NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2012 and 2011

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Independent Auditor's Report

The Board of Directors
NOF CORPORATION

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOF CORPORATION and its consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 28, 2012

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheets
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
ASSETS			
Current assets:			
Cash and time deposits (Note 4)	¥ 6,751	¥ 6,714	$ 82,143
Notes and accounts receivable (Notes 6 and 25)	32,002	30,089	389,370
Allowance for doubtful accounts	(183)	(192)	(2,226)
	31,819	29,897	387,144
Inventories (Note 24)	28,286	27,468	344,146
Deferred tax assets (Note 11)	2,042	2,347	24,849
Other current assets (Note 5)	2,223	2,306	27,047
Total current assets	71,121	68,732	865,329
Property, plant and equipment (Notes 7 and 17):			
Land	19,580	19,606	238,231
Buildings and structures	59,728	57,681	726,703
Machinery, equipment and vehicles	91,057	89,371	1,107,883
Construction in progress	998	1,687	12,139
Leased assets	464	386	5,650
Others	14,037	13,867	170,791
Accumulated depreciation	(131,237)	(127,505)	(1,596,749)
Total property, plant and equipment	54,627	55,093	664,648
Investments and other assets:			
Investments in securities (Notes 5 and 6)	22,846	22,584	277,967
Deferred tax assets (Note 11)	435	434	5,288
Intangible assets (Note 18)	762	1,132	9,276
Prepaid pension expenses (Note 12)	4,975	5,917	60,523
Other assets	1,489	1,429	18,118
Total investments and other assets	30,507	31,496	371,172
Total assets	¥ 156,255	¥ 155,321	$ 1,901,149

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheets (continued)
As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 6 and 7)	¥ 8,306	¥ 5,953	$ 101,066
Current portion of long-term debt (Notes 6 and 7)	7,475	4,743	90,950
Notes and accounts payable (Notes 6 and 25)	20,882	20,808	254,065
Accrued expenses	4,241	4,335	51,602
Income taxes payable	1,961	2,966	23,854
Deposits received	4,137	3,622	50,333
Lease obligations	97	263	1,179
Other current liabilities (Note 11)	4,537	3,633	55,197
Total current liabilities	51,636	46,323	628,246
Long-term liabilities:			
Long-term debt (Notes 6 and 7)	698	8,102	8,497
Deferred tax liabilities (Note 11)	5,701	6,886	69,365
Retirement benefit provisions (Note 12)	3,948	3,918	48,038
Retirement benefit provisions for directors	191	197	2,327
Retirement benefit provisions for officers	78	98	942
Lease obligations	248	132	3,021
Other long-term liabilities (Note 18)	548	493	6,664
Total long-term liabilities	11,412	19,826	138,854
Commitments and contingencies (Note 15)			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 783,828,000 shares at March 31, 2012 and 2011			
Issued: 186,682,752 shares and 191,682,752 shares at March 31, 2012 and 2011, respectively	17,742	17,742	215,866
Capital surplus	15,113	15,113	183,883
Retained earnings	57,814	54,129	703,411
Treasury stock, at cost	(1,255)	(1,310)	(15,266)
Total shareholders' equity	89,414	85,674	1,087,894
Accumulated other comprehensive income			
Unrealized gain on other securities	5,190	4,588	63,146
Foreign currency translation adjustments	(2,040)	(1,678)	(24,815)
Total accumulated other comprehensive income	3,150	2,910	38,331
Minority interests	643	588	7,824
Total net assets	93,207	89,172	1,134,049
Total liabilities and net assets	¥ 156,255	¥ 155,321	$ 1,901,149

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statements of Income
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Net sales	¥ 152,364	¥ 154,122	$ 1,853,806
Cost of sales (Notes 9 and 13)	113,110	114,757	1,376,201
Gross profit	39,254	39,365	477,605
Selling, general and administrative expenses (Notes 8, 9 and 13)	28,091	28,797	341,786
Operating income	11,163	10,568	135,819
Other income (expenses):			
Interest and dividend income	706	625	8,584
Interest expenses	(247)	(254)	(3,006)
Gain on sale of fixed assets (Note 26)	7	0	87
Loss on retirement of fixed assets (Note 27)	(111)	(98)	(1,345)
Gain on sale of investments in securities	0	0	0
Impairment loss on investments in securities	(0)	(506)	(1)
Foreign exchange loss, net	(119)	(148)	(1,444)
Impairment loss on fixed assets (Note 23)	(92)	(696)	(1,129)
Loss on disposal of property, plant and equipment (Note 28)	(300)	-	(3,655)
Settlement package	(225)	-	(2,737)
Compensation income	-	203	-
Gain on negative goodwill	-	948	-
Loss on disaster (Note 22)	(261)	(344)	(3,178)
Others, net	415	313	5,066
	(227)	43	(2,758)
Income before income taxes and minority interests	10,936	10,611	133,061
Income taxes (Note 11)			
Current	4,088	4,429	49,739
Deferred	(541)	(800)	(6,584)
	3,547	3,629	43,155
Income before minority interests	7,389	6,982	89,906
Minority interests	(70)	(95)	(854)
Net income	¥ 7,319	¥ 6,887	$ 89,052

