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

*Consolidated Financial Statements  
for the Year Ended March 31, 2012,  
and Independent Auditor's Report*

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## INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of Sumitomo Light Metal Industries, Ltd. and consolidated subsidiaries as of March 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity, 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 conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of 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 conformity 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. In making those risk assessments, the auditor considers internal control 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, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. 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 Sumitomo Light Metal Industries, Ltd. and consolidated subsidiaries as of March 31, 2012, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

### Convenience Translation

Our audit 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 28, 2012

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

**Consolidated Balance Sheet**  
**March 31, 2012**

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012		2012	2011	2012
<b>CURRENT ASSETS:</b>				<b>CURRENT LIABILITIES:</b>			
Cash and cash equivalents (Note 15)	¥ 8,961	¥ 7,955	\$ 109,028	Short-term borrowings (Notes 6 and 15)	¥ 28,263	¥ 27,458	\$ 343,875
Time deposits (Note 15)	62	159	755	Current portion of long-term debt (Notes 6 and 15)	59,008	49,909	717,942
Receivables (Note 15):				Commercial paper	3,000		36,497
Trade notes	7,151	5,059	87,003	Payables (Note 15):			
Trade accounts	31,637	30,420	384,921	Trade notes	27,538	22,260	335,055
Unconsolidated subsidiaries and associated companies	6,303	4,959	76,689	Trade accounts	39,562	36,897	481,353
Other	5,605	2,930	68,199	Unconsolidated subsidiaries and associated companies	1,081	782	13,148
Allowance for doubtful receivables	(50)	(50)	(605)	Other	5,005	5,026	60,893
Inventories (Note 3)	39,294	36,736	478,082	Income taxes payable (Note 15)	725	1,497	8,822
Deferred tax assets (Note 11)	1,944	2,902	23,657	Deferred tax liabilities (Note 11)	53	5	648
Prepaid expenses and other current assets	1,313	1,434	15,980	Accrued expenses and other current liabilities (Note 6)	7,726	5,985	93,999
<b>Total current assets</b>	<b>102,220</b>	<b>92,504</b>	<b>1,243,709</b>	<b>Total current liabilities</b>	<b>171,961</b>	<b>149,819</b>	<b>2,092,232</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 6):</b>				<b>LONG-TERM LIABILITIES:</b>			
Land (Note 4)	95,601	96,168	1,163,174	Long-term debt (Notes 6 and 15)	74,299	97,788	903,996
Buildings and structures	62,674	61,530	762,553	Liability for employees' retirement benefits (Note 7)	6,285	5,569	76,473
Machinery and equipment	124,392	123,112	1,513,470	Deferred tax liabilities (Note 11)	1,065	1,249	12,962
Furniture and fixtures	18,873	18,326	229,618	Deferred tax liabilities for land revaluation (Note 4)	7,193	8,248	87,520
Lease assets	12,826	11,408	156,050	Negative goodwill	292	484	3,553
Construction in progress	6,599	7,130	80,290	Other	7,749	8,224	94,820
<b>Total property, plant and equipment</b>	<b>320,965</b>	<b>317,674</b>	<b>3,905,155</b>	<b>Total long-term liabilities</b>	<b>96,928</b>	<b>121,562</b>	<b>1,179,324</b>
Accumulated depreciation	(171,274)	(163,001)	(2,083,879)	<b>COMMITMENTS AND CONTINGENT LIABILITIES</b>			
<b>Net property, plant and equipment</b>	<b>149,691</b>	<b>154,673</b>	<b>1,821,276</b>	(Notes 13, 16, 17 and 18)			
<b>INVESTMENTS AND OTHER ASSETS:</b>				<b>EQUITY (Note 9):</b>			
Investment securities (Notes 5 and 15)	29,202	38,302	355,297	Common stock—authorized, 960,000,000 shares; issued, 581,538,867 shares in 2012 and 432,038,867 shares in 2011	28,459	22,966	346,260
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 15)	15,271	3,094	185,800	Capital surplus	5,493	3,260	66,828
Long-term loans (Notes 14 and 15)	6,033	5,111	73,407	Retained earnings	24,355	12,768	296,326
Goodwill	27		324	Treasury stock—at cost, 52,980 shares in 2012 and 45,315 shares in 2011	(5)	(5)	(66)
Deferred tax assets (Note 11)	7,417	447	90,246	Accumulated other comprehensive income (loss):			
Other assets	12,289	12,518	149,520	Unrealized gains on available-for-sale securities	28	289	346
<b>Total investments and other assets</b>	<b>70,239</b>	<b>59,472</b>	<b>854,594</b>	Deferred losses on derivatives under hedge accounting	(202)	(61)	(2,453)
				Land revaluation surplus (Note 4)	10,666	9,664	129,772
				Foreign currency translation adjustments	(16,392)	(14,322)	(199,437)
				Subtotal	52,402	34,559	637,576
				Minority interests	859	709	10,447
				<b>Total equity</b>	<b>53,261</b>	<b>35,268</b>	<b>648,023</b>
<b>TOTAL</b>	<b>¥322,150</b>	<b>¥306,649</b>	<b>\$3,919,579</b>	<b>TOTAL</b>	<b>¥322,150</b>	<b>¥306,649</b>	<b>\$3,919,579</b>

