NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2013 and 2012

EY
Building a better working world

Ernst & Young ShinNihon LLC
Hibiya Kokusai Bldg.
2-2-3 Uchisaiwai-cho, Chiyoda-ku
Tokyo, Japan 100-0011

Tel: +81 3 3503 1100
Fax: +81 3 3503 1197
www.shinnihon.or.jp

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, 2013, 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, 2013, 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 4.

Ernst & Young ShinNihon LLC

June 21, 2013

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

As of	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
ASSETS			
Current assets:			
Cash and time deposits (Note 5)	¥ 6,965	¥ 6,751	$ 74,059
Notes and accounts receivable (Notes 7 and 26)	34,275	32,002	364,434
Allowance for doubtful accounts	(224)	(183)	(2,379)
	34,051	31,819	362,055
Inventories (Note 25)	29,687	28,286	315,648
Deferred tax assets (Note 12)	2,298	2,042	24,438
Other current assets (Note 6)	2,358	2,223	25,062
Total current assets	75,359	71,121	801,262
Property, plant and equipment (Notes 8 and 18):			
Land	19,640	19,580	208,829
Buildings and structures	60,625	59,728	644,602
Machinery, equipment and vehicles	91,654	91,057	974,528
Construction in progress	1,871	998	19,896
Leased assets	523	464	5,565
Others	13,962	14,037	148,440
Accumulated depreciation	(134,032)	(131,237)	(1,425,110)
Total property, plant and equipment	54,243	54,627	576,750
Investments and other assets:			
Investments in securities (Notes 6 and 7)	27,299	22,846	290,259
Deferred tax assets (Note 12)	520	435	5,528
Intangible assets (Note 19)	596	762	6,340
Prepaid pension expenses (Note 13)	4,444	4,975	47,253
Other assets	1,547	1,489	16,443
Total investments and other assets	34,406	30,507	365,823
Total assets	¥ 164,008	¥ 156,255	$ 1,743,835

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet (continued)

As of	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 7 and 8)	¥ 3,101	¥ 8,306	$ 32,968
Current portion of long-term debt (Notes 7 and 8)	463	7,475	4,920
Notes and accounts payable (Notes 7 and 26)	19,219	20,882	204,348
Electronically recorded obligations-operating (Note 26)	1,493	-	15,872
Accrued expenses	4,615	4,241	49,072
Income taxes payable	3,098	1,961	32,942
Deposits received	4,199	4,137	44,648
Lease obligations	131	97	1,395
Other current liabilities (Note 12)	4,140	4,537	44,014
Total current liabilities	40,459	51,636	430,179
Long-term liabilities:			
Long-term debt (Notes 7 and 8)	8,045	698	85,535
Deferred tax liabilities (Note 12)	6,713	5,701	71,381
Retirement benefit provisions (Note 13)	4,113	3,948	43,737
Retirement benefit provisions for directors	214	191	2,273
Retirement benefit provisions for officers	87	78	923
Lease obligations	286	248	3,046
Other long-term liabilities (Note 19)	417	548	4,430
Total long-term liabilities	19,875	11,412	211,325
Commitments and contingencies (Note 16)			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 783,828,000 shares at March 31, 2013 and 2012			
Issued: 186,682,752 shares at March 31, 2013 and 2012	17,742	17,742	188,644
Capital surplus	15,113	15,113	160,695
Retained earnings	64,594	57,814	686,796
Treasury stock, at cost	(1,264)	(1,255)	(13,434)
Total shareholders' equity	96,185	89,414	1,022,701
Accumulated other comprehensive income			
Unrealized gain on other securities	8,026	5,190	85,333
Foreign currency translation adjustments	(1,228)	(2,040)	(13,052)
Total accumulated other comprehensive income	6,798	3,150	72,281
Minority interests	691	643	7,349
Total net assets	103,674	93,207	1,102,331
Total liabilities and net assets	¥ 164,008	¥ 156,255	$ 1,743,835

