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***Sumitomo Light Metal Industries, Ltd.  
and Consolidated Subsidiaries***

*Consolidated Financial Statements for the  
Years Ended March 31, 2010 and 2009,  
and Independent Auditors' Report*

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of  
Sumitomo Light Metal Industries, Ltd.:

We have audited the accompanying consolidated balance sheets of Sumitomo Light Metal Industries, Ltd. (the "Company") and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

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

Our audits also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

*Deloitte Touche Tohmatsu LLC*

June 29, 2010

## Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

### Consolidated Balance Sheets March 31, 2010 and 2009

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2010	2009	2010		2010	2009	2010
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 14)	¥ 7,415	¥ 9,094	\$ 79,698	Short-term borrowings (Notes 6 and 14)	¥ 29,850	¥ 48,427	\$ 320,829
Time deposits (Notes 6 and 14)	172	333	1,844	Current portion of long-term debt (Notes 6 and 14)	46,279	57,447	497,408
Receivables (Note 14):				Commercial paper (Note 6)		3,000	
Trade notes (Note 6)	5,210	5,119	56,001	Payables (Note 14):			
Trade accounts	31,942	27,918	343,310	Trade notes	20,662	22,041	222,073
Unconsolidated subsidiaries and associated companies	4,572	2,174	49,137	Trade accounts	33,316	29,937	358,081
Other	3,956	2,121	42,527	Unconsolidated subsidiaries and associated companies	885	630	9,517
Allowance for doubtful receivables	(59)	(62)	(632)	Other	8,207	6,225	88,207
Inventories (Note 3)	34,946	47,451	375,600	Income taxes payable (Note 14)	498	258	5,349
Deferred tax assets (Note 10)	1,557	188	16,735	Deferred tax liabilities (Note 10)	2	125	24
Prepaid expenses and other current assets	1,626	1,302	17,481	Provision for restructuring loss (Note 12)	673		7,239
				Accrued expenses and other current liabilities (Note 6)	12,614	6,042	135,576
<b>Total current assets</b>	<b>91,337</b>	<b>95,638</b>	<b>981,701</b>	<b>Total current liabilities</b>	<b>152,986</b>	<b>174,132</b>	<b>1,644,303</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 6):</b>				<b>LONG-TERM LIABILITIES:</b>			
Land (Note 4)	97,674	110,337	1,049,809	Long-term debt (Notes 6 and 14)	106,639	100,861	1,146,165
Buildings and structures	60,604	62,229	651,374	Liability for employees' retirement benefits (Note 7)	4,882	4,593	52,471
Machinery and equipment	160,350	160,743	1,723,458	Deferred tax liabilities (Note 10)	1,120	249	12,042
Furniture and fixtures	19,396	22,007	208,465	Deferred tax liabilities for land revaluation (Note 4)	8,252	8,336	88,689
Lease assets	4,448	3,995	47,809	Other	7,419	14,225	79,735
Construction in progress	9,110	10,598	97,911				
<b>Total</b>	<b>351,582</b>	<b>369,909</b>	<b>3,778,826</b>	<b>Total long-term liabilities</b>	<b>128,312</b>	<b>128,264</b>	<b>1,379,102</b>
Accumulated depreciation	(190,553)	(189,062)	(2,048,078)	<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
				(Notes 13, 15, 16 and 17)			
<b>Net property, plant and equipment</b>	<b>161,029</b>	<b>180,847</b>	<b>1,730,748</b>	<b>EQUITY (Note 8):</b>			
<b>INVESTMENTS AND OTHER ASSETS:</b>				Common stock—authorized, 960,000,000 shares; issued, 432,038,867 shares in 2010 and 367,567,811 shares in 2009	22,966	20,211	246,845
Investment securities (Notes 5, 6 and 14)	39,067	30,073	419,894	Capital surplus	3,260	5,902	35,041
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 14)	2,967	2,468	31,887	Retained earnings	5,579	6,036	59,967
Long-term loans (Note 14)	3,334	74	35,835	Net unrealized gain (loss) on available-for-sale securities	569	(1,232)	6,114
Deferred tax assets (Note 10)	443	665	4,766	Deferred gain (loss) on derivatives under hedge accounting	171	(875)	1,842
Other assets (Note 6)	11,721	11,566	125,971	Land revaluation surplus (Note 4)	9,661	9,784	103,829
				Foreign currency translation adjustments	(14,475)	(21,821)	(155,579)
<b>Total investments and other assets</b>	<b>57,532</b>	<b>44,846</b>	<b>618,353</b>	Treasury stock—at cost, 31,514 shares in 2010 and 480,317 shares in 2009	(3)	(77)	(38)
				<b>Total</b>	<b>27,728</b>	<b>17,928</b>	<b>298,021</b>
				Minority interests	872	1,007	9,376
				<b>Total equity</b>	<b>28,600</b>	<b>18,935</b>	<b>307,397</b>
<b>TOTAL</b>	<b>¥309,898</b>	<b>¥321,331</b>	<b>\$3,330,802</b>	<b>TOTAL</b>	<b>¥309,898</b>	<b>¥321,331</b>	<b>\$3,330,802</b>

See notes to consolidated financial statements.

## Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

### Consolidated Statements of Operations Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
NET SALES	¥233,531	¥278,190	\$2,510,003
COST OF SALES	<u>208,540</u>	<u>264,440</u>	<u>2,241,400</u>
Gross profit	24,991	13,750	268,603
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>19,782</u>	<u>21,440</u>	<u>212,621</u>
Operating income (loss)	<u>5,209</u>	<u>(7,690)</u>	<u>55,982</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	348	330	3,746
Interest expense	(4,611)	(4,374)	(49,561)
Loss on sale or disposal of property, plant and equipment	(231)	(495)	(2,481)
Loss on valuation of investment securities	(12)	(948)	(134)
Foreign exchange gain (loss)	1,627	(1,669)	17,487
Restructuring loss (Note 12)	(8,322)		(89,446)
Other—net	<u>(427)</u>	<u>(1,898)</u>	<u>(4,585)</u>
Other expenses—net	<u>(11,628)</u>	<u>(9,054)</u>	<u>(124,974)</u>
LOSS BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>(6,419)</u>	<u>(16,744)</u>	<u>(68,992)</u>
INCOME TAXES (Note 10):			
Current	890	1,022	9,564
Deferred	<u>(852)</u>	<u>387</u>	<u>(9,158)</u>
Total income taxes	<u>38</u>	<u>1,409</u>	<u>406</u>
MINORITY INTERESTS IN NET LOSS	<u>23</u>	<u>(10)</u>	<u>252</u>
NET LOSS	<u>¥ (6,480)</u>	<u>¥ (18,143)</u>	<u>\$ (69,650)</u>
PER SHARE OF COMMON STOCK (Note 2.o):			
	<u>Yen</u>		<u>U.S. Dollars</u>
Basic net loss	¥(15.96)	¥(49.42)	\$(0.17)
	<u>Thousands of Shares</u>		
Weighted average shares	406,117	367,111	