See notes to consolidated financial statements.

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

### Consolidated Statement of Income Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2012	2011	2012
NET SALES	¥258,927	¥259,476	\$3,150,346
COST OF SALES	<u>225,364</u>	<u>222,774</u>	<u>2,741,986</u>
Gross profit	33,563	36,702	408,360
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	<u>21,213</u>	<u>21,107</u>	<u>258,101</u>
Operating income	<u>12,350</u>	<u>15,595</u>	<u>150,259</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	600	496	7,306
Interest expense	(3,735)	(4,273)	(45,449)
Losses on sales or disposals of property, plant and equipment	(68)	(237)	(827)
Losses on adjustment for changes in the accounting standard for asset retirement obligations (Note 2.j)		(1,156)	
Impairment losses (Note 14)	(937)	(1,144)	(11,398)
Loss on valuation of investment securities	(6,327)	(208)	(76,979)
Gain on sales of investment securities	1,187	117	14,441
Contribution for construction	937	266	11,394
Equity in earnings of unconsolidated subsidiaries and associated companies	896	319	10,898
Gain on negative goodwill	134		1,630
Other—net	<u>(1,066)</u>	<u>(1,596)</u>	<u>(12,967)</u>
Other expenses—net	<u>(8,379)</u>	<u>(7,416)</u>	<u>(101,951)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>3,971</u>	<u>8,179</u>	<u>48,308</u>
INCOME TAXES (Note 11):			
Current	1,364	1,898	16,596
Deferred	<u>(5,810)</u>	<u>(925)</u>	<u>(70,697)</u>
Total income taxes	<u>(4,446)</u>	<u>973</u>	<u>(54,101)</u>
NET INCOME BEFORE MINORITY INTERESTS	8,417	7,206	102,409
MINORITY INTERESTS IN NET INCOME	<u>119</u>	<u>16</u>	<u>1,442</u>
NET INCOME	<u>¥ 8,298</u>	<u>¥ 7,190</u>	<u>\$ 100,967</u>

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

### Consolidated Statement of Income Year Ended March 31, 2012

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PER SHARE OF COMMON STOCK (Notes 2.p and 20):

	<u>Yen</u>		<u>U.S. Dollars</u>
	<u>2012</u>	<u>2011</u>	<u>2012</u>
Basic net income	¥14.95	¥16.64	\$0.18
Diluted net income	14.95	16.64	0.18
	<u>Thousands of Shares</u>		
Weighted-average shares	554,948	431,999	

See notes to consolidated financial statements.

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

### Consolidated Statement of Comprehensive Income Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2012</u>	<u>2011</u>	<u>2012</u>
NET INCOME BEFORE MINORITY INTERESTS	<u>¥8,417</u>	<u>¥7,206</u>	<u>\$ 102,409</u>
OTHER COMPREHENSIVE (LOSS) INCOME (Note 19):			
Unrealized loss on available-for-sale securities	(258)	(282)	(3,137)
Deferred losses on derivatives under hedge accounting	(2)	(232)	(32)
Land revaluation surplus	1,034	4	12,581
Foreign currency translation adjustments	(2,164)	65	(26,326)
Share of other comprehensive income in affiliated companies	<u>(60)</u>	<u>      </u>	<u>(726)</u>
Total other comprehensive loss	<u>(1,450)</u>	<u>(445)</u>	<u>(17,640)</u>
COMPREHENSIVE INCOME (Note 19)	<u>¥6,967</u>	<u>¥6,761</u>	<u>\$ 84,767</u>
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO (Note 19):			
Owners of the parent	¥6,862	¥6,833	\$83,489
Minority interests	105	(72)	1,271

See notes to consolidated financial statements.