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statements of Comprehensive Income
For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Income before minority interests	¥ 7,389	¥ 6,982	$ 89,906
Other comprehensive income (Note 21)			
Net unrealized holding gains (losses) on other securities	601	(1,216)	7,312
Foreign currency translation adjustments	(367)	(659)	(4,473)
Total other comprehensive income	233	(1,875)	2,839
Comprehensive income (Note 21)	7,623	5,107	92,745
Comprehensive income attributable to minority interests	63	80	771
Comprehensive income attributable to NOF Corporation	7,559	5,027	91,974

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, 2012 and 2011

	Number of shares of common stock (thousands)	Millions of yen Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interests	Total net assets
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
Net income	-	-	-	6,887	-	6,887	-	-	-	-	6,887
Cash dividends	-	-	-	(1,732)	-	(1,732)	-	-	-	-	(1,732)
Purchase of treasury stock	-	-	-	-	(3,964)	(3,964)	-	-	-	-	(3,964)
Disposal of treasury stock	-	-	(365)	-	2,743	2,378	-	-	-	-	-
Retirement of treasury stock	(5,000)	-	-	(2,054)	2,054	-	-	-	-	-	2,378
Transfer of loss on disposal of treasury stock	-	-	365	(365)	-	-	-	-	-	-	-
Net change in items other than shareholders' equity	-	-	-	-	-	-	(1,217)	(643)	(1,860)	(3,348)	(5,208)
Balance at March 31, 2011	191,683	¥ 17,742	¥ 15,113	¥ 54,129	¥ (1,310)	¥ 85,674	¥ 4,588	¥ (1,678)	¥ 2,910	¥ 588	¥ 89,172
Net income	-	-	-	7,319	-	7,319	-	-	-	-	7,319
Cash dividends	-	-	-	(1,681)	-	(1,681)	-	-	-	-	(1,681)
Purchase of treasury stock	-	-	-	-	(1,898)	(1,898)	-	-	-	-	(1,898)
Disposal of treasury stock	-	-	(0)	-	0	0	-	-	-	-	-
Retirement of treasury stock	(5,000)	-	-	(1,953)	1,953	-	-	-	-	-	
Transfer of loss on disposal of treasury stock	-	-	0	(0)	-	-	-	-	-	-	-
Net change in items other than shareholders' equity	-	-	-	-	-	-	602	(362)	240	55	295
Balance at March 31, 2012	186,683	¥ 17,742	¥ 15,113	¥ 57,814	¥ (1,255)	¥ 89,414	¥ 5,190	¥ (2,040)	¥ 3,150	¥ 643	¥ 93,207

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 3) Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Total accumulated other comprehensive income	Minority interest	Total net assets
Balance at March 31, 2011	191,683	$ 215,866	$ 183,883	$ 658,588	$ (15,950)	$ 1,042,387	$ 55,825	$ (20,416)	$ 35,409	$ 7,161	$ 1,084,957
Net income	-	-	-	89,052	-	89,052	-	-	-	-	89,052
Cash dividends	-	-	-	(20,454)	-	(20,454)	-	-	-	-	(20,454)
Purchase of treasury stock	-	-	-	-	(23,095)	(23,095)	-	-	-	-	(23,095)
Disposal of treasury stock	-	-	(1)	-	5	4	-	-	-	-	4
Retirement of treasury stock	(5,000)	-	-	(23,774)	23,774	-	-	-	-	-	-
Transfer of loss on disposal of treasury stock	-	-	1	(1)	-	-	-	-	-	-	-
Net change in items other than shareholders' equity	-	-	-	-	-	-	7,321	(4,399)	2,922	663	3,585
Balance at March 31, 2012	186,683	$ 215,866	$ 183,883	$ 703,411	$ (15,266)	$ 1,087,894	$ 63,146	$ (24,815)	$ 38,331	$ 7,824	$ 1,134,049

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, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 10,936	¥ 10,611	$ 133,061
Adjustments for:			
Depreciation	6,446	7,302	78,424
Impairment loss on fixed assets	92	696	1,129
Gain on negative goodwill	-	(948)	-
Net change in retirement benefit provisions	976	399	11,873
Interest and dividend income	(706)	(625)	(8,584)
Interest expenses	247	254	3,006
(Gain) loss on sale of properties	(7)	5	(87)
Impairment loss on investments in securities	0	506	1
Gain on sale of investments in securities	(0)	(0)	(0)
Gain on sale of stocks of subsidiaries and affiliates	(3)	-	(39)
Loss on disaster	261	344	3,178
Office transfer expenses	121	-	1,476
Settlement package	225	-	2,737
Increase in notes and accounts receivable	(2,016)	(695)	(24,527)
Increase in inventories	(922)	(1,394)	(11,221)
Increase in notes and accounts payable	181	996	2,203
Others, net	1,124	60	13,658
Sub total	16,955	17,511	206,288
Interest and dividends received	702	626	8,543
Interest paid	(253)	(259)	(3,072)
Payments for loss on disaster	(375)	(44)	(4,562)
Office transfer paid	(33)	-	(402)
Settlement package paid	(225)	-	(2,738)
Income taxes paid	(5,057)	(3,801)	(61,532)
Others, net	25	267	305
Net cash provided by operating activities	11,739	14,300	142,830
Cash flows from investing activities:			
Payments for purchase of investments in securities	(122)	(65)	(1,490)
Gain on sale of stocks of subsidiaries and affiliates	151	-	1,839
Proceeds from sale of investments in securities	0	0	0
Payments for purchase of property, plant and equipment	(5,601)	(4,861)	(68,144)
Proceeds from sale of property, plant and equipment	9	5	111
Net decrease in short-term loans receivable	87	85	1,063
Payments for long-term loans receivable	(16)	(7)	(199)
Proceeds from long-term loans receivable	61	123	742
Others, net	(324)	4	(3,942)
Net cash used in investing activities	(5,755)	(4,716)	(70,020)