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity  
Years Ended March 31, 2010 and 2009

	Thousands	Millions of Yen										
	Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2008	367,568	¥20,211	¥5,902	¥24,361	¥ 894	¥ (797)	¥9,821	¥ (6,962)	¥(71)	¥53,359	¥3,749	¥57,108
Effect of changes in accounting policies applied to foreign subsidiaries				3						3	1	4
Net loss				(18,143)						(18,143)		(18,143)
Cash dividends, ¥3.00 per share				(1,101)						(1,101)		(1,101)
Reversal of land revaluation surplus				38						38		38
Increase by merger				164						164		164
Change of scope of consolidation				675						675		675
Change of scope of equity method				43						43		43
Reserve for employees' welfare fund				(4)						(4)		(4)
Purchase of treasury stock									(6)	(6)		(6)
Net change in the year					(2,126)	(78)	(37)	(14,859)		(17,100)	(2,743)	(19,843)
BALANCE, MARCH 31, 2009	367,568	20,211	5,902	6,036	(1,232)	(875)	9,784	(21,821)	(77)	17,928	1,007	18,935
Net loss				(6,480)						(6,480)		(6,480)
Issuance of common stock (Note 9)	58,000	2,755	2,755							5,510		5,510
Share exchange (Note 9)	6,471		505						76	581		581
Transfer from capital surplus to retained earnings			(5,902)	5,902								
Reversal of land revaluation surplus				123						123		123
Reserve for employees' welfare fund				(2)						(2)		(2)
Purchase of treasury stock									(2)	(2)		(2)
Net change in the year					1,801	1,046	(123)	7,346		10,070	(135)	9,935
BALANCE, MARCH 31, 2010	<u>432,039</u>	<u>¥22,966</u>	<u>¥3,260</u>	<u>¥ 5,579</u>	<u>¥ 569</u>	<u>¥ 171</u>	<u>¥9,661</u>	<u>¥(14,475)</u>	<u>¥ (3)</u>	<u>¥27,728</u>	<u>¥ 872</u>	<u>¥28,600</u>

**Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries**

**Consolidated Statements of Changes in Equity  
Years Ended March 31, 2010 and 2009**

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Net Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Treasury Stock	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2009	\$217,234	\$63,440	\$64,871	\$(13,242)	\$ (9,405)	\$105,154	\$(234,538)	\$(823)	\$192,691	\$10,821	\$203,512
Net loss			(69,650)						(69,650)		(69,650)
Issuance of common stock (Note 9)	29,611	29,611							59,222		59,222
Share exchange (Note 9)		5,430						812	6,242		6,242
Transfer from capital surplus to retained earnings		(63,440)	63,440								
Reversal of land revaluation surplus			1,326						1,326		1,326
Reserve for employees' welfare fund			(20)						(20)		(20)
Purchase of treasury stock								(27)	(27)		(27)
Net change in the year	<u>          </u>	<u>          </u>	<u>          </u>	<u>19,356</u>	<u>11,247</u>	<u>(1,325)</u>	<u>78,959</u>	<u>          </u>	<u>108,237</u>	<u>(1,445)</u>	<u>106,792</u>
BALANCE, MARCH 31, 2010	<u>\$246,845</u>	<u>\$35,041</u>	<u>\$59,967</u>	<u>\$ 6,114</u>	<u>\$ 1,842</u>	<u>\$103,829</u>	<u>\$(155,579)</u>	<u>\$ (38)</u>	<u>\$298,021</u>	<u>\$ 9,376</u>	<u>\$307,397</u>

See notes to consolidated financial statements.

## Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

### Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
<b>OPERATING ACTIVITIES:</b>			
Loss before income taxes and minority interests	<u>¥ (6,419)</u>	<u>¥(16,744)</u>	<u>\$ (68,992)</u>
Adjustments for:			
Income taxes—paid	(677)	(1,979)	(7,271)
Depreciation and amortization	10,982	11,546	118,042
Restructuring loss	8,322		89,446
Amortization of negative goodwill	(284)	(197)	(3,057)
Loss on sale or disposal of property, plant and equipment	231	495	2,481
Loss on valuation of investment securities	12	948	134
Foreign exchange (gains) losses	463	(889)	4,977
Equity in losses (earnings) of unconsolidated subsidiaries and an associated company	(415)	219	(4,460)
Changes in assets and liabilities:			
Decrease (increase) in trade accounts receivable	(5,819)	17,448	(62,547)
Decrease in inventories	11,942	12,851	128,355
Increase (decrease) in trade accounts payable	3,016	(33,029)	32,412
Increase in liability for retirement benefits	289	468	3,107
Other—net	<u>(3,799)</u>	<u>9,215</u>	<u>(40,831)</u>
Total adjustments	<u>24,263</u>	<u>17,096</u>	<u>260,788</u>
Net cash provided by operating activities	<u>17,844</u>	<u>352</u>	<u>191,796</u>
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	(1,395)	(1,335)	(14,999)
Proceeds from withdrawal of time deposits	1,565	1,447	16,823
Proceeds from sale of property, plant and equipment	14,423	583	155,023
Purchases of property, plant and equipment	(10,132)	(7,358)	(108,905)
Decrease in investments in and advances to unconsolidated subsidiaries and associated companies	24	45	258
Acquisition of shares of consolidated subsidiaries	(63)	(2,158)	(679)
Acquisition of long-term prepaid expense	(650)	(541)	(6,985)
Payments of long-term loans receivable	(2,412)	(14)	(25,929)
Other—net	<u>310</u>	<u>(1,617)</u>	<u>3,339</u>
Net cash provided by (used in) investing activities	<u>1,670</u>	<u>(10,948)</u>	<u>17,946</u>
<b>FORWARD</b>	<u>¥19,514</u>	<u>¥(10,596)</u>	<u>\$209,742</u>

## Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

### Consolidated Statements of Cash Flows Years Ended March 31, 2010 and 2009

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2010</u>	<u>2009</u>	<u>2010</u>
FORWARD	<u>¥19,514</u>	<u>¥(10,596)</u>	<u>\$209,742</u>
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings—net	(18,538)	10,045	(199,250)
Proceeds from long-term debt	54,374	47,150	584,420
Repayments of long-term debt	(60,441)	(47,867)	(649,623)
Proceeds from sale and lease back transaction	422	4,084	4,538
Decrease in commercial paper	(3,000)		(32,244)
Proceeds from issuance of common stock	5,432		58,388
Dividends paid		(1,101)	
Other—net	<u>(29)</u>	<u>(81)</u>	<u>(319)</u>
Net cash provided by (used in) financing activities	<u>(21,780)</u>	<u>12,230</u>	<u>(234,090)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>587</u>	<u>(830)</u>	<u>6,307</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,679)	804	(18,041)
CASH AND CASH EQUIVALENTS OF NEWLY CONSOLIDATED SUBSIDIARIES, END OF YEAR		627	
CASH AND CASH EQUIVALENTS INCREASED BY MERGER OF AN UNCONSOLIDATED SUBSIDIARY		234	
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>9,094</u>	<u>7,429</u>	<u>97,739</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 7,415</u>	<u>¥ 9,094</u>	<u>\$ 79,698</u>

See notes to consolidated financial statements.



# Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Years Ended March 31, 2010 and 2009

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### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2009 consolidated financial statements to conform to the classifications used in 2010.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Sumitomo Light Metal Industries, Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥93.04 to \$1, the approximate rate of exchange at March 31, 2010. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Consolidation**—The consolidated financial statements as of March 31, 2010 include the accounts of the Company and its 23 (21 in 2009) significant subsidiaries (collectively, the "Group").

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in three (three in 2009) unconsolidated subsidiaries and one (one in 2009) associated company are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

The differences between the cost and underlying net equity of investments in consolidated subsidiaries and associated companies at acquisition are amortized on a straight-line basis over five years.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; (e) recording the prior years' effects of changes in accounting policies in the statements of operations where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if included. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. In addition, the Company adjusted the beginning balance of retained earnings at April 1, 2008 as if this accounting standard had been retrospectively applied.

- c. Cash Equivalents**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

- d. Inventories**—Inventories are stated at the lower of cost, principally determined by the average method, or net selling value.

- e. Property, Plant and Equipment**—Property, plant and equipment are stated at cost except for land (see Note 4). Depreciation is computed principally by the straight-line method for buildings and machinery, and principally by the declining-balance method for other assets except for lease assets, based on the estimated useful lives for the assets. Lease assets are depreciated by the straight-line method over the respective lease periods.

Estimated useful lives are as follows:

Buildings and structures	—Principally 15 to 50 years
Machinery and equipment	—Principally 7 years
Lease assets	—Principally 3 years

- f. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- g. Investment Securities**—All investment securities listed on stock exchanges are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- h. Initial Cost of Business**—Initial cost of business is amortized by the straight-line method over three years.

- i. Employees' Retirement Benefits**—The Company has a contributory, funded defined benefit pension plan and unfunded retirement benefit plans for its employees which cover approximately 70% and 30%, respectively, of their benefits. Certain domestic consolidated subsidiaries have defined benefit pension plans and unfunded retirement benefit plans.

Effective April 1, 2000, the Group adopted a new accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

The transitional obligation of ¥24,563 million (\$264,005 thousand), determined as of April 1, 2000, is being amortized over 15 years.

- j. Lease**—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008, with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and which do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

- k. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statements of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently-enacted tax laws to the temporary differences.

- l. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of operations to the extent that they are not hedged by forward exchange contracts.

- m. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation were shown as "Foreign currency translation adjustments" and include "Minority interests" in a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the exchange rates at the balance sheet date.

- n. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange, interest rates, raw material prices and selling prices of finished goods. Foreign exchange forward contracts are utilized to reduce foreign currency exchange rate risks. Interest rate swaps and options are utilized by the Group to reduce interest rate risks. Commodity futures are utilized by the Group to reduce the risk of fluctuation in raw material prices and selling prices of finished goods.

The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of operations, and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are employed to hedge foreign exchange exposures from the sale of finished goods to overseas customers and in the procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at contracted rates if the forward contracts qualify for hedge accounting. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value, and unrealized gains/losses are deferred until the underlying transactions are completed.

The interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements are recognized and included in interest expense or income.

Other interest rate swaps, options and commodity futures which qualify for hedge accounting are also measured at market value at the balance sheet date, and the unrealized gains or losses are shown as "Deferred gain (loss) on derivatives under hedge accounting" in a separate component of equity.

- o. Per Share Information**—Basic net loss per share is computed by dividing net loss available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised or converted into common stock. Diluted net income per share of common stock assumes full conversion of the outstanding convertible notes and bonds at the beginning of the year (or at the time of issuance) with an applicable adjustment for related interest expense, net of tax, and full exercise of outstanding warrants.

Diluted net income per share is not disclosed because of the Company's net loss position for the years ended March 31, 2010 and 2009.

Cash dividends per share presented in the accompanying consolidated statements of operations are dividends applicable to the respective years, including dividends to be paid after the end of the year.

**p. New Accounting Pronouncements**

**Business Combinations**—In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows:

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development costs (IPR&D) acquired by the business combination are capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**Asset Retirement Obligations**—In March 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations," and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010, with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**Accounting Changes and Error Corrections**—In December 2009, the ASBJ issued ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections." Accounting treatments under this standard and guidance are as follows:

(1) *Changes in accounting policies*

When a new accounting policy is applied with revision of accounting standards, a new policy is applied retrospectively unless the revised accounting standards include specific transitional provisions. When the revised accounting standards include specific transitional provisions, an entity shall comply with the specific transitional provisions.