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

**Consolidated Statement of Changes in Equity  
Year Ended March 31, 2012**

	Thousands	Millions of Yen											
		Issued Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Minority Interests	Total Equity
							Unrealized Gains (Losses) on Available- for-Sale Securities	Deferred Gains (Losses) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Total		
BALANCE, APRIL 1, 2010	432,039	¥22,966	¥3,260	¥ 5,579	¥(3)	¥569	¥ 171	¥ 9,661	¥(14,475)	¥27,728	¥872	¥28,600	
Net income				7,190						7,190		7,190	
Reserve for employees' welfare fund				(1)						(1)		(1)	
Purchases of treasury stock					(2)					(2)		(2)	
Net change in the year						(280)	(232)	3	153	(356)	(163)	(519)	
BALANCE, MARCH 31, 2011	432,039	22,966	3,260	12,768	(5)	289	(61)	9,664	(14,322)	34,559	709	35,268	
Net income				8,298						8,298		8,298	
Issuances of common stock (Note 10)	149,500	5,493	5,493							10,986		10,986	
Transfer from capital surplus to retained earnings			(3,260)	3,260									
Reversal of land revaluation surplus				32						32		32	
Reserve for employees' welfare fund				(3)						(3)		(3)	
Purchases of treasury stock													
Net change in the year						(261)	(141)	1,002	(2,070)	(1,470)	150	(1,320)	
BALANCE, MARCH 31, 2012	<u>581,539</u>	<u>¥28,459</u>	<u>¥5,493</u>	<u>¥24,355</u>	<u>¥(5)</u>	<u>¥ 28</u>	<u>¥(202)</u>	<u>¥10,666</u>	<u>¥(16,392)</u>	<u>¥52,402</u>	<u>¥859</u>	<u>¥53,261</u>	

	Thousands of U.S. Dollars (Note 1)										
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Minority Interests	Total Equity
					Unrealized Gains (Losses) on Available- for-Sale Securities	Deferred Losses on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments	Total		
BALANCE, MARCH 31, 2011	\$279,432	\$39,667	\$155,348	\$(59)	\$3,509	\$(742)	\$117,584	\$(174,261)	\$420,478	\$8,625	\$429,103
Net income			100,967						100,967		100,967
Issuances of common stock (Note 10)	66,828	66,828							133,656		133,656
Transfer from capital surplus to retained earnings		(39,667)	39,667								
Reversal of land revaluation surplus			383						383		383
Reserve for employees' welfare fund			(39)						(39)		(39)
Purchases of treasury stock				(7)					(7)		(7)
Net change in the year					(3,163)	(1,711)	12,188	(25,176)	(17,862)	1,822	(16,040)
BALANCE, MARCH 31, 2012	<u>\$346,260</u>	<u>\$66,828</u>	<u>\$296,326</u>	<u>\$(66)</u>	<u>\$ 346</u>	<u>\$(2,453)</u>	<u>\$129,772</u>	<u>\$(199,437)</u>	<u>\$637,576</u>	<u>\$10,447</u>	<u>\$648,023</u>

See notes to consolidated financial statements.