NOF CORPORATION and Subsidiaries

Consolidated Statements of Cash Flows (continued)
For the years ended March 31, 2012 and 2011

Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	2,449	(419)	29,797
Repayments of long-term debt	(4,743)	(1,440)	(57,713)
Repayments of lease obligations	(86)	(63)	(1,041)
Payments for purchase of treasury stock	(1,898)	(3,965)	(23,095)
Proceeds from sale of treasury stock	0	4	4
Cash dividends paid	(1,681)	(1,720)	(20,453)
Cash dividends paid to minority shareholders	(6)	(53)	(72)
Net cash used in financing activities	(5,965)	(7,656)	(72,573)
Effect of exchange rate changes on cash and cash equivalents	(322)	(474)	(3,931)
Net increase (decrease) in cash and cash equivalents	(303)	1,454	(3,694)
Cash and cash equivalents at beginning of year	6,822	5,368	83,004
Cash and cash equivalents at end of year (Note 4)	¥ 6,519	¥ 6,822	$ 79,310

The accompanying notes are an integral part of these statements.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2012 and 2011

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 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. 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 IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 34 subsidiaries (majority-owned companies) as of March 31, 2012 (34 for 2011). The accompanying consolidated financial statements include the accounts of the Company and 23 of its subsidiaries (collectively, the "Group") for the year ended March 31, 2012 (23 for 2011).

The remaining 8 (10 for 2011) 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.

The above mentioned 23 majority-owned subsidiaries are listed below:

Name of subsidiaries	Percentage of voting rights owned by the Company
(Domestic subsidiaries)	%
Nippon Koki Co., Ltd.	95.0
Nichiyu Giken Kogyo Co., Ltd.	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd.	100.0
HOKKAIDO NOF CORPORATION	100.0
Nichiyu Trading Co., Ltd.	100.0
JAPEX Corp.	70.0
Showa Kinzoku Kogyo Co., Ltd.	97.3
Nippo Kogyo Co., Ltd.	93.2
Nichiyu Logistics Co., Ltd.	100.0
CACTUS Co., Ltd.	100.0
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0
NIKKA COATING Co., Ltd.	100.0
(Foreign subsidiaries)	
NOF METAL COATINGS KOREA Co., Ltd.	100.0
NOF METAL COATINGS NORTH AMERICA Inc.	100.0
MICHIGAN METAL COATINGS COMPANY	100.0
GEORGIA METAL COATINGS COMPANY	100.0
NOF METAL COATINGS EUROPE S.A.	100.0
NOF METAL COATINGS EUROPE N.V.	100.0
NOF METAL COATINGS SOUTH AMERICA Ind. E Com. Ltda.	90.0
P.T. NOF MAS Chemical Industries	89.6
Changshu NOF Chemical Co., Ltd.	100.0
NOF EUROPE (BELGIUM) N.V.	100.0

The Company and all of its consolidated subsidiaries use a fiscal year ended March 31, except for NOF METAL COATINGS ASIA PACIFIC 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.

(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, except for negative goodwill generated from the beginning of the fiscal year ended March 31, 2011, 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.

(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 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) Other 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.

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 lower of cost, determined by the total-average method, or net selling value.

(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.

(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 the 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.

(12) Retirement benefit provisions for directors

Certain 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

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of contract as the useful life.

Finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008, are accounted for as operating lease transactions.

(15) 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.

(16) Consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is included in the accompanying consolidated balance sheets in "Other current liabilities."

(17) Reclassification of accounts

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

(18) Accounting Changes and Error Corrections

Effective April 1, 2011, the Company adopted the "Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Statement No.24 issued on December 4, 2009) and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No.24 issued on December 4, 2009).

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 ¥82.19 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2012. 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 ¥82.19 = U.S.$1 or at any other rate.

4. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2012 and 2011 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Cash and time deposits	¥ 6,751	¥ 6,714	$ 82,143
Time deposits with maturity of more than three months	(379)	(143)	(4,611)
Money Market Fund	147	251	1,778
Cash and cash equivalents	¥ 6,519	¥ 6,822	$ 79,310

5. Investments in securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2012 and 2011 are as follows:

	Millions of yen		
	2012		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 10,843	¥ 19,534	¥ 8,691
Bonds	10	10	0
Sub total	¥ 10,853	¥ 19,544	¥ 8,691
Fair market value does not exceed acquisition cost			
Stocks	¥ 2,638	¥ 2,015	¥ (623)
Others	185	182	(3)
Sub total	¥ 2,823	¥ 2,197	¥ (626)
Total	¥ 13,676	¥ 21,741	¥ 8,065

	Millions of yen		
	2011		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 10,120	¥ 18,532	¥ 8,412
Bonds	10	10	0
Sub total	¥ 10,130	¥ 18,542	¥ 8,412
Fair market value does not exceed acquisition cost			
Stocks	¥ 3,231	¥ 2,597	¥ (634)
Others	292	288	(4)
Sub total	¥ 3,523	¥ 2,885	¥ (638)
Total	¥ 13,653	¥ 21,427	¥ 7,774