(2) *Changes in presentation*

When the presentation of financial statements is changed, prior period financial statements are reclassified in accordance with the new presentation.

(3) *Changes in accounting estimates*

A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) *Corrections of prior period errors*

When an error in prior period financial statements is discovered, those statements are restated.

This accounting standard and the guidance are applicable to accounting changes and corrections of prior period errors which are made from the beginning of the fiscal year that begins on or after April 1, 2011.

**Segment Information Disclosures**—In March 2008, the ASBJ revised ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and issued ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures." Under the standard and guidance, an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments. This accounting standard and guidance are applicable to segment information disclosures for the fiscal years beginning on or after April 1, 2010.

### 3. INVENTORIES

Inventories at March 31, 2010 and 2009 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Finished products	¥11,498	¥14,548	\$123,587
Work in process	16,303	18,285	175,222
Raw materials and supplies	<u>7,145</u>	<u>14,618</u>	<u>76,791</u>
Total	<u>¥34,946</u>	<u>¥47,451</u>	<u>\$375,600</u>

#### 4. LAND REVALUATION

Under the "Law of Land Revaluation," the Company and certain subsidiaries elected a one-time revaluation of their own-use land to a value based on real estate appraisal information as of March 31, 2001 (Nippon Aluminium Co., Ltd. ("NAL"), Nippon Aluminium Shiga Co., Ltd. and Nippon Aluminium Anjo Co., Ltd.) and 2000 (the Company).

The resulting land revaluation excess represents unrealized appreciation of land and is stated, net of income taxes, as a component of equity. There was no effect on the consolidated statements of operations. Continuous readjustment is not permitted unless the land value subsequently declines significantly such that the amount of the decline in value should be removed from the land revaluation excess account and related deferred tax liabilities. As of March 31, 2010, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥9,653 million (\$103,748 thousand).

#### 5. INVESTMENT SECURITIES

Investment securities as of March 31, 2010 and 2009 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Non-current—Marketable equity securities	¥7,813	¥5,977	\$83,978

Included in the above marketable securities were stock lending transactions of ¥2,446 million (\$26,292 thousand) and ¥3,947 million at March 31, 2010 and 2009, respectively.

The cost and aggregate fair values of investment securities at March 31, 2010 and 2009 were as follows:

	<u>Millions of Yen</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>March 31, 2010</u>				
Securities classified as available-for-sale—Equity securities	¥6,831	¥1,530	¥548	¥7,813
<u>March 31, 2009</u>				
Securities classified as available-for-sale—Equity securities	¥7,216	¥498	¥1,737	¥5,977
	<u>Thousands of U.S. Dollars</u>			
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
<u>March 31, 2010</u>				
Securities classified as available-for-sale—Equity securities	\$73,421	\$16,449	\$5,892	\$83,978

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 were as follows. The similar information for 2010 is disclosed in Note 14.

<u>March 31, 2009</u>	<u>Carrying Amount</u> <u>Millions of Yen</u>
Available-for-sale—Equity securities	¥24,096

Proceeds from sales of available-for-sale securities for the year ended March 31, 2009 were ¥2 million. Gross realized gains and losses on these sales, computed on the moving-average cost basis, were zero and ¥0 million, respectively, for the year ended March 31, 2009.

The information of available-for-sale securities which were sold during the year ended March 31, 2010 was as follows:

<u>March 31, 2010</u>	Millions of Yen		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale—Equity securities	¥677	¥241	¥5

  

<u>March 31, 2010</u>	Thousands of U.S. Dollars		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale—Equity securities	\$7,278	\$2,588	\$49

#### 6. SHORT-TERM BORROWINGS, LONG-TERM DEBT AND INTEREST-BEARING LIABILITIES

Short-term borrowings at March 31, 2010 and 2009 principally consisted of notes to banks, bank overdrafts and cash collateral with respect to lending stock. The annual interest rates applicable to the short-term borrowings ranged from 0.80% to 5.06% and 1.00% to 6.21% at March 31, 2010 and 2009, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Unsecured 0.0% yen convertible bonds, convertible into common stock at ¥338 per share, due 2011	¥ 5	¥ 15,000	\$ 54
Unsecured 2.64% yen bonds due 2010		310	
Loans from banks and other financial institutions, due serially through 2015 with interest rates ranging from 0.957% to 4.309% (2010) and from 1.138% to 5.206% (2009):			
Collateralized	1,543	7,953	16,586
Unsecured	147,790	131,136	1,588,459
Obligation under finance leases	3,580	3,909	38,474
Total	<u>152,918</u>	<u>158,308</u>	<u>1,643,573</u>
Less current portion	<u>(46,279)</u>	<u>(57,447)</u>	<u>(497,408)</u>
Long-term debt, less current portion	<u>¥106,639</u>	<u>¥100,861</u>	<u>\$1,146,165</u>



Annual maturities of long-term debt, excluding finance leases (see Note 13), at March 31, 2010 were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2011	¥ 45,477	\$ 488,797
2012	40,787	438,378
2013	45,549	489,558
2014	14,434	155,138
2015	<u>3,091</u>	<u>33,228</u>
Total	<u>¥149,338</u>	<u>\$1,605,099</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥549 million (\$5,903 thousand) and the above collateralized long-term debt at March 31, 2010 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Time deposits	¥ 1	\$ 12
Trade notes	86	924
Property, plant and equipment— net of accumulated depreciation	95,989	1,031,691
Investment securities	247	2,661
Other assets	<u>4</u>	<u>43</u>
Total	<u>¥96,327</u>	<u>\$1,035,331</u>

Other interest-bearing liabilities consisted of deposits received of ¥244 million (\$2,626 thousand) and current portion of long-term deposits received (unsecured) of ¥8,357 million (\$89,822 thousand) included in other current liabilities as of March 31, 2010.

The annual interest rates applicable to the deposit received is 1.055%, and to the current portion of long-term deposits received (unsecured) ranged from 1.84% to 2.153% at March 31, 2010.