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

### Consolidated Statement of Cash Flows Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2012</u>	<u>2011</u>	<u>2012</u>
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and minority interests	¥ 3,971	¥ 8,179	\$ 48,308
Adjustments for:			
Income taxes—paid	(2,159)	(947)	(26,261)
Depreciation and amortization	10,452	10,742	127,166
Loss on valuation of investment securities	6,327	208	76,979
Amortization of negative goodwill	(189)	(197)	(2,304)
Equity in earnings of unconsolidated subsidiaries and an associated company	(896)	(319)	(10,898)
Changes in assets and liabilities:			
Decrease (increase) in trade accounts receivable	(1,840)	1,152	(22,391)
Increase in inventories	(1,511)	(1,985)	(18,379)
Increase in trade accounts payable	3,688	5,220	44,870
Increase in liability for retirement benefits	684	688	8,321
Decrease in guarantee deposits received		(8,381)	
Other—net	103	1,129	1,267
Total adjustments	<u>14,659</u>	<u>7,310</u>	<u>178,370</u>
Net cash provided by operating activities	<u>18,630</u>	<u>15,489</u>	<u>226,678</u>
<b>INVESTING ACTIVITIES:</b>			
Payments into time deposits	(1,580)	(2,149)	(19,224)
Proceeds from withdrawal of time deposits	1,666	2,158	20,275
Purchase of property, plant and equipment	(5,722)	(8,181)	(69,624)
Proceeds from sales of property, plant and equipment	1,776	3,989	21,608
Purchase of investment securities	(11,906)	(212)	(144,855)
Proceeds from sales of investment securities	2,075	509	25,243
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(70)		(846)
Decrease in investments in and advances to unconsolidated subsidiaries and associated companies	44	15	530
Origination of long-term loans	(2,635)	(2,317)	(32,061)
Other—net	<u>(685)</u>	<u>(338)</u>	<u>(8,337)</u>
Net cash used in investing activities	<u>(17,037)</u>	<u>(6,526)</u>	<u>(207,291)</u>
<b>FORWARD</b>	<u>¥ 1,593</u>	<u>¥ 8,963</u>	<u>\$ 19,387</u>

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

### Consolidated Statement of Cash Flows Year Ended March 31, 2012

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2012</u>	<u>2011</u>	<u>2012</u>
FORWARD	¥ 1,593	¥ 8,963	\$ 19,387
FINANCING ACTIVITIES:			
Increase (decrease) in short-term borrowings—net	720	(2,402)	8,766
Proceeds from long-term debt	20,190	35,630	245,650
Repayments of long-term debt	(36,535)	(47,956)	(444,520)
Proceeds from sale and leaseback transactions	1,174	6,594	14,284
Increase in commercial paper	3,000		36,497
Proceeds from issuances of common stock	10,986		133,656
Other—net	(43)	(8)	(519)
Net cash used in financing activities	(508)	(8,142)	(6,186)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(79)	(281)	(961)
NET INCREASE IN CASH AND CASH EQUIVALENTS	1,006	540	12,240
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	7,955	7,415	96,788
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 8,961	¥ 7,955	\$ 109,028

See notes to consolidated financial statements.

# Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

## Notes to Consolidated Financial Statements Year Ended March 31, 2012

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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 the 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 that is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2011 consolidated financial statements to conform to the classifications used in 2012 consolidated financial statements.

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 ¥82.19 to \$1, the approximate rate of exchange at March 31, 2012. 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, 2012 include the accounts of the Company and its significant 28 (25 in 2011) 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 two (two in 2011) unconsolidated subsidiaries and three (one in 2011) associated companies are accounted for by the equity method.

Investments in the remaining 10 unconsolidated subsidiaries and 6 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 accounting principles generally accepted 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 research and development ("R&D"); (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.
- c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method**—In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the accounting principles generally accepted in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; and (5) exclusion of minority interests from net income, if contained in net income.
- d. 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.
- e. Inventories**—Inventories are stated at the lower of cost, principally determined by the average method, or net selling value.
- f. 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

- g. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstances 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.
- h. 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.

Gains and losses arising from changes in fair value are shown as "Unrealized gains on available-for-sale securities" under accumulated other comprehensive income in a separate component of equity.

- 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 (\$298,856 thousand), determined as of April 1, 2000, is being amortized over 15 years.

- j. Asset Retirement Obligations**—In March 2008, the ASBJ published the 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 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 is 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 was effective for fiscal years beginning on or after April 1, 2010.

- k. 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 was effective for fiscal years beginning on or after April 1, 2008.

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

All other leases are accounted for as operating leases.

- l. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. 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.
- m. 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 statement of income to the extent that they are not hedged by forward exchange contracts.
- n. 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 are shown as "Foreign currency translation adjustments" and include "Minority interests" under accumulated other comprehensive income in a separate component of equity.

- o. 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 statement of income, and (b) for derivatives used for hedging purposes, if the derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the 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, including forecasted transactions 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 that 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 is recognized and included in interest expense or income.

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

- p. Per Share Information**—Basic net income per share is computed by dividing net income 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.

- q. 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, the 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 Presentations—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.

- r. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the accounting standard for retirement benefits that had been issued by the Business Accounting Council in 1998 with effective date of April 1, 2000 and the other related practical guidances, being followed by partial amendments from time to time through 2009.

Major changes are as follows:

(a) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, are recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (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).