	Thousands of U.S. dollars (Note 3)		
	2012		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	$ 131,923	$ 237,670	$ 105,747
Bonds	120	121	1
Sub total	$ 132,043	$ 237,791	$ 105,748
Fair market value does not exceed acquisition cost			
Stocks	$ 32,102	$ 24,521	$ (7,581)
Others	2,250	2,209	(41)
Sub total	$ 34,352	$ 26,730	$ (7,622)
Total	$ 166,395	$ 264,521	$ 98,126

The Company recorded impairment losses on investments in securities in the amounts of ¥0 million (US$1 thousand) and ¥506 million for the years ended March 31, 2012 and 2011, 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.

(2) Available-for-sale securities sold during the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Proceeds from sale of available-for-sale securities	¥ 95	¥ 0	$ 1,158
Realized gain	0	0	0
Realized loss	0	-	0

(3) The book value of major securities without fair value as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Unlisted stocks	¥ 746	¥ 754	$ 9,079
Fund certificates	5	5	65

6. Financial instruments

(1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries 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 sheets as of March 31, 2012 and 2011 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen					
	2012					
	Carrying value		Estimated fair value		Difference	
Assets						
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥	31,819	¥	31,819	¥	-
Available-for-sale securities	¥	21,741	¥	21,741	¥	-
Liabilities						
Notes and accounts payable	¥	20,882	¥	20,882	¥	-
Short-term bank borrowings	¥	8,307	¥	8,307	¥	-
Long-term borrowings from banks and other financial institutions	¥	8,173	¥	8,162	¥	(11)
Derivative transactions	¥	-	¥	-	¥	-

	Millions of yen					
	2011					
	Carrying value		Estimated fair value		Difference	
Assets						
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥	29,897	¥	29,897	¥	-
Available-for-sale securities	¥	21,427	¥	21,427	¥	-
Liabilities						
Notes and accounts payable	¥	20,808	¥	20,808	¥	-
Short-term bank borrowings	¥	5,953	¥	5,953	¥	-
Long-term borrowings from banks and other financial institutions	¥	12,846	¥	12,868	¥	22
Derivative transactions	¥	-	¥	-	¥	-

	Thousands of U.S. dollars (Note 3)		
	2012		
	Carrying value	Estimated fair value	Difference
Assets			
Trade notes and accounts receivable (less allowance for doubtful accounts)	$ 387,144	$ 387,144	$ -
Available-for-sale securities	$ 264,521	$ 264,521	$ -
Liabilities			
Notes and accounts payable	$ 254,065	$ 254,065	$ -
Short-term bank borrowings	$ 101,066	$ 101,066	$ -
Long-term borrowings from banks and other financial institutions	$ 99,447	$ 99,309	$ (138)
Derivative transactions	$ -	$ -	$ -

Fair value measurement of financial instruments and information relating to short-term investment securities and derivative transactions:

Assets
(1) Trade notes and accounts receivable
The carrying value, less allowance for doubtful accounts, is used as the amount approximates fair value due to the short maturity of these instruments.

(2) Available-for-sale securities
The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or the price provided by financial institutions. The fair value of MMF equals the carrying amount as it approximates fair value due to the short maturity of these instruments.
Moreover, investment securities classified by holding purpose are described in Note 5 "Investments in securities."

Liabilities
(1) Notes and accounts payable and (2) Short-term bank borrowings
The carrying amount is used as the amount approximates fair value due to the short maturity of these instruments.

(3) Long-term borrowings from banks and other financial institutions
The fair value of long-term borrowings from banks is calculated based on each payment period by applying a discount rate to the total of future net cash flows. The discount rate is based on the interest rate considering the payment periods or credit risk.
Long-term borrowings with variable interest rates from banks are hedged by interest rate

swap contracts and accounted for as debt with a fixed interest rate. The fair value of long-term borrowings from banks with variable interest is calculated based on the present value of the total of principal, interest and net cash flows of the interest rate swap contracts discounted by the same interest rate.

(5) Derivative transactions

The contract amount, fair value, unrealized gain or loss, and others are described in Note 14 "Derivative financial instruments."

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2012 and 2011:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Unlisted stock	¥ 1,246	¥ 1,402	$ 15,160
Fund certificate	¥ 5	¥ 5	$ 65

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, 2012 and 2011 is as follows:

	Millions of yen			
	2012			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Notes and accounts Receivable	¥ 32,002	¥ -	¥ -	¥ -
Available-for-sale securities				
Government and municipal bonds	¥ -	¥ 10	¥ -	¥ -

	Millions of yen							
	2011							
	Within a year		1 to 5 years		5 to 10 years		Over 10 years	
Notes and accounts receivable	¥	30,090	¥	-	¥	-	¥	-
Available-for-sale securities								
Government and municipal bonds	¥	-	¥	10	¥	-	¥	-

	Thousands of U.S. dollars (Note 3)							
	2012							
	Within a year		1 to 5 years		5 to 10 years		Over 10 years	
Notes and accounts receivable	$	389,370	$	-	$	-	$	-
Available-for-sale securities								
Government and municipal bonds	$	-	$	122	$	-	$	-

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 weighted average interest rates of 0.80% at March 31, 2012, and 0.88% at March 31, 2011.