## 7. EMPLOYEES' RETIREMENT BENEFITS

The Company and certain of its domestic consolidated subsidiaries have severance payment plans for employees.

Employees whose service with the Company or certain domestic consolidated subsidiaries is terminated are, under most circumstances, entitled to retirement and pension benefits determined by reference to the employee's basic rates of pay at the time of termination, length of service and conditions under which the termination occurred. If the termination is involuntary, caused by retirement at the mandatory retirement age or caused by death, the employee is entitled to a greater payment than in the case of voluntary termination.

The Company has a contributory, funded defined benefit pension plan and unfunded retirement benefit plans for its employees which cover approximately 70% and 30%, respectively, of their benefit. Certain domestic consolidated subsidiaries have defined benefit pension plans and unfunded retirement benefit plans.

The liability for employees' retirement benefits at March 31, 2010 and 2009 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Projected benefit obligation	¥23,749	¥25,686	\$255,254
Fair value of plan assets	(8,788)	(7,620)	(94,452)
Unrecognized prior service cost	321	235	3,451
Unrecognized actuarial loss	(3,087)	(4,861)	(33,175)
Unrecognized transitional obligation	(7,540)	(9,047)	(81,041)
Prepaid benefit costs	<u>227</u>	<u>200</u>	<u>2,434</u>
Net liability	<u>¥ 4,882</u>	<u>¥ 4,593</u>	<u>\$ 52,471</u>

The components of net periodic benefit costs for the years ended March 31, 2010 and 2009 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Service cost	¥1,411	¥1,498	\$15,166
Interest cost	568	586	6,105
Expected return on plan assets	(155)	(178)	(1,668)
Amortization of prior service cost	(41)	(40)	(436)
Recognized actuarial loss	633	485	6,801
Amortization of transitional obligation	<u>1,508</u>	<u>1,509</u>	<u>16,207</u>
Net periodic benefit costs	<u>¥3,924</u>	<u>¥3,860</u>	<u>\$42,175</u>

Assumptions used for the years ended March 31, 2010 and 2009 are set forth as follows:

	<u>2010</u>	<u>2009</u>
Discount rate	2.0%–2.2%	2.0%–2.5%
Expected rate of return on plan assets	2.5%	2.0%–2.5%
Amortization period of prior service cost	13 years	10–13 years
Recognition period of actuarial gain/loss	9–13 years	10–13 years
Amortization period of transitional obligation	15 years	15 years

## 8. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having a board of directors, (2) having independent auditors, (3) having a board of corporate auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the board of directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company cannot do so because it does not meet all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the board of directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

***b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus***

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of the aggregate amount of legal reserve and additional paid-in capital equals 25% of the amount of common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

***c. Treasury Stock and Treasury Stock Acquisition Rights***

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

**9. SIGNIFICANT CHANGES IN EQUITY**

***(1) Share Exchange***

A share exchange was implemented between the Company and its subsidiary, NAL, on July 31, 2009 resulting in the Company owning all shares of NAL. As a result, additional paid-in capital and other capital surplus (both are components of capital surplus) of the Company increased by ¥471 million (\$5,058 thousand) and ¥34 million (\$372 thousand), respectively.

***(2) Issuance of Common Stock***

The Company issued 58,000,000 shares of common stock to Sumitomo Corporation, Sumitomo Mitsui Banking Corporation, and five other companies, on September 17, 2009. As a result, common stock and additional paid-in capital (a component of capital surplus) of the Company increased by ¥2,755 million (\$29,611 thousand) and ¥2,755 million (\$29,611 thousand), respectively.

## 10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.5% for the years ended March 31, 2010 and 2009.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2010 and 2009 are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u> <u>U.S. Dollars</u>
	<u>2010</u>	<u>2009</u>	<u>2010</u>
Deferred tax assets:			
Accrued employees' bonuses	¥ 163	¥ 155	\$ 1,745
Employees' retirement benefits	1,907	1,772	20,496
Tax loss carryforwards	12,754	6,925	137,083
Other	2,614	2,926	28,094
Less valuation allowance	<u>(14,519)</u>	<u>(10,410)</u>	<u>(156,050)</u>
Total	<u>2,919</u>	<u>1,368</u>	<u>31,368</u>
Deferred tax liabilities:			
Unrealized gain on inventories	958	635	10,293
Unrealized gain on investment securities	404	99	4,347
Other	<u>679</u>	<u>155</u>	<u>7,293</u>
Total	<u>2,041</u>	<u>889</u>	<u>21,933</u>
Net deferred tax assets	<u>¥ 878</u>	<u>¥ 479</u>	<u>\$ 9,435</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2010 and 2009 is as follows:

	<u>2010</u>	<u>2009</u>
Normal effective statutory tax rate	40.5 %	40.5 %
Net increase in valuation allowance	(45.7)	(46.7)
Expenses not deductible for income tax purposes	(1.1)	(1.4)
Effect of liquidation of a consolidated subsidiary	3.7	
Equity in earnings (losses) of unconsolidated subsidiaries and an associated company	2.6	(0.1)
Inhabitant tax on per capita basis	(0.2)	(0.4)
Other—net	<u>(0.4)</u>	<u>(0.3)</u>
Actual effective tax rate	<u>(0.6)%</u>	<u>(8.4)%</u>

At March 31, 2010, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥31,869 million (\$342,529 thousand) which are available to be offset against taxable income of such the Company and subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2013	¥ 12	\$ 134
2014	293	3,145
2015	41	441
2016 and thereafter	<u>31,523</u>	<u>338,809</u>
Total	<u>¥31,869</u>	<u>\$342,529</u>

#### 11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,056 million (\$22,096 thousand) and ¥2,436 million for the years ended March 31, 2010 and 2009, respectively.

#### 12. RESTRUCTURING LOSS

A loss of ¥8,322 million (\$89,446 thousand) for the year ended March 31, 2010 represents the relevant cost of business restructuring with respect to the aluminum extruded products business and the aluminum processed goods business of the Company and its consolidated subsidiaries.

The aluminum extruded products business represented ¥6,259 million (\$67,273 thousand) of the loss, which mainly consists of the loss on impairment of long-lived assets of ¥3,654 million (\$39,278 thousand) and the loss on sale of land and buildings regarding Chiba works of ¥864 million (\$9,280 thousand).