(b) *Treatment in the statement of income and the statement of comprehensive income (or the statement of income and comprehensive income)*

The revised accounting standard would not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs 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 accounting standard and the guidance are effective for the end of annual periods beginning on or after April 1, 2013 with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard from the end of the annual period beginning on April 1, 2013 and is in the process of measuring the effects of applying the revised accounting standard for the year ending March 31, 2014.

### 3. INVENTORIES

Inventories at March 31, 2012 and 2011 consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2012</u>	<u>2011</u>	<u>U.S. Dollars</u>
			<u>2012</u>
Finished products	¥16,630	¥13,786	\$202,338
Work in process	15,799	16,159	192,223
Raw materials and supplies	<u>6,865</u>	<u>6,791</u>	<u>83,521</u>
Total	<u>¥39,294</u>	<u>¥36,736</u>	<u>\$478,082</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., Nippon Aluminium Shiga Co., Ltd. and Sumikei Techno Nagoya Co., Ltd.) and 2000 (the Company and Sumikei Copper Tube Co., Ltd.).

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 statement of income. 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, 2012, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥10,459 million (\$127,255 thousand).

#### 5. INVESTMENT SECURITIES

Investment securities as of March 31, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Non-current:			
Marketable equity securities	¥ 5,741	¥ 6,843	\$ 69,852
Unlisted securities	<u>23,461</u>	<u>31,459</u>	<u>285,445</u>
Total	<u>¥29,202</u>	<u>¥38,302</u>	<u>\$355,297</u>

Included in the above marketable securities were stock lending transactions of ¥1,588 million (\$19,326 thousand) and ¥1,853 million at March 31, 2012 and 2011, respectively.

The cost and aggregate fair values of investment securities at March 31, 2012 and 2011 were as follows:

		Millions of Yen			Fair Value
		Cost	Unrealized Gains	Unrealized Losses	
<u>March 31, 2012</u>					
Securities classified as available-for-sale—equity securities	¥5,728	¥1,388	¥1,375	¥5,741	
<u>March 31, 2011</u>					
Securities classified as available-for-sale—equity securities	¥6,355	¥1,368	¥880	¥6,843	
		Thousands of U.S. Dollars			
		Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>March 31, 2012</u>					
Securities classified as available-for-sale—equity securities	\$69,688	\$16,887	\$16,723	\$69,852	

The information of available-for-sale securities that were sold during the years ended March 31, 2012 and 2011 was as follows:

	Millions of Yen		
	Proceeds	Realized Gains	Realized Losses
<u>March 31, 2012</u>			
Available-for-sale—equity securities	¥1,550	¥692	¥15
<u>March 31, 2011</u>			
Available-for-sale—equity securities	¥417	¥85	¥67
	Thousands of U.S. Dollars		
	Proceeds	Realized Gains	Realized Losses
<u>March 31, 2012</u>			
Available-for-sale—equity securities	\$18,860	\$8,423	\$182

The impairment losses on available-for-sale equity securities for the year ended March 31, 2012 were ¥6,327 million (\$76,979 thousand).

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

Short-term borrowings at March 31, 2012 and 2011 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 0.58% to 5.80% and 0.58% to 4.77% at March 31, 2012 and 2011, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	<u>2012</u>	<u>2011</u>	<u>2012</u>
Unsecured 0% yen convertible bonds, convertible into common stock at ¥338 per share, due 2011		¥ 5	
Loans from banks and other financial institutions, due serially through 2017 with interest rates ranging from 1.441% to 4.309% (2012) and from 0.850% to 4.309% (2011):			
Collateralized	¥ 525	309	\$ 6,385
Unsecured	122,811	137,405	1,494,233
Obligations under finance leases	9,971	9,978	121,320
Total	<u>133,307</u>	<u>147,697</u>	<u>1,621,938</u>
Less current portion	<u>(59,008)</u>	<u>(49,909)</u>	<u>(717,942)</u>
Long-term debt, less current portion	<u>¥ 74,299</u>	<u>¥ 97,788</u>	<u>\$ 903,996</u>

Annual maturities of long-term debt, excluding finance leases (see Note 13) at March 31, 2012 were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2013	¥ 57,047	\$ 694,085
2014	36,255	441,114
2015	14,284	173,786
2016	10,036	122,111
2017	<u>5,714</u>	<u>69,522</u>
Total	<u>¥123,336</u>	<u>\$1,500,618</u>

The carrying amounts of assets pledged as collateral for short-term bank loans of ¥760 million (\$9,247 thousand) and the above collateralized long-term debt at March 31, 2012 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Property, plant and equipment— net of accumulated depreciation	<u>¥2,928</u>	<u>\$35,623</u>
Total	<u>¥2,928</u>	<u>\$35,623</u>

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

Other interest-bearing liabilities consisted of deposits received of ¥168 million (\$2,045 thousand) included in other current liabilities as of March 31, 2012. The annual interest rate applicable to the deposits received is 0.980% at March 31, 2012.