Long-term debt as of March 31, 2012 and 2011 consisted of the following:

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2012		2011		2012	
Loans, principally from banks and insurance companies, due fiscal 2012 to 2023 with average interest rates of 1.21% at March 31, 2012, and 1.39% at March 31, 2011	¥	8,173	¥	12,845	$	99,447
Less: Current maturities of:						
Long-term loans		7,475		4,743		90,950
	¥	698	¥	8,102	$	8,497

Aggregate annual maturities of long-term debt subsequent to March 31, 2012 are as follows:

Year ending March 31	Millions of yen		Thousands of U.S. dollars (Note 3)	
2014	¥	540	$	6,576
2015		157		1,904
2016		0		2
2017		0		2
2018 and thereafter		1		13
	¥	698	$	8,497

The Company's assets pledged as collateral for long-term loans and to obtain credit from banks, other financial institutions (including the current portion), and suppliers of ¥834 million (US$10,150 thousand) at March 31, 2012, and ¥1,102 million at March 31, 2011 is summarized as follows:

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2012		2011		2012	
Marketable securities	¥	22	¥	22	$	269
Property, plant and equipment at book value		14,841		13,561		180,566
	¥	14,863	¥	13,583	$	180,835

8. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2012		2011		2012	
Delivery and storage charges	¥	4,352	¥	4,310	$	52,952
Salaries and bonuses		7,107		7,106		86,471
Retirement benefit costs		683		730		8,314
Retirement benefit costs for directors		61		77		747
Retirement benefit costs for officers		35		41		426
Research and development costs		5,633		5,537		68,535
Amortization of goodwill		82		82		996
Accrued bonuses		900		968		10,955
Allowance for doubtful accounts		(9)		152		(108)

9. Research and development costs

Research and development costs for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Research and development costs	¥ 6,755	¥ 6,378	$ 82,191

10. Net assets

Information regarding changes in net assets for the years ended March 31, 2012 and 2011 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	Number of shares at March 31, 2011	Increase	Decrease	Number of shares at March 31, 2012
Common stock	191,682	-	5,000	186,682
Treasury stock	3,193	5,019	5,001	3,211

The increase in treasury stock during the year ended March 31, 2012 was due to the purchase of odd-lot shares (19 thousand shares) and the market purchases (5,000 thousand shares).
The decrease in treasury stock during the year ended March 31, 2012 was due to the disposal of odd-lot shares (1 thousand shares) and retirement of treasury stock (5,000 thousand shares).

(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, 2012:

		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
The General Meeting of Stockholders on June 29, 2011	Common stock	¥ 942	$ 11,467	¥ 5	$ 0.06
Meeting of the Board of Directors on November 2, 2011	Common stock	¥ 739	$ 8,987	¥ 4	$ 0.05

Dividends with the cut-off date in the year ended March 31, 2012 and the effective date in the year ending March 31, 2013:

		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
The General Meeting of Stockholders on June 28, 2012	Common stock	¥ 1,101	$ 13,394	¥ 6	$ 0.07

11. Income taxes

(1) Significant components of deferred tax assets and liabilities

The effective statutory tax rate used for calculating deferred tax assets and deferred tax liabilities as of March 31, 2011 was 41.0%. Effective during the year ended March 31, 2012, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 41.0% to 38.0% for the temporary differences expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and from 41.0% to 36.0% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2015, responding to a change in Japanese corporate tax law (further information provided in section (3) below).
At March 31, 2012 and 2011, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Deferred tax assets:			
Accrued bonus	¥ 1,061	¥ 1,138	$ 12,909
Retirement benefit provisions	1,598	1,429	19,442
Elimination of intercompany profits	337	337	4,094
Accrued enterprise tax	181	256	2,199
Retirement benefit provisions for directors and officers	103	119	1,247
Impairment loss on fixed assets	228	286	2,779
Impairment loss on investment securities	381	440	4,637
Valuation difference	129	183	1,569
Valuation loss on inventories	255	343	3,105
Others	1,337	1,550	16,272
	5,610	6,081	68,253
Valuation allowance	(1,142)	(1,333)	(13,895)
Total deferred tax assets	4,468	4,748	54,358
Deferred tax liabilities:			
Unrealized gain on investments in securities	(2,877)	(3,190)	(35,006)
Reserve for advanced depreciation of property plant and equipment	(2,182)	(2,549)	(26,549)
Valuation differences	(1,762)	(2,010)	(21,438)
Gain on revaluation of assets trusted for retirement benefit	(738)	(838)	(8,976)
Others	(133)	(266)	(1,624)
Total deferred tax liabilities	(7,692)	(8,853)	(93,593)
Net deferred tax liabilities	¥ (3,224)	¥ (4,105)	$ (39,235)

Note: Deferred tax assets and liabilities as of March 31, 2012 and 2011 are reflected in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Current assets—deferred tax assets	¥ 2,042	¥ 2,347	$ 24,849
Investments and other assets—deferred tax assets	435	434	5,288
Current liabilities—deferred tax liabilities	(0)	-	(7)
Long-term liabilities—deferred tax liabilities	(5,701)	(6,886)	(69,365)

(2) Reconciliation of the statutory tax rate to the Company's effective tax rate

A reconciliation of the statutory tax rate to the Company's effective tax rates for years ended March 31, 2012 and 2011 is summarized as follows:

	2012	2011
Statutory tax rate	41.0%	41.0%
Non-deductible expenses	0.6	0.7
Tax credits	(3.9)	(4.3)
Gain on negative goodwill	-	(3.7)
Valuation allowance	(0.5)	0.3
Inhabitants' per capita taxes	0.4	0.4
Deduction of loss carryforward	(1.5)	(0.0)
Effects of tax loss companies	-	0.6
Deduction of dividends received	(1.4)	(1.2)
Effects of Japanese tax law changes	(2.2)	-
Other	(0.2)	0.4
Effective tax rates	32.4%	34.2%

(3) Adjustments to deferred tax assets and liabilities due to change in effective corporation tax rates

The "Act for Partial Revision of the Income Tax Act etc. for the Purchase of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act for Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective for fiscal years beginning on or after April 1, 2012.
As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 41.0% to 38.0% for the temporary differences expected to be realized or settled in the period from April 1, 2012 to March 31, 2015 and from 41.0% to 36.0% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2015. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax liabilities, net by ¥643 million (US$7,827 thousand) and deferred income taxes by ¥244 million (US$2,968 thousand) and increase unrealized gain on other securities by ¥399 million (US$4,859 thousand) as of and for the year ended March 31, 2012.

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, 2012 and 2011.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Projected benefit obligations	¥ (20,472)	¥ (20,143)	$ (249,078)
Plan assets	16,556	16,484	201,440
Unfunded projected benefit obligations	(3,916)	(3,659)	(47,638)
Unrecognized actuarial differences	5,021	5,772	61,087
Unrecognized prior service costs	(79)	(114)	(964)
Book value – net	1,026	1,999	12,485
Prepaid pension expenses	(4,974)	(5,917)	(60,523)
Retirement benefit provisions	¥ (3,948)	¥ (3,918)	$ (48,038)

Net pension expenses related to retirement benefits for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Service costs *1	¥ 1,218	¥ 1,195	$ 14,818
Interest costs	393	397	4,777
Expected return on plan assets	(311)	(338)	(3,776)
Amortization of actual differences	1,087	1,198	13,233
Amortization of prior service costs	(19)	(16)	(235)
Net pension expenses	¥ 2,368	¥ 2,436	$ 28,817

Notes:
*1 The pension expenses of consolidated subsidiaries that applied the simplified method are included in "Service costs."

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

	2012	2011
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.3%
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, equipment and vehicles and other assets. The following is information on the leases in existence at the transition date of the new accounting standard that continue to be accounted for as operating leases.

Total lease payments under these leases were ¥47 million (US$573 thousand) and ¥66 million for the years ended March 31, 2012 and 2011, 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, 2012 and 2011, is as follows:

	Millions of yen		
	2012		
	Machinery, equipment and vehicles	Others	Total
Acquisition costs	¥ 235	¥ 12	¥ 247
Accumulated depreciation	166	10	176
Net leased assets	¥ 69	¥ 2	¥ 71

	Millions of yen		
	2011		
	Machinery, equipment and vehicles	Others	Total
Acquisition costs	¥ 241	¥ 80	¥ 321
Accumulated depreciation	144	67	211
Net leased assets	¥ 97	¥ 13	¥ 110

	Thousands of U.S. dollars (Note 3)		
	2012		
	Machinery, equipment and vehicles	Others	Total
Acquisition costs	$ 2,853	$ 151	$ 3,004
Accumulated depreciation	2,014	122	2,136
Net leased assets	$ 839	$ 29	$ 868

Future minimum lease payments under finance leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Due within one year	¥ 39	¥ 47	$ 471
Due over one year	32	63	397
Total	¥ 71	¥ 110	$ 868

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, 2012 and 2011.

The depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed using the straight-line method, would have been ¥47 million (US$573 thousand) and ¥66 million for the years ended March 31, 2012 and 2011, respectively.

Obligations under non-cancelable operating leases as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Due within one year	¥ 61	¥ 39	$ 742
Due after one year	149	128	1,807
Total	¥ 210	¥ 167	$ 2,549

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. 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 does not enter into derivative contracts which do not meet hedge accounting criteria.

Summarized below are the derivative transactions which meet hedge accounting criteria.

	Millions of yen		
	2012		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	¥ 5,300	¥ -	¥ -

	Millions of yen		
	2011		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	¥ 6,300	¥ 5,300	¥ -

	Thousands of U.S. dollars (Note 3)		
	2012		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	$ 64,485	$ -	$ -

Differences between the fair market value and book value of the interest rate swaps are included in the fair market value of the underlying long-term loans payable.

15. Commitments and contingencies

(1) As of March 31, 2012 and 2011, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥ 85	¥ 107	$ 1,034
NOF METAL COATINGS SHANGHAI Co., Ltd.	55	55	669
	¥ 140	¥ 162	$ 1,703

(2) As of March 31, 2012 and 2011, the Company was contingently liable for the conditional assignment of ¥2,703 million (US$32,884 thousand) and ¥2,780 million, respectively, of trade notes and accounts receivable with recourse obligations.

(3) As of March 31, 2012 and 2011, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥27 million (US$329 thousand) and ¥76 million, respectively.