The aluminum processed goods business represented ¥2,063 million (\$22,173 thousand) of the loss, which mainly consists of the loss on impairment of long-lived assets of ¥1,250 million (\$13,431 thousand) and the loss on disposal of inventories of ¥702 million (\$7,548 thousand).

With respect to these losses, a provision of ¥673 million (\$7,239 thousand) is set out for estimated costs.

#### 13. LEASES

The Group principally leases production facilities.

Total rental expense including lease payments under finance leases for the years ended March 31, 2010 and 2009 was ¥5,122 million (\$55,050 thousand) and ¥3,742 million, respectively.

For the year ended March 31, 2010, the Group recorded an impairment loss of ¥1,595 million (\$17,141 thousand) on certain leased property held under finance leases that do not transfer ownership, and an allowance for impairment loss on leased property, which is included in current and long-term liabilities—other.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2010		2010	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 801	¥1,300	\$ 8,611	\$13,978
Due after one year	2,779	4,259	29,863	45,772
Total	<u>¥3,580</u>	<u>¥5,559</u>	<u>\$38,474</u>	<u>\$59,750</u>

**Pro forma Information of Leased Property Whose Lease Inception Was before March 31, 2008**

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases without ownership transfer of the leased property to the lessee whose lease inception was before March 31, 2008 to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Company applied ASBJ Statement No. 13 effective April 1, 2008, and accounted for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance leases, depreciation expense, and other information of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis was as follows:

	Millions of Yen							
	2010				2009			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥6,795	¥634	¥477	¥7,906	¥5,614	¥694	¥592	¥6,900
Accumulated depreciation	3,966	316	352	4,634	3,039	396	379	3,814
Accumulated impairment loss	69	—	—	69	—	—	—	—
Net leased property	<u>¥2,760</u>	<u>¥318</u>	<u>¥125</u>	<u>¥3,203</u>	<u>¥2,575</u>	<u>¥298</u>	<u>¥213</u>	<u>¥3,086</u>

  

	Thousands of U.S. Dollars			
	2010			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	\$73,034	\$6,820	\$5,123	\$84,977
Accumulated depreciation	42,622	3,403	3,783	49,808
Accumulated impairment loss	745	—	—	745
Net leased property	<u>\$29,667</u>	<u>\$3,417</u>	<u>\$1,340</u>	<u>\$34,424</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2010	2009	2010
Due within one year	¥1,165	¥ 913	\$12,525
Due after one year	2,107	2,173	22,645
Total	<u>¥3,272</u>	<u>¥3,086</u>	<u>\$35,170</u>

Allowance for impairment loss on leased property of ¥69 million (\$745 thousand) as of March 31, 2010 is not included in obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying consolidated statements of operations, computed by the straight-line method was ¥1,321 million (\$14,199 thousand) and ¥953 million for the years ended March 31, 2010 and 2009, respectively.

#### **14. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES**

On March 10, 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010, with early adoption permitted from the beginning of the fiscal years ending before March 31, 2010. The Group applied the revised accounting standard and the new guidance effective March 31, 2010.

##### **(1) *Group Policy for Financial Instruments***

The Group uses financial instruments, mainly long-term debt including bank loans, convertible bonds and lease obligations. Cash surpluses, if any, are invested in low-risk financial assets, such as short-term bank deposits. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

##### **(2) *Nature and Extent of Risks Arising from Financial Instruments***

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts.

Investment securities are all equity instruments of customers and suppliers of the Group, and are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position is hedged by using forward foreign currency contracts.

Maturities of bank loans, convertible bonds and lease obligations are less than five years after the balance sheet date. Although a portion of such bank loans, convertible bonds and lease obligations are exposed to market risks from changes in variable interest rates, those risks are partly mitigated by using derivatives of interest rate swaps and options.

Derivatives mainly include forward foreign currency contracts, interest rate swaps, interest rate option and commodity futures, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, from changes in interest rates of bank loans, raw material prices and selling prices of finished goods. Please see Note 15 for more detail about derivatives.

##### **(3) *Risk Management for Financial Instruments***

###### *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of customers to identify the default risk of customers, in the early stages.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2010.

*Market risk management (foreign exchange risk and interest rate risk)*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts.

Interest rate swaps and options are used to manage exposure to market risks from changes in interest rates of loan payables.

Investment securities (marketable equity securities) are managed by monitoring market values on a quarterly basis.

Basic principles of derivative transactions have been managed by each business administration department based on the internal guidelines.

**(4) Fair Values of Financial Instruments**

Fair values of financial instruments are based on quoted price in active markets. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 15 for the detail of fair value for derivatives.

*(a) Fair value of financial instruments*

<u>March 31, 2010</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	¥ 7,415	¥ 7,415	
Time deposits	172	172	
Receivables	45,483	45,483	
Investment securities	7,813	7,813	
Investments in and advances to unconsolidated subsidiaries and associated companies	611	614	¥ 3
Long-term loans	<u>3,510</u>	<u>3,510</u>	<u>—</u>
Total	<u>¥ 65,004</u>	<u>¥ 65,007</u>	<u>¥ 3</u>
Short-term borrowings	¥ 29,850	¥ 29,850	
Payables	63,070	63,070	
Income taxes payable	498	498	
Long-term debt	<u>152,918</u>	<u>152,526</u>	<u>¥392</u>
Total	<u>¥246,336</u>	<u>¥245,944</u>	<u>¥392</u>
Derivative transactions	<u>¥ 334</u>	<u>¥ 334</u>	<u>—</u>



<u>March 31, 2010</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain</u>
Cash and cash equivalents	\$ 79,698	\$ 79,698	
Time deposits	1,844	1,844	
Receivables	488,851	488,851	
Investment securities	83,978	83,978	
Investments in and advances to unconsolidated subsidiaries and associated companies	6,804	6,836	\$ 32
Long-term loans	<u>37,489</u>	<u>37,489</u>	
Total	<u>\$ 698,664</u>	<u>\$ 698,696</u>	<u>\$ 32</u>
Short-term borrowings	\$ 320,829	\$ 320,829	
Payables	677,878	677,878	
Income taxes payable	5,349	5,349	
Long-term debt	<u>1,643,573</u>	<u>1,639,355</u>	<u>\$4,218</u>
Total	<u>\$2,647,629</u>	<u>\$2,643,411</u>	<u>\$4,218</u>
Derivative transactions	<u>\$ 3,587</u>	<u>\$ 3,587</u>	

#### Cash and Cash Equivalents, Time Deposits and Receivables

The carrying values of cash and cash equivalents, time deposits and receivables approximate fair value because of their short maturities.