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Net sales	¥ 148,860	¥ 152,364	$ 1,582,774
Cost of sales (Notes 10 and 14)	108,592	113,110	1,154,615
Gross profit	40,268	39,254	428,159
Selling, general and administrative expenses (Notes 9, 10 and 14)	27,926	28,091	296,933
Operating income	12,342	11,163	131,226
Other income (expenses):			
Interest and dividend income	761	706	8,093
Interest expenses	(123)	(247)	(1,313)
Gain on sale of fixed assets (Note 27)	9	7	99
Loss on retirement of fixed assets (Note 28)	(78)	(111)	(832)
Gain (loss) on sale of investments in securities	(28)	0	(296)
Impairment loss on investments in securities	(151)	(0)	(1,605)
Foreign exchange gain (loss), net	361	(119)	3,840
Impairment loss on fixed assets (Note 24)	(391)	(92)	(4,158)
Loss on disposal of property, plant and equipment	-	(300)	-
Settlement package	-	(225)	-
Loss on disaster	-	(261)	-
Others, net	292	415	3,106
	652	(227)	6,934
Income before income taxes and minority interests	12,994	10,936	138,160
Income taxes (Note 12)			
Current	4,826	4,088	51,321
Deferred	(647)	(541)	(6,883)
	4,179	3,547	44,438
Income before minority interests	8,815	7,389	93,722
Minority interests	(31)	(70)	(323)
Net income	¥ 8,784	¥ 7,319	$ 93,399

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Income before minority interests	¥ 8,815	¥ 7,389	$ 93,722
Other comprehensive income (Note 22)			
Net unrealized holding gains (losses) on other securities	2,836	601	30,154
Foreign currency translation adjustments	827	(368)	8,789
Total other comprehensive income	3,663	233	38,943
Comprehensive income (Note 22)	12,478	7,623	132,665
Comprehensive income attributable to minority interests	46	63	483
Comprehensive income attributable to NOF Corporation	12,432	7,559	132,182

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2013 and 2012

For the Year Ended	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 accumulated other comprehensive income	Minority interests	Total net assets
		Millions of yen									
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 changes 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
Net income	-	-	-	8,784	-	8,784	-	-	-	-	8,784
Cash dividends	-	-	-	(2,018)	-	(2,018)	-	-	-	-	(2,018)
Purchase of treasury stock	-	-	-	-	(10)	(10)	-	-	-	-	(10)
Disposal of treasury stock	-	-	(0)	-	1	1	-	-	-	-	1
Transfer of loss on disposal of treasury stock	-	-	0	(0)	-	-	-	-	-	-	-
Other	-	-	-	14	-	14	-	-	-	-	14
Net changes in items other than shareholders' equity	-	-		-	-	-	2,836	812	3,648	48	3,696
Balance at March 31, 2013	186,683	¥ 17,742	¥ 15,113	¥ 64,594	¥ (1,264)	¥ 96,185	¥ 8,026	¥ (1,228)	¥ 6,798	¥ 691	¥ 103,674

For the Year Ended	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 accumulated other comprehensive income	Minority interest	Total net assets
		Thousands of U.S. dollars (Note 4)									
Balance at March 31, 2012	186,683	$ 188,644	$ 160,695	$ 614,708	$ (13,341)	$ 950,706	$ 55,183	$ (21,685)	$ 33,498	$ 6,837	$ 991,041
Net income	-	-	-	93,399	-	93,399	-	-	-	-	93,399
Cash dividends	-	-	-	(21,458)	-	(21,458)	-	-	-	-	(21,458)
Purchase of treasury stock	-	-	-	-	(102)	(102)	-	-	-	-	(102)
Disposal of treasury stock	-	-	(0)	-	9	9	-	-	-	-	9
Transfer of loss on disposal of treasury stock	-	-	0	(0)	-	-	-	-	-	-	-
Other	-	-	-	147	-	147	-	-	-	-	147
Net changes in items other than shareholders' equity	-	-	-	-	-	-	30,150	8,633	38,783	512	39,295
Balance at March 31, 2013	186,683	$ 188,644	$ 160,695	$ 686,796	$ (13,434)	$ 1,022,701	$ 85,333	$ (13,052)	$ 72,281	$ 7,349	$ 1,102,331