(4) As of March 31, 2012 and 2011, the Company had unused commitment agreements amounting to ¥7,500 million (US$91,252 thousand) and ¥7,500 million, respectively, 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)
	2012	2011	2012
Per share:			
Net income - basic	¥ 39.4	¥ 36.2	$ 0.48
Net income - diluted	-	-	-
Cash dividends applicable to the year	10.0	9.0	0.12
Net assets	504.52	469.97	6.14

Net income - diluted for the years ended March 31, 2012 and 2011 is not disclosed because there are no diluted shares.

Basis for calculating net income per share:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Net income per share			
Net income	¥ 7,319	¥ 6,887	$ 89,052
Amount not available to shareholders			
Earnings appropriated for directors' bonuses	-	-	-
Net income applicable to common stock	¥ 7,319	¥ 6,887	$ 89,052
Average number of shares outstanding (1,000 shares)	185,696	190,139	

17. Deferred income tax on property, plant and equipment

Deferred income tax on property, plant and equipment for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Buildings and structures	¥ 529	¥ 519	$ 6,430
Machinery, equipment and vehicles	385	386	4,690
Other	23	23	282
Total	¥ 937	¥ 928	$ 11,402

18. Goodwill

As of March 31, 2012 and 2011, goodwill included in "Intangible assets" amounted to ¥204 million (US$2,485 thousand) and ¥286 million, respectively.
As of March 31, 2012 and 2011, negative goodwill included in "Other long-term liabilities" amounted to ¥0 million (US$2 thousand) and ¥0 million, respectively.

19. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Investments in securities	¥ 500	¥ 648	$ 6,081
Capital contribution	101	101	1,234
Total	¥ 601	¥ 749	$ 7,315

20. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheets at March 31, 2012 and 2011 is as follows:

A. Outline of the asset retirement obligations
   Expenses allocated for obligations to remove harmful materials such as fluorocarbon and PCB (polychlorinated biphenyl) from fixed assets.
B. Calculation method of asset retirement obligations
   An estimated period of use of 2-38 years and a discount rate of 0.21%-2.27% are used to calculate the amount of the asset retirement obligations.

C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Balance at beginning of year (Note):	¥ 236	¥ 243	$ 2,873
Increase due to acquisition of property, plant and equipment	3	0	38
Accretion expenses	1	1	7
Decrease due to fulfillment of asset retirement obligations	(1)	(8)	(14)
Balance at end of year	¥ 239	¥ 236	$ 2,904

(Note) Balance at beginning of the year ended March 31, 2011 is the estimated amount due to the application of "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18, March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21, March 31, 2008) from the year ended March 31, 2011.

21. Comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the year ended March 31, 2012 are as follows:

2012	Millions of yen	Thousands of U.S. dollars (Note 3)
Unrealized gains on other securities:		
Amount arising during the year	¥ 291	$ 3,537
Reclassification adjustments for gains and losses included in net income	0	1
Amount before tax effect	291	3,538
Tax effect	310	3,774
Unrealized gain on other securities	601	7,312
Foreign currency translation adjustments:		
Amount arising during the year	¥ (368)	$ (4,473)
Total other comprehensive income	¥ 233	$ 2,839

22. Segment information

(1) The Company's reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company's reportable segments are as follows:

1. Functional chemicals --- fatty acids, fatty acid derivatives, surfactants, ethylene oxide and propylene oxide derivatives, organic peroxides, functional polymers, functional films, electronic materials, materials for anti corrosion

2. Life science --- MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods

3. Explosive & propulsion --- industrial explosives, defense-related explosives, rocket propellant, automotive safety devices, metal manufactured products

The amount of segment income corresponds to that of operating income.

Intersegment sales and transfer prices are calculated mainly based on market value or manufacturing cost.

(Millions of yen)

2012	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	¥ 93,321	¥ 24,325	¥ 33,119	¥ 150,765	¥ 1,599	¥ 152,364	¥ -	¥ 152,364
Inter-segment	99	2,239	13	2,351	7,314	9,665	(9,665)	-
Total	93,420	26,564	33,132	153,116	8,913	162,029	(9,665)	152,364
Segment income	¥ 6,774	¥ 3,187	¥ 2,062	¥ 12,023	¥ 84	¥ 12,107	¥ (944)	¥ 11,163
Assets	¥ 62,860	¥ 19,744	¥ 44,321	¥ 126,925	¥ 2,710	¥ 129,635	¥ 26,620	¥ 156,255
Depreciation	3,289	882	1,712	5,883	78	5,961	485	6,446
Capital expenditures	3,827	359	1,903	6,089	79	6,168	121	6,289

(Millions of yen)

2011	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	¥ 94,477	¥ 24,119	¥ 33,695	¥ 152,291	¥ 1,831	¥ 154,122	¥ -	¥ 154,122
Inter-segment	71	1,728	22	1,821	7,439	9,260	(9,260)	-
Total	94,548	25,847	33,717	154,112	9,270	163,382	(9,260)	154,122
Segment income	¥ 6,276	¥ 3,551	¥ 1,437	¥ 11,264	¥ 169	¥ 11,433	¥ (865)	¥ 10,568
Assets	¥ 60,521	¥ 18,692	¥ 37,503	¥ 116,716	¥ 2,741	¥ 119,457	¥ 35,864	¥ 155,321
Depreciation	3,601	1,058	1,775	6,434	87	6,521	781	7,302
Capital expenditures	2,414	345	1,886	4,645	60	4,705	139	4,844