The foreign currency forward contracts employed to hedge foreign exchange exposures in the sales of the finished goods to overseas customers and in procurement of raw materials from overseas suppliers. Certain trade receivable denominated in foreign currencies is translated at contracted rates if the forward contracts qualify for hedge accounting. In addition, the fair value of such forward contracts is included in that of trade receivable.

#### Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 5.

#### Investments in and Advances to Unconsolidated Subsidiaries and Associated Companies, and Long-Term Loans

The fair values of investments in and advances to unconsolidated subsidiaries and associated companies, and long-term loans are determined by discounting the cash flows related to the loan at the Group's assumed rate.

The current portion of long-term loans is included in long-term loans as indicated in the above.

#### Short-Term Borrowings, Payables and Income Taxes Payable

The carrying values of short-term borrowings, payables and income taxes payable approximate fair value because of their short maturities.

Foreign currency forward contracts are employed to hedge foreign exchange exposures in the sale of finished goods to overseas customers and in the procurement of raw materials from overseas suppliers. Certain trade payables denominated in foreign currencies are translated at contracted rates if the forward contracts qualify for hedge accounting. In addition, the fair value of such forward contracts is included in that of trade payables.

#### Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Group's assumed refinance rates.

Certain interest rate swaps which qualify for hedge accounting and which meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in long-term debt.

The current portion of long-term debt is included in long-term debt as indicated in the above.

#### Derivatives

The information of the fair value for derivatives is included in Note 15.

#### *(b) Financial instruments whose fair value cannot be reliably determined*

<u>March 31, 2010</u>	<u>Carrying Amount</u>	
	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Investments in equity instruments which do not have a quoted market price in an active market	¥31,254	\$335,916
Investments in and advances to unconsolidated subsidiaries which do not have a quoted market price in an active market	2,378	25,553

#### **(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities**

<u>March 31, 2010</u>		<u>Millions of Yen</u>			
		<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
Cash and cash equivalents	¥ 7,415				
Time deposits	172				
Receivables	45,482				
Investments in and advances to unconsolidated subsidiaries and associated companies	21	¥ 589	¥23		
Long-term loans	<u>176</u>	<u>3,312</u>			
Total	<u>¥53,266</u>	<u>¥3,901</u>	<u>¥23</u>		

	Thousands of U.S. Dollars			
	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
<u>March 31, 2010</u>				
Cash and cash equivalents	\$ 79,698			
Time deposits	1,844			
Receivables	488,851			
Investments in and advances to unconsolidated subsidiaries and associated companies	228	\$ 6,334	\$ 242	
Long-term loans	<u>1,895</u>	<u>35,594</u>		
Total	<u>\$572,516</u>	<u>\$41,928</u>	<u>\$242</u>	

Please see Note 6 for annual maturities of long-term debt and Note 13 for obligations under finance leases, respectively.

## 15. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Group also enters into interest rate swap contracts and options to manage its interest rate exposures on certain liabilities. In addition, the Group enters into commodity futures to hedge the risk of fluctuations in selling prices of finished goods, raw material prices associated with inventories and trade payables.

All derivative transactions are entered into to hedge price, interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amount.

As noted in Note 14, the Group applied ASBJ Statement No. 10, "Accounting Standard for Financial Instruments," and ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." The accounting standard and the guidance are applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010; therefore, the required information is disclosed only for 2010.

### ***Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2010***

	Millions of Yen			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
<u>March 31, 2010</u>				
Commodity futures—Selling	¥563		¥(4)	¥(4)
	Thousands of U.S. Dollars			
	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Loss
<u>March 31, 2010</u>				
Commodity futures—Selling	\$6,051		\$(42)	\$(42)

**Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2010**

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Millions of Yen</u>		
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
Selling U.S. dollar	Receivables	¥1,840		¥ (54)
Selling Thailand baht	Receivables	110		(6)
Selling Malaysia ringgit	Payables	183		(4)
Selling Chinese yuan	Payables	326		(10)
Buying U.S. dollar	Payables	32		1
Commodity futures:				
Selling	Sales	1,303		(71)
Buying	Purchases of raw material	3,942		498
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	4,907	¥2,000	(110)

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Thousands of U.S. Dollars</u>		
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>	<u>Fair Value</u>
Foreign currency forward contracts:				
Selling U.S. dollar	Receivables	\$19,775		\$ (581)
Selling Thailand baht	Receivables	1,182		(61)
Selling Malaysia ringgit	Payables	1,965		(48)
Selling Chinese yuan	Payables	3,505		(107)
Buying U.S. dollar	Payables	341		10
Commodity futures:				
Selling	Sales	14,008		(765)
Buying	Purchases of raw material	42,368		5,351
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	52,738	\$21,496	(1,183)

The foreign currency forward contracts noted below are employed to hedge foreign exchange exposures in the sales of the finished goods to overseas customers and in procurement of raw materials from overseas suppliers. Trade receivables and payables denominated in foreign currencies are translated at contracted rates if the forward contracts qualify for hedge accounting.

In addition, the fair value of such foreign currency forward contracts is included in that of the hedged items (receivable and payable).

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Millions of Yen</u>	
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>
Foreign currency forward contracts:			
Selling U.S. dollar	Receivables	¥1,639	
Selling Thailand baht	Receivables	397	
Selling Hong Kong dollar	Receivables	6	
Buying U.S. dollar	Payables	247	

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Thousands of U.S. Dollars</u>	
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>
Foreign currency forward contracts:			
Selling U.S. dollar	Receivables	\$17,613	
Selling Thailand baht	Receivables	4,265	
Selling Hong Kong dollar	Receivables	69	
Buying U.S. dollar	Payables	2,659	

The interest rate swaps noted below which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of the hedged items (long-term debt).