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 12,994	¥ 10,936	$ 138,160
Adjustments for:			
Depreciation	5,868	6,446	62,392
Impairment loss on fixed assets	391	92	4,158
Net change in retirement benefit provisions	688	976	7,318
Interest and dividend income	(761)	(706)	(8,093)
Interest expenses	123	247	1,313
Gain on sale of fixed assets	(9)	(7)	(99)
Impairment loss on investments in securities	151	0	1,605
Loss (gain) on sale of investments in securities	28	(0)	296
Gain on sale of stocks of subsidiaries and affiliates	-	(3)	-
Loss on disaster	-	261	-
Office transfer expenses	-	121	-
Settlement package	-	225	-
Increase in notes and accounts receivable	(1,990)	(2,016)	(21,157)
Increase in inventories	(1,179)	(922)	(12,533)
(Decrease) increase in notes and accounts payable	(379)	181	(4,034)
Others, net	389	1,124	4,137
Sub total	16,314	16,955	173,463
Interest and dividends received	758	702	8,062
Interest paid	(130)	(253)	(1,385)
Payments for loss on disaster	(29)	(375)	(307)
Office transfer paid	(88)	(33)	(939)
Settlement package paid	-	(225)	-
Income taxes paid	(3,800)	(5,057)	(40,403)
Others, net	-	25	-
Net cash provided by operating activities	13,025	11,739	138,491
Cash flows from investing activities:			
Payments for purchase of investments in securities	(452)	(122)	(4,803)
Proceeds from sale of stocks of subsidiaries and affiliates	-	151	-
Proceeds from sale of investments in securities	37	0	392
Payments for purchase of property, plant and equipment	(5,923)	(5,601)	(62,975)
Proceeds from sale of property, plant and equipment	14	9	153
Net decrease in short-term loans receivable	33	87	351
Payments for long-term loans receivable	(5)	(16)	(51)
Proceeds from long-term loans receivable	12	61	128
Others, net	185	(324)	1,957
Net cash used in investing activities	(6,099)	(5,755)	(64,848)

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows (continued)

Cash flows from financing activities:			
Net increase (decrease) in short-term bank loans	(5,282)	2,449	(56,164)
Proceeds from long-term debt	7,800	-	82,935
Repayments of long-term debt	(7,475)	(4,743)	(79,481)
Repayments of lease obligations	(127)	(86)	(1,351)
Payments for purchase of treasury stock	(10)	(1,898)	(105)
Proceeds from sale of treasury stock	1	0	9
Cash dividends paid	(2,017)	(1,681)	(21,442)
Cash dividends paid to minority shareholders	(5)	(6)	(52)
Net cash used in financing activities	(7,115)	(5,965)	(75,651)
Effect of exchange rate changes on cash and cash equivalents	519	(322)	5,519
Net increase (decrease) in cash and cash equivalents	330	(303)	3,511
Cash and cash equivalents at beginning of year	6,519	6,822	69,309
Cash and cash equivalents at end of year (Note 5)	¥ 6,849	¥ 6,519	$ 72,820

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, 2013 and 2012

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, 2013 (34 for 2012). 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, 2013 (23 for 2012).

The remaining 11 (11 for 2012) subsidiaries, whose combined assets, net sales, net income and retained earnings 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.	93.3
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 net income and retained earnings 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) Standards issued but not yet effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

(1) Treatment in the balance sheet－Actuarial gains and losses and prior service cost that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(2) Treatment in the statement of income and the statement of comprehensive income－Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service cost that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. The Company is currently evaluating the effect these modifications will have on its consolidated results of operations and financial position.

3. Accounting Changes

In accordance with an amendment to the Corporation Tax Law effective April 1, 2012, the Company and its domestic consolidated subsidiaries have changed their depreciation method for property, plant and equipment acquired on or after April 1, 2012, other than certain buildings, to reflect the methods prescribed in the amended Corporation Tax Law. The previously applied 250% declining-balance method was changed to the 200% declining-balance method. As a result of this change, operating income, ordinary income and income before income taxes and minority interests increased by ¥99 million ($1,057 thousand) for the year ended March 31, 2013.

4. 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 ¥94.05 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2013. 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 ¥94.05 = U.S.$1 or at any other rate.

5. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2013 and 2012 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Cash and time deposits	¥ 6,965	¥ 6,751	$ 74,059
Time deposits with maturity of more than three months	(201)	(379)	(2,145)
Money Market Fund	85	147	906
Cash and cash equivalents	¥ 6,849	¥ 6,519	$ 72,820

6. 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, 2013 and 2012 are as follows:

	Millions of yen		
	2013		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 12,118	¥ 24,817	¥ 12,699
Bonds	10	10	0
Others	20	22	2
Sub total	¥ 12,148	¥ 24,849	¥ 12,701
Fair market value does not exceed acquisition cost			
Stocks	¥ 1,557	¥ 1,148	¥ (409)
Others	102	102	0
Sub total	¥ 1,659	¥ 1,250	¥ (409)
Total	¥ 13,807	¥ 26,099	¥ 12,292

	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

	Thousands of U.S. dollars (Note 4)		
	2013		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	$ 128,842	$ 263,864	$ 135,022
Bonds	106	106	0
Others	211	233	22
Sub total	$ 129,159	$ 264,203	$ 135,044
Fair market value does not exceed acquisition cost			
Stocks	$ 16,556	$ 12,207	$ (4,349)
Others	1,089	1,087	(2)
Sub total	$ 17,645	$ 13,294	$ (4,351)
Total	$ 146,804	$ 277,497	$ 130,693

The Company recorded impairment losses on investments in securities in the amounts of ¥151 million (US$1,605 thousand) and ¥0 million for the years ended March 31, 2013 and 2012, 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, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Proceeds from sale of available-for-sale securities	¥ 108	¥ 95	$ 1,153
Realized gain	4	0	43
Realized loss	32	0	339

(3) The book value of major securities without fair value as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Unlisted stocks	¥ 747	¥ 746	$ 7,939
Fund certificates	5	5	57

7. 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 15 "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 15 "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, 2013 and 2012 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen					
	2013					
	Carrying value		Estimated fair value		Difference	
Assets						
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥	34,051	¥	34,051	¥	-
Available-for-sale securities	¥	26,099	¥	26,099	¥	-
Liabilities						
Notes and accounts payable	¥	19,219	¥	19,219	¥	-
Short-term bank borrowings	¥	3,101	¥	3,101	¥	-
Long-term borrowings from banks and other financial institutions	¥	8,508	¥	8,451	¥	(57)
Derivative transactions	¥	-	¥	-	¥	-

	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	¥	-	¥	-	¥	-

	Thousands of U.S. dollars (Note 4)		
	2013		
	Carrying value	Estimated fair value	Difference
Assets			
Trade notes and accounts receivable (less allowance for doubtful accounts)	$ 362,055	$ 362,055	$ -
Available-for-sale securities	$ 277,497	$ 277,497	$ -
Liabilities			
Notes and accounts payable	$ 204,348	$ 204,348	$ -
Short-term bank borrowings	$ 32,968	$ 32,968	$ -
Long-term borrowings from banks and other financial institutions	$ 90,455	$ 89,854	$ (601)
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 6 "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 15 "Derivative financial instruments."

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Unlisted stock	¥ 1,280	¥ 1,246	$ 13,611
Fund certificate	¥ 5	¥ 5	$ 57

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, 2013 and 2012 is as follows:

	Millions of yen			
	2013			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Notes and accounts Receivable	¥ 34,275	¥ -	¥ -	¥ -
Available-for-sale securities				
Government and municipal bonds	¥ -	¥ 10	¥ -	¥ -

	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	¥ -	¥ -

	Thousands of U.S. dollars (Note 4)			
	2013			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Notes and accounts receivable	$ 364,434	$ -	$ -	$ -
Available-for-sale securities				
Government and municipal bonds	$ -	$ 106	$ -	$ -

8. 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 0.87% at March 31, 2013, and 0.80% at March 31, 2012.

