shamrock Co., Ltd. by Nippon Dacro Shamrock Co., Ltd. (a wholly owned subsidiary of the Company) Nippon Dacro Shamrock Co., Ltd. became the parent company and Korea Shamrock Co., Ltd. became a wholly owned subsidiary.

3) The name of company after reorganization
Korea Shamrock Co., Ltd

4) Outline and purpose of the transaction
The company entered this merger to strengthen management under a single parent company a wholly owned subsidiary, Nippon Dacro Shamrock acquired the remaining interest owned by a minority shareholder.

5) Overview of accounting procedure
This combination was accounted for as under common control transaction in accordance with “Accounting Standard for Business Combinations” and the “Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures.”

Information concerning the additional acquisition of shares in the subsidiary.

1) Amounts of cash to be paid for the remaining shares
¥484 million ($5,202 thousand)

2) Information concerning goodwill

1) Amount of goodwill
¥407 million ($4,381 thousand)

2) Cause of the goodwill
The goodwill was calculated by the difference between the amount of the additional acquisition and the decreased amount of minority interest.

3) Amortization method
Straight line method for 5 years

22. Subsequent events

(1) Conversion of the consolidated subsidiary to a wholly owned subsidiary through a share exchange

The Company concluded an agreement to convert Nichiyu Giken Kogyo Co., Ltd. into a wholly owned subsidiary of the Company through a share exchange. The agreement was approved at the Company's Board of Directors' meeting held on May 25, 2010. The Company plans to carry out simple share exchange without obtaining approval at a shareholders' meeting, in accordance with Article 796-3 of the Japanese Corporate Law.
As a result of the share exchange, the Company became a wholly parent company and the common stock of Nichiyu Giken Kogyo Co., Ltd. was delisted from the JASAQ Stock Exchange on August 27, 2010.

1) Name and business description of the companies under taking a business combination
NOF Corporation
(Distribution and manufacturing of functional chemical products, oleo and specialty chemicals, explosives and propulsion products)
Nichiyu Giken Kogyo Co., Ltd.
(Distribution and manufacturing of explosives and propulsion products)

2) Legal form of the business combination
Share exchange

3) Overview of transaction including its objectives
The Company and Nichiyu Giken Kogyo have exploited synergies for a long time. However, further the economic environment has changed significantly.
In order to further expand our business, it is essential to sharpen the effective use of management resource and enhance the flexibility and responsiveness of management decision making. The Company will allot common stock held in treasury to shareholders of Nichiyu Giken Kogyo Co., Ltd. in exchange for their shares of

Nichiyu Giken Kogyo Co., Ltd.. As a result of the share exchange, the Company became a wholly parent company and the common stock of Nichiyu Giken Kogyo Co., Ltd. was delisted from the JASAQ Stock Exchange on August 27, 2010.

4) Summary of accounting procedure

The company adopted the accounting procedures for a commonly-controlled business combination based on the accounting standards, "Accounting Standard for Business Combination" issued by Business Accounting Standard for Business Divestitures (Guidance No.10 issued by the ASBJ on December 27, 2005).

5) Information concerning the additional acquisition of shares in the subsidiaries

Exchange ratio for each type of shares and approach to calculating the exchange ratio

Type of shares and the exchange ratio

Under the contract, 4.3 shares of the Company's common stock will be allotted for each share of Nichiyu Giken Kogyo Co., Ltd.

Method for calculating the exchange ratio

The Company and Nichiyu Giken Kogyo Co., Ltd. decided on the exchange ratio after considerable study based on analysis and advice from independent advisors on calculating the share exchange ratio.

6) Date of share exchange

Expected date of the share exchange (Effective date): September 1, 2010

(2)Approval of transaction in treasury shares

At a meeting of the Board of Directors of the Company held on May 25, 2010, the Company approved a purchase of up to 1,844,270 shares of treasury stock for an aggregate acquisition cost not exceeding ¥1,033 million($11,101 thousand) for the purpose of share exchange to acquire additional share of Nichiyu Giken Kogyo Co., Ltd. and also approved a purchase of up to 3,155,730 shares of treasury stock for am aggregate acquisition cost not exceeding ¥1,767 million($18,994 thousand) for the purpose of strategic financial position during the period from May 26, 2010 to September 30, 2010.