## **7. EMPLOYEES' RETIREMENT BENEFITS**

The Company and certain 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 plans 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, 2012 and 2011 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2012</u>	<u>2011</u>	<u>2012</u>
Projected benefit obligation	¥22,794	¥23,179	\$277,336
Fair value of plan assets	(8,850)	(8,465)	(107,676)
Unrecognized prior service cost	215	265	2,620
Unrecognized actuarial loss	(3,543)	(3,607)	(43,114)
Unrecognized transitional obligation	(4,524)	(6,002)	(55,046)
Prepaid benefit costs	<u>193</u>	<u>199</u>	<u>2,353</u>
Net liability	<u>¥ 6,285</u>	<u>¥ 5,569</u>	<u>\$ 76,473</u>

The components of net periodic benefit costs for the years ended March 31, 2012 and 2011 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2012</u>	<u>2011</u>	<u>2012</u>
Service cost	¥1,200	¥1,240	\$14,601
Interest cost	450	519	5,475
Expected return on plan assets	(176)	(182)	(2,139)
Amortization of prior service cost	(50)	(50)	(609)
Recognized actuarial loss	561	545	6,828
Amortization of transitional obligation	<u>1,508</u>	<u>1,508</u>	<u>18,347</u>
Net periodic benefit costs	<u>¥3,493</u>	<u>¥3,580</u>	<u>\$42,503</u>

Assumptions used for the years ended March 31, 2012 and 2011 are set forth as follows:

	<u>2012</u>	<u>2011</u>
Discount rate	2.0%–2.2%	2.0%–2.2%
Expected rate of return on plan assets	2.5%	2.5%
Amortization period of prior service cost	13 years	13 years
Recognition period of actuarial gain/loss	9–13 years	9–13 years
Amortization period of transitional obligation	15 years	15 years

## 8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the year ended March 31, 2012 and 2011 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2012</u>	<u>2011</u>	<u>2012</u>
Balance at beginning of year	¥1,160	¥1,242	\$14,119
Reconciliation associated with passage of time	16	16	198
Reduction associated with meeting asset retirement obligations	<u>(15)</u>	<u>(98)</u>	<u>(190)</u>
Balance at end of year	<u>¥1,161</u>	<u>¥1,160</u>	<u>\$14,127</u>

## 9. 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 certain limitations 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 aggregate amount of the 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.

## 10. SIGNIFICANT CHANGES IN EQUITY

The Company has issued new shares of common stock to the public, which was completed on June 7, 2011. In accordance with the public offering, common stock increased by ¥4,777 million (\$58,112 thousand) and capital surplus increased by ¥4,777 million (\$58,112 thousand), respectively.

In accordance with the approval at the Company's shareholders meeting held on June 29, 2011, the Company has reclassified capital surplus of ¥3,260 million (\$39,667 thousand) into retained earnings so it meets the statutory requirements for restarting dividend payments.

The Company has issued new shares of common stock by the way of third-party allotment on July 6, 2011. In accordance with the third-party allotment, common stock increased by ¥716 million (\$8,716 thousand) and capital surplus increased by ¥716 million (\$8,716 thousand), respectively.

## 11. 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, 2012 and 2011.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2012 and 2011 are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2012</u>	<u>2011</u>	<u>U.S. Dollars</u>
			<u>2012</u>
Deferred tax assets:			
Accrued employees' bonuses	¥ 161	¥ 161	\$ 1,955
Employees' retirement benefits	2,233	2,252	27,169
Tax loss carryforwards	8,043	11,069	97,861
Other	2,466	2,797	30,009
Less valuation allowance	<u>(2,262)</u>	<u>(11,812)</u>	<u>(27,526)</u>
Total deferred tax assets	<u>10,641</u>	<u>4,467</u>	<u>129,468</u>
Deferred tax liabilities:			
Unrealized gains on inventories	1,260	1,195	15,330
Unrealized gains on investment securities	61	210	740
Other	<u>1,077</u>	<u>967</u>	<u>13,105</u>
Total deferred tax liabilities	<u>2,398</u>	<u>2,372</u>	<u>29,175</u>
Net deferred tax assets	<u>¥ 8,243</u>	<u>¥ 2,095</u>	<u>\$100,293</u>

A reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 is as follows:

	<u>2012</u>	<u>2011</u>
Normal effective statutory tax rate	40.5 %	40.5%
Net decrease in valuation allowance	(239.0)	(33.2)
Expenses not deductible for income tax purposes	66.9	1.1
Elimination of intercompany balances and transactions	3.1	4.0
Equity in losses of unconsolidated subsidiaries and an associated company	(9.1)	(1.6)
Reconciliation of undistributed foreign earnings	6.0	1.5
Effect of tax rate reduction	20.6	
Other—net	<u>(1.0)</u>	<u>(0.4)</u>
Actual effective tax rate	<u>(112.0)%</u>	<u>11.9%</u>

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.5% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.5% afterwards. The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2012 by ¥817 million (\$9,942 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥817 million (\$9,952 thousand). In addition, the effect of this change was also to decrease deferred tax liabilities, which is related to land revaluation surplus, by ¥1,034 million (\$12,575 thousand) and to increase land revaluation surplus by ¥1,034 million (\$12,575 thousand).

At March 31, 2012, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥22,167 million (\$269,704 thousand) which are available to be offset against taxable income of 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>
2014	¥ 160	\$ 1,941
2015		
2016		
2017		
2018	2,787	33,910
2019	15,089	183,589
2020 and thereafter	<u>4,131</u>	<u>50,264</u>
Total	<u>¥22,167</u>	<u>\$269,704</u>

## 12. R&D COSTS

R&D costs charged to income were ¥2,215 million (\$26,944 thousand) and ¥2,130 million for the years ended March 31, 2012 and 2011, respectively.

## 13. LEASES

The Group principally leases production facilities.

Total rental expense including lease payments under finance leases for the years ended March 31, 2012 and 2011 was ¥5,808 million (\$70,670 thousand) and ¥5,443 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars	
	2012		2012	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥1,961	¥1,930	\$ 23,857	\$23,483
Due after one year	<u>8,010</u>	<u>3,481</u>	<u>97,463</u>	<u>42,358</u>
Total	<u>¥9,971</u>	<u>¥5,411</u>	<u>\$121,320</u>	<u>\$65,841</u>

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

ASBJ Statement No. 13 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 and whose lease inception was before March 31, 2008 to continue 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 was as follows:

	Millions of Yen							
	2012				2011			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥6,603	¥473	¥182	¥7,258	¥6,729	¥589	¥371	¥7,689
Accumulated depreciation	5,470	400	158	6,028	4,753	401	312	5,466
Accumulated impairment losses	<u>27</u>	<u>—</u>	<u>—</u>	<u>27</u>	<u>47</u>	<u>—</u>	<u>—</u>	<u>47</u>
Net leased property	<u>¥1,106</u>	<u>¥ 73</u>	<u>¥ 24</u>	<u>¥1,203</u>	<u>¥1,929</u>	<u>¥188</u>	<u>¥ 59</u>	<u>¥2,176</u>

  

	Thousands of U.S. Dollars			
	2012			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	\$80,343	\$5,757	\$2,211	\$88,311
Accumulated depreciation	66,554	4,864	1,922	73,340
Accumulated impairment losses	<u>331</u>	<u>—</u>	<u>—</u>	<u>331</u>
Net leased property	<u>\$13,458</u>	<u>\$ 893</u>	<u>\$ 289</u>	<u>\$14,640</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2012	2011	2012
Due within one year	¥ 685	¥1,537	\$ 8,343
Due after one year	<u>545</u>	<u>686</u>	<u>6,628</u>
Total	<u>¥1,230</u>	<u>¥2,223</u>	<u>\$14,971</u>

An allowance for impairment loss on leased property of ¥27 million (\$331 thousand) as of March 31, 2012 and ¥47 million as of March 31, 2011, is not included in the obligations under finance leases.

Depreciation expense, which is not reflected in the accompanying consolidated statement of income, computed by the straight-line method was ¥966 million (\$11,751 thousand) and ¥1,004 million for the years ended March 31, 2012 and 2011, respectively.