Long-term debt as of March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Loans, principally from banks and insurance companies, due April 2013 to September 2022 with average interest rates of 0.54% at March 31, 2013, and 1.21% at March 31, 2012	¥ 8,508	¥ 8,173	$ 90,455
Less: Current maturities of:			
Long-term loans	463	7,475	4,920
	¥ 8,045	¥ 698	$ 85,535

Aggregate annual maturities of long-term debt subsequent to March 31, 2013 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2015	¥ 243	$ 2,584
2016	5,001	53,165
2017	0	2
2018	2,800	29,774
2019 and thereafter	1	10
	¥ 8,045	$ 85,535

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 ¥531 million (US$5,649 thousand) at March 31, 2013, and ¥834 million at March 31, 2012 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Marketable securities	¥ 26	¥ 22	$ 277
Property, plant and equipment at book value	14,398	14,841	153,088
	¥ 14,424	¥ 14,863	$ 153,365

9. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Delivery and storage charges	¥ 4,309	¥ 4,352	$ 45,818
Salaries and bonuses	7,043	7,107	74,883
Retirement benefit costs	537	683	5,708
Retirement benefit costs for directors	94	61	1,002
Retirement benefit costs for officers	33	35	347
Research and development costs	5,655	5,633	60,132
Amortization of goodwill	82	82	870
Accrued bonuses	974	900	10,355
Allowance for doubtful accounts	(3)	(9)	(33)

10. Research and development costs

Research and development costs for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Research and development costs	¥ 6,723	¥ 6,755	$ 71,486

11. Net assets

Information regarding changes in net assets for the years ended March 31, 2013 and 2012 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	Number of shares at March 31, 2012	Increase	Decrease	Number of shares at March 31, 2013
Common stock	186,683	-	-	186,683
Treasury stock	3,211	24	2	3,233

The increase in treasury stock during the year ended March 31, 2013 was due to the purchase of odd-lot shares (24 thousand shares).
The decrease in treasury stock during the year ended March 31, 2013 was due to the disposal of odd-lot shares (2 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, 2013:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	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	$ 11,705	¥ 6	$ 0.06
Meeting of the Board of Directors on November 1, 2012	Common stock	¥ 917	$ 9,753	¥ 5	$ 0.05

Dividends with the cut-off date in the year ended March 31, 2013 and the effective date in the year ending March 31, 2014:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2013	Common stock	¥ 1,101	$ 11,703	¥ 6	$ 0.06

12. Income taxes

(1) Significant components of deferred tax assets and liabilities

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.
At March 31, 2013 and 2012, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Deferred tax assets:			
Accrued bonus	¥ 1,126	¥ 1,061	$ 11,968
Retirement benefit provisions	1,871	1,598	19,898
Elimination of intercompany profits	373	337	3,962
Accrued enterprise tax	285	181	3,026
Retirement benefit provisions for directors and officers	100	103	1,061
Impairment loss on fixed assets	324	228	3,440
Impairment loss on investment securities	380	381	4,040
Valuation difference	86	129	914
Valuation loss on inventories	271	255	2,883
Others	1,413	1,337	15,036
	6,229	5,610	66,228
Valuation allowance	(1,121)	(1,142)	(11,919)
Total deferred tax assets	5,108	4,468	54,309
Deferred tax liabilities:			
Unrealized gain on investments in securities	(4,267)	(2,877)	(45,368)
Reserve for advanced depreciation of property plant and equipment	(2,109)	(2,182)	(22,428)
Valuation differences	(1,762)	(1,762)	(18,735)
Gain on revaluation of assets trusted for retirement benefit	(737)	(738)	(7,836)
Others	(128)	(133)	(1,357)
Total deferred tax liabilities	(9,003)	(7,692)	(95,724)
Net deferred tax liabilities	¥ (3,895)	¥ (3,224)	$ (41,415)

Note: Deferred tax assets and liabilities as of March 31, 2013 and 2012 are reflected in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Current assets—deferred tax assets	¥ 2,298	¥ 2,042	$ 24,438
Investments and other assets—deferred tax assets	520	435	5,528
Current liabilities—deferred tax liabilities	(0)	(0)	(0)
Long-term liabilities—deferred tax liabilities	(6,713)	(5,701)	(71,381)