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Millions of Yen</u>	
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	¥64,576	¥49,818

<u>March 31, 2010</u>	<u>Hedged Item</u>	<u>Thousands of U.S. Dollars</u>	
		<u>Contract Amount</u>	<u>Contract Amount Due after One Year</u>
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	\$694,066	\$535,450

The fair values of derivative transactions are measured at the quoted price obtained from the trading firms (commodity futures) and financial institutions (foreign currency forward contracts and interest rate swaps).

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

## 16. CONTINGENT LIABILITIES

At March 31, 2010, the Group had the following contingent liabilities:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Trade notes discounted	¥ 760	\$ 8,164
Trade notes endorsed	454	4,875
Guarantees and similar items of bank loans	1,735	18,645

## 17. COMMITMENT

### *Raw Material Purchase Commitments*

At March 31, 2010, the Company had a number of raw material purchase commitments. However, purchase prices are contingent upon fluctuations of market prices.

## 18. BUSINESS COMBINATION

Pursuant to a resolution as the board of directors meeting held on February 9, 2009, the Company and NAL entered into a share exchange agreement to make NAL a wholly owned subsidiary of the Company. The share exchange was implemented on July 31, 2009.

NAL has managed its business as the core of the Company and its consolidated subsidiaries' business of aluminum processed goods. However, NAL needs to restructure its business due to severe circumstances resulting from a decline of demand, cost pressures, and other factors. Given such circumstances, the Company and its consolidated subsidiaries decided to put into practice more flexible management by sharing business strategy, using business resources more effectively, and making NAL a wholly owned subsidiary of the Company.

The Company delivered 6,946,823 shares (including new shares of its common stock and treasury stock) to NAL's shareholders at an exchange ratio of 0.31 shares for each outstanding share of NAL's common stock.

As a result, the total acquisition cost was ¥580 million (\$6,242 thousand) which consists of ¥505 million (\$5,430 thousand) of the common stock of the Company and ¥75 million (\$812 thousand) of treasury stock. The difference between the acquisition cost and decreased minority interest at the acquisition date was recognized as goodwill. Goodwill recorded in connection with the acquisition totaled ¥577 million (\$6,201 thousand), which was then subsequently charged to restructuring loss for the year ended March 31, 2010.

This business combination is treated as a transaction with minority shareholders in accordance with the statement of opinion, "Accounting for Business Combinations," issued by the Business Accounting Council in October 2003, and "Guidance for Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, updated on November 15, 2007).

## 19. SEGMENT INFORMATION

The Company and subsidiaries operate in only one segment, which manufacture and sell rolled and fabricated non-ferrous metal (e.g., aluminum, copper, etc.). Accordingly, the information about industry segments of the companies is not disclosed.

Information about geographical segments and sales to foreign customers of the Company and subsidiaries for the years ended March 31, 2010 and 2009 is as follows:

(1) **Geographical Segments**

The geographical segments of the Company and its subsidiaries for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of Yen				
	2010				
	<u>Japan</u>	<u>Australia</u>	<u>Other</u>	<u>Eliminations/ Corporate</u>	<u>Consolidated</u>
Sales to customers	¥214,956	¥ 4,306	¥14,269		¥233,531
Interarea transfer	<u>10,157</u>	<u>5,341</u>	<u>452</u>	<u>¥(15,950)</u>	
Total sales	225,113	9,647	14,721	(15,950)	233,531
Operating expenses	<u>219,482</u>	<u>10,409</u>	<u>14,536</u>	<u>(16,105)</u>	<u>228,322</u>
Operating income (loss)	<u>¥ 5,631</u>	<u>¥ (762)</u>	<u>¥ 185</u>	<u>¥ 155</u>	<u>¥ 5,209</u>
Total assets	<u>¥257,647</u>	<u>¥45,388</u>	<u>¥10,605</u>	<u>¥ (3,742)</u>	<u>¥309,898</u>

	Millions of Yen				
	2009				
	<u>Japan</u>	<u>Australia</u>	<u>Other</u>	<u>Eliminations/ Corporate</u>	<u>Consolidated</u>
Sales to customers	¥264,932	¥ 3,306	¥ 9,952		¥278,190
Interarea transfer	<u>8,620</u>	<u>6,462</u>	<u>967</u>	<u>¥(16,049)</u>	
Total sales	273,552	9,768	10,919	(16,049)	278,190
Operating expenses	<u>282,465</u>	<u>8,386</u>	<u>10,895</u>	<u>(15,866)</u>	<u>285,880</u>
Operating income (loss)	<u>¥ (8,913)</u>	<u>¥ 1,382</u>	<u>¥ 24</u>	<u>¥ (183)</u>	<u>¥ (7,690)</u>
Total assets	<u>¥276,107</u>	<u>¥35,444</u>	<u>¥11,811</u>	<u>¥ (2,031)</u>	<u>¥321,331</u>

	Thousands of U.S. Dollars				
	2010				
	<u>Japan</u>	<u>Australia</u>	<u>Other</u>	<u>Eliminations/ Corporate</u>	<u>Consolidated</u>
Sales to customers	\$2,310,357	\$ 46,285	\$153,361		\$2,510,003
Interarea transfer	<u>109,172</u>	<u>57,407</u>	<u>4,858</u>	<u>\$(171,437)</u>	
Total sales	2,419,529	103,692	158,219	(171,437)	2,510,003
Operating expenses	<u>2,359,004</u>	<u>111,885</u>	<u>156,229</u>	<u>(173,097)</u>	<u>2,454,021</u>
Operating income (loss)	<u>\$ 60,525</u>	<u>\$ (8,193)</u>	<u>\$ 1,990</u>	<u>\$ 1,660</u>	<u>\$ 55,982</u>
Total assets	<u>\$2,769,208</u>	<u>\$487,832</u>	<u>\$113,979</u>	<u>\$ (40,217)</u>	<u>\$3,330,802</u>

Sales are summarized by geographic area based on the countries where subsidiaries are located.

(2) ***Sales to Foreign Customers***

Sales to foreign customers for the years ended March 31, 2010 and 2009 amounted to ¥58,996 million (\$634,093 thousand) and ¥59,719 million, respectively.

\* \* \* \* \*