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

2012	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	$ 1,135,434	$ 295,960	$ 402,949	$ 1,834,343	$ 19,463	$ 1,853,806	$ -	$ 1,853,806
Inter-segment	1,201	27,240	161	28,602	88,989	117,591	(117,591)	-
Total	1,136,635	323,200	403,110	1,862,945	108,452	1,971,397	(117,591)	1,853,806
Segment income	$ 82,420	$ 38,772	$ 25,096	$ 146,288	$ 1,017	$ 147,305	$ (11,486)	$ 135,819
Assets	$ 764,813	$ 240,228	$ 539,249	$ 1,544,290	$ 32,975	$ 1,577,265	$ 323,884	$ 1,901,149
Depreciation	40,020	10,728	20,832	71,580	950	72,530	5,894	78,424
Capital expenditures	46,563	4,365	23,162	74,090	954	75,044	1,473	76,517

(2) Information related to reportable segments

1) The Group's sales by geographical area for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Japan	¥ 127,119	¥ 128,085	$ 1,546,652
Asia	11,376	12,711	138,411
Others	13,869	13,326	168,743
Total	¥ 152,364	¥ 154,122	$ 1,853,806

2) The Group's property, plant and equipment by geographical area as of March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Japan	¥ 51,586	¥ 52,017	$ 627,647
Others	3,041	3,076	37,001
Total	¥ 54,627	¥ 55,093	$ 664,648

(3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Functional chemicals	¥ 92	¥ 330	$ 1,129
Life science	-	87	-
Explosive & propulsion	-	279	-
Others	-	-	-
Total	¥ 92	¥ 696	$ 1,129

(4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2012 and 2011 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2012		2011		2012	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ 82	¥ 204	¥ 82	¥ 285	$ 992	$ 2,480
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	1	4	5
Others	-	-	-	-	-	-
Total	¥ 82	¥ 204	¥ 82	¥ 286	$ 996	$ 2,485

Amortization and balance of negative goodwill recognized before April 1, 2011 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 3)	
	2012		2011		2012	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ -	¥ -	¥ -	¥ -	$ -	$ -
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	0	2	2
Others	-	-	-	-	-	-
Total	¥ 0	¥ 0	¥ 0	¥ 0	$ 2	$ 2

22. Loss on disaster

Loss on disaster for the year ended March 31, 2011 mainly consists of expenses for the restoration of facilities in the amount of ¥143 million and disposal of inventories in the amount of ¥78 million resulting from the Great East Japan Earthquake on March 11, 2011.

Loss on disaster for the year ended March 31, 2012 mainly consists of expenses for the restoration of facilities in the amount of ¥127 million (US$1,548 thousand) and transportation of inventories in the amount of ¥58 million (US$703 thousand) resulting from the Great East Japan Earthquake on March 11, 2011.

23. Impairment loss on fixed assets

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended March 31, 2012 and 2011.

2012						
Location	Major use	Asset		Millions of yen		Thousands of U.S. dollars (Note 3)
Taketoyo City, Aichi	Idle	Machinery, and others	¥	92	$	1,129
			¥	92	$	1,129

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.
When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts because they were classified as idle assets, and ¥92 million (US$1,129 thousand) of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2012.
The impairment loss on fixed assets consisted of ¥74 million (US$896 thousand) for machinery, equipment and vehicles and ¥18 million (US$233 thousand) for others.

2011				
Location	Major use	Asset		Millions of yen
Oita City, Oita	Facilities	Buildings machinery, and others	¥	330
Amagasaki City, Hyogo	Facilities	Buildings machinery, and others		87
Taketoyo City, Aichi	Facilities	Buildings machinery, and others		279
			¥	696

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.
When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts and ¥696 million of impairment losses was recognized in the consolidated statement of income for the year ended March 31, 2011.
The recoverable amounts of these groups of assets are measured at value in use. The discount rate for calculation of the discounted cash flow is zero since the estimated future cash flows are negative. The impairment loss on fixed assets consisted of ¥383 million for buildings and structures, ¥289 million for machinery, equipment and vehicles and ¥24 million for others.

24. Inventories

Inventories at March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Merchandise and finished goods	¥ 16,304	¥ 16,120	$ 198,364
Work in process	3,718	3,657	45,241
Raw materials and supplies	8,264	7,691	100,541
Total	¥ 28,286	¥ 27,468	$ 344,146

25. Notes receivable and payable

The balance sheet date for the year ended March 31, 2012 fell on a bank holiday. Consequently, notes receivable of ¥46 million (US$557 thousand) and notes payable of ¥311 million (US$3,783 thousand) with a due date of March 31, 2012 were still included in the respective accounts in the accompanying consolidated balance sheet and were settled on the business day.

26. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Machinery, equipment and vehicles	¥ 2	¥ 0	$ 31
Other	5	-	56
Total	¥ 7	¥ 0	$ 87

27. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2012 and 2011 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2012	2011	2012
Buildings and structures	¥ 63	¥ 21	$ 764
Machinery, equipment and vehicles	37	65	443
Other	11	12	138
Total	¥ 111	¥ 98	$ 1,345

28. Loss on disposal of property, plant and equipment

Loss on disposal of property, plant and equipment for the year ended March 31, 2012 resulted from the removal of unused facilities related to a certain product item that was discontinued.