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

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 38.0% and 41.0% for the years ended March 31, 2013 and 2012, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.
A reconciliation of the statutory tax rate to the Company's effective tax rates for years ended March 31, 2013 and 2012 is summarized as follows:

	2013	2012
Statutory tax rate	38.0%	41.0%
Non-deductible expenses	0.5	0.6
Tax credits	(3.3)	(3.9)
Valuation allowance	0.1	(0.5)
Inhabitants' per capita taxes	0.3	0.4
Deduction of loss carryforward	(0.7)	(1.5)
Deduction of dividends received	(1.2)	(1.4)
Effects of Japanese tax law changes	-	(2.2)
Other	(1.5)	(0.2)
Effective tax rates	32.2%	32.4%

13. 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, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Projected benefit obligations	¥ (22,270)	¥ (20,472)	$ (236,787)
Plan assets	17,844	16,556	189,731
Unfunded projected benefit obligations	(4,426)	(3,916)	(47,056)
Unrecognized actuarial differences	4,801	5,021	51,040
Unrecognized prior service costs	(44)	(79)	(468)
Book value – net	331	1,026	3,516
Prepaid pension expenses	(4,444)	(4,974)	(47,253)
Retirement benefit provisions	¥ (4,113)	¥ (3,948)	$ (43,737)

Net pension expenses related to retirement benefits for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Service costs *1	¥ 1,139	¥ 1,218	$ 12,108
Interest costs	388	393	4,127
Expected return on plan assets	(304)	(311)	(3,237)
Amortization of actual differences	732	1,087	7,783
Amortization of prior service costs	(35)	(19)	(367)
Net pension expenses	¥ 1,920	¥ 2,368	$ 20,414

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:

	2013	2012
Discount rate	1.06%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization of unrecognized prior service costs	10 years	10 years
Amortization of unrecognized actuarial gains or losses	10 years	10 years

14. 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 ¥35 million (US$371 thousand) and ¥47 million for the years ended March 31, 2013 and 2012, 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, 2013 and 2012, is as follows:

	Millions of yen		
	2013		
	Machinery, equipment and vehicles	Others	Total
Acquisition costs	¥ 211	¥ 5	¥ 216
Accumulated depreciation	186	4	190
Net leased assets	¥ 25	¥ 1	¥ 26

	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

	Thousands of U.S. dollars (Note 4)		
	2013		
	Machinery, equipment and vehicles	Others	Total
Acquisition costs	$ 2,239	$ 55	$ 2,294
Accumulated depreciation	1,983	40	2,023
Net leased assets	$ 256	$ 15	$ 271

Future minimum lease payments under finance leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Due within one year	¥ 25	¥ 39	$ 264
Due over one year	1	32	7
Total	¥ 26	¥ 71	$ 271

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, 2013 and 2012.

The depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed using the straight-line method, would have been ¥35 million (US$371 thousand) and ¥47 million for the years ended March 31, 2013 and 2012, respectively.

Obligations under non-cancelable operating leases as of March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Due within one year	¥ 142	¥ 61	$ 1,516
Due after one year	498	149	5,290
Total	¥ 640	¥ 210	$ 6,806

15. 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		
	2013		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	¥ 5,400	¥ 5,400	¥ -

	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	¥ -	¥ -

	Thousands of U.S. dollars (Note 4)		
	2013		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts: To receive variable/to pay fixed	$ 57,416	$ 57,416	$ -

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.

16. Commitments and contingencies

(1) As of March 31, 2013 and 2012, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥ 45	¥ 85	$ 478
NOF METAL COATINGS SHANGHAI Co., Ltd.	55	55	585
	¥ 100	¥ 140	$ 1,063

(2) As of March 31, 2013 and 2012, the Company was contingently liable for the conditional assignment of ¥2,309 million (US$24,551 thousand) and ¥2,703 million, respectively, of trade notes and accounts receivable with recourse obligations.

(3) As of March 31, 2013 and 2012, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥55 million (US$582 thousand) and ¥27 million, respectively.

(4) As of March 31, 2013 and 2012, the Company had unused commitment agreements amounting to ¥7,500 million (US$79,745 thousand) and ¥7,500 million, respectively, with banks and other financial institutions.

17. 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 4)
	2013	2012	2013
Per share:			
Net income - basic	¥ 47.9	¥ 39.4	$ 0.51
Net income - diluted	-	-	-
Cash dividends applicable to the year	11.0	10.0	0.12
Net assets	561.37	504.52	5.97

Net income - diluted for the years ended March 31, 2013 and 2012 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 4)
	2013	2012	2013
Net income per share			
Net income	¥ 8,784	¥ 7,319	$ 93,399
Amount not available to shareholders			
Earnings appropriated for directors' bonuses	-	-	-
Net income applicable to common stock	¥ 8,784	¥ 7,319	$ 93,399
Average number of shares outstanding (1,000 shares)	183,463	185,696	

18. Deferred income tax on property, plant and equipment

Deferred income tax on property, plant and equipment for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Buildings and structures	¥ 546	¥ 529	$ 5,808
Machinery, equipment and vehicles	385	385	4,099
Other	24	23	251
Total	¥ 955	¥ 937	$ 10,158

19. Goodwill

As of March 31, 2013 and 2012, goodwill included in "Intangible assets" amounted to ¥122 million (US$1,301 thousand) and ¥204 million, respectively.
As of March 31, 2013 and 2012, negative goodwill included in "Other long-term liabilities" amounted to ¥0 million (US$0 thousand) and ¥0 million, respectively.

20. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Investments in securities	¥ 534	¥ 500	$ 5,672
Capital contribution	220	101	2,343
Total	¥ 754	¥ 601	$ 8,015

21. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheets at March 31, 2013 and 2012 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, 2013 and 2012 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2013		2012		2013	
Balance at beginning of year	¥	238	¥	236	$	2,537
Increase due to acquisition of property, plant and equipment		16		3		173
Accretion expenses		1		1		10
Decrease due to fulfillment of asset retirement obligations		(11)		(1)		(121)
Balance at end of year	¥	244	¥	239	$	2,599

22. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the year ended March 31, 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2013		2012		2013	
Unrealized gains on other securities:						
Amount arising during the year	¥	4,048	¥	291	$	43,041
Reclassification adjustments for gains and losses included in net income		179		0		1,901
Amount before tax effect		4,227		291		44,942
Tax effect		(1,391)		310		(14,788)
Unrealized gain on other securities		2,836		601		30,154
Foreign currency translation adjustments:						
Amount arising during the year	¥	827	¥	(368)	$	8,789
Total other comprehensive income	¥	3,663	¥	233	$	38,943

23. 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.

As discussed in Note 3, the Company and its domestic consolidated subsidiaries changed their depreciation method. As a result of this change, segment profit of the Functional chemicals segment, the Life science segment, the Explosive & propulsion segment ,the Others segment and Corporate increased by ¥49 million ($522 thousand), ¥17 million ($185 thousand), ¥27 million ($289 thousand), ¥2 million ($22 thousand), and ¥4 million ($39 thousand) for the year ended March 31, 2013, respectively.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2013 and 2012

(Millions of yen)

	2013							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	¥ 91,786	¥ 23,471	¥ 32,152	¥ 147,409	¥ 1,451	¥ 148,860	¥ -	¥ 148,860
Inter-segment	87	2,576	16	2,679	7,020	9,699	(9,699)	-
Total	91,873	26,047	32,168	150,088	8,471	158,559	(9,699)	148,860
Segment income	¥ 7,112	¥ 3,825	¥ 2,262	¥ 13,199	¥ 129	¥ 13,328	¥ (986)	¥ 12,342
Assets	¥ 68,331	¥ 20,004	¥ 50,630	¥ 138,965	¥ 3,001	¥ 141,966	¥ 22,042	¥ 164,008
Depreciation	3,042	800	1,606	5,448	67	5,515	353	5,868
Capital expenditures	2,901	452	1,911	5,264	28	5,292	213	5,505

(Millions of yen)

	2012							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	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

(Thousands of U.S. dollars (Note 4))

	2013							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	$ 975,924	$ 249,562	$ 341,865	$ 1,567,351	$ 15,423	$ 1,582,774	$ -	$ 1,582,774
Inter-segment	925	27,383	173	28,481	74,641	103,122	(103,122)	-
Total	976,849	276,945	342,038	1,595,832	90,064	1,685,896	(103,122)	1,582,774
Segment income	$ 75,622	$ 40,669	$ 24,052	$ 140,343	$ 1,372	$ 141,715	$ (10,489)	$ 131,226
Assets	$ 726,549	$ 212,695	$ 538,326	$ 1,477,570	$ 31,899	$ 1,509,469	$ 234,366	$ 1,743,835
Depreciation	32,340	8,506	17,080	57,926	711	58,637	3,755	62,392
Capital expenditures	30,847	4,801	20,325	55,973	300	56,273	2,258	58,531

(2) Information related to reportable segments

1) The Group's sales by geographical area for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Japan	¥ 117,903	¥ 122,574	$ 1,253,620
Asia	17,538	15,444	186,473
Others	13,419	14,346	142,681
Total	¥ 148,860	¥ 152,364	$ 1,582,774

During this fiscal year, the management of the Group changed its method of classifying indirect exporting in sales by geographical area, which had previously been classified in Japan but is now changed to classify it in overseas. Prior year's disclosure is restated to conform to current year's presentation.

2) The Group's property, plant and equipment by geographical area as of March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Japan	¥ 50,044	¥ 51,586	$ 532,103
Others	4,199	3,041	44,647
Total	¥ 54,243	¥ 54,627	$ 576,750

(3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Functional chemicals	¥ 391	¥ 92	$ 4,158
Life science	-	-	-
Explosive & propulsion	-	-	-
Others	-	-	-
Total	¥ 391	¥ 92	$ 4,158

(4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2013 and 2012 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2013		2012		2013	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ 82	¥ 122	¥ 82	¥ 204	$ 867	$ 1,300
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	0	3	1
Others	-	-	-	-	-	-
Total	¥ 82	¥ 122	¥ 82	¥ 204	$ 870	$ 1,301

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

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2013		2012		2013	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ -	¥ -	¥ -	¥ -	$ -	$ -
Life science	-	-	-	-	-	-
Explosive & propulsion	0	0	0	0	1	0
Others	-	-	-	-	-	-
Total	¥ 0	¥ 0	¥ 0	¥ 0	$ 1	$ 0

24. 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, 2013 and 2012.

2013						
Location	Major use	Asset		Millions of yen		Thousands of U.S. dollars (Note 4)
Taketoyo City, Aichi	Facilities	Buildings, machinery and others	¥	391	$	4,158

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 ¥391 million (US$4,158 thousand) of impairment losses was recognized in the consolidated statements of income for the year ended March 31, 2013.
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 ¥236 million (US$2,509 thousand) for buildings and structures, ¥153 million (US$1,627 thousand) for machinery, equipment and vehicles and ¥2 million (US$22 thousand) for others.

2012				
Location	Major use	Asset		Millions of yen
Taketoyo City, Aichi	Idle	Machinery, and others	¥	92

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 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 for machinery, equipment and vehicles and ¥18 million for others.

25. Inventories

Inventories at March 31, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Merchandise and finished goods	¥ 17,297	¥ 16,304	$ 183,910
Work in process	3,810	3,718	40,506
Raw materials and supplies	8,580	8,264	91,232
Total	¥ 29,687	¥ 28,286	$ 315,648

26. Notes receivable and payable

The balance sheets date for the year ended March 31, 2013 and March 31, 2012 fell on a bank holiday. Consequently, notes receivable of ¥70 million (US$748 thousand) and notes payable of ¥52 million (US$555 thousand) and electronically recorded obligations-operating of ¥194 million (US$2,065 thousand) with a due date of March 31, 2013 and notes receivable of ¥46 million and notes payable of ¥311 million 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.

27. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Machinery, equipment and vehicles	¥ 9	¥ 2	$ 99
Other	0	5	0
Total	¥ 9	¥ 7	$ 99

28. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2013 and 2012 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2013	2012	2013
Buildings and structures	¥ 17	¥ 63	$ 182
Machinery, equipment and vehicles	42	37	443
Other	19	11	207
Total	¥ 78	¥ 111	$ 832