#### **14. LONG-LIVED ASSETS**

The Group reviewed its long-lived assets for impairment as of March 31, 2012 and 2011. As a result, the Group recognized impairment losses of ¥937 million (\$11,398 thousand) and ¥1,144 million for the years ended March 31, 2012 and 2011, respectively, for a certain investment property group. Due to a continuous operating loss at that unit, the carrying amount of the relevant investment properties such as land, buildings and structures, furniture and fixtures was written down to the recoverable amount. The recoverable amount of that investment property group was measured at its net selling price as determined by quotation from a third-party vendor.

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

##### **(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 positions are 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 options and commodity futures, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans and raw material prices. Please see Note 16 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, and long-term loans 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.

#### *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 payables.

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

The execution of derivative transactions has been managed by each department based on internal guidelines.

### (4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Also please see Note 17 for the detail of fair value for derivatives.

#### *(a) Fair value of financial instruments*

<u>March 31, 2012</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 8,961	¥ 8,961	
Time deposits	62	62	
Receivables	49,550	49,550	
Investment securities	5,741	5,741	
Investments in and advances to unconsolidated subsidiaries and associated companies	500	508	¥ 8
Long-term loans	7,041	7,041	
Total	<u>¥ 71,855</u>	<u>¥ 71,863</u>	<u>¥ 8</u>
Short-term borrowings	¥ 28,263	¥ 28,263	
Commercial paper	3,000	3,000	
Payables	73,186	73,186	
Income taxes payable	725	725	
Long-term debt	133,307	134,179	¥(872)
Total	<u>¥238,481</u>	<u>¥239,353</u>	<u>¥(872)</u>
Derivative transactions	<u>¥ (100)</u>	<u>¥ (100)</u>	

<u>March 31, 2011</u>	Millions of Yen		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 7,955	¥ 7,955	
Time deposits	159	159	
Receivables	43,168	43,168	
Investment securities	6,843	6,843	
Investments in and advances to unconsolidated subsidiaries and associated companies	599	602	¥ 3
Long-term loans	<u>5,311</u>	<u>5,311</u>	
Total	<u>¥ 64,035</u>	<u>¥ 64,038</u>	<u>¥ 3</u>
Short-term borrowings	¥ 27,458	¥ 27,458	
Payables	64,965	64,965	
Income taxes payable	1,497	1,497	
Long-term debt	<u>147,697</u>	<u>148,049</u>	<u>¥(352)</u>
Total	<u>¥241,617</u>	<u>¥241,969</u>	<u>¥(352)</u>
Derivative transactions	<u>¥ (6)</u>	<u>¥ (6)</u>	

<u>March 31, 2012</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 109,028	\$ 109,028	
Time deposits	755	755	
Receivables	602,877	602,877	
Investment securities	69,852	69,852	
Investments in and advances to unconsolidated subsidiaries and associated companies	6,084	6,178	\$ 94
Long-term loans	<u>85,663</u>	<u>85,663</u>	
Total	<u>\$ 874,259</u>	<u>\$ 874,353</u>	<u>\$ 94</u>
Short-term borrowings	\$ 343,875	\$ 343,875	
Commercial paper	36,497	36,497	
Payables	890,449	890,449	
Income taxes payable	8,822	8,822	
Long-term debt	<u>1,621,938</u>	<u>1,632,549</u>	<u>\$(10,611)</u>
Total	<u>\$2,901,581</u>	<u>\$2,912,192</u>	<u>\$(10,611)</u>
Derivative transactions	<u>\$ (1,212)</u>	<u>\$ (1,212)</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 are employed to hedge foreign exchange exposures in the sales of finished goods to overseas customers. Certain trade receivables 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 the trade receivable.

#### Investment Securities

The fair values of investment securities are measured at the quoted market prices from the applicable stock exchange for equity instruments. Information on the fair value of marketable and investment securities 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, Commercial Paper, Payables and Income Taxes Payable

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

The foreign currency forward contracts are employed to hedge foreign exchange exposures in the sales 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 the 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 that qualify for hedge accounting and that meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in long-term debt.

Information on 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 16.

(b) Carrying amount of financial instruments whose fair value cannot be reliably determined

	Millions of Yen		Thousands of
	<u>2012</u>	<u>2011</u>	<u>U.S. Dollars</u> <u>2012</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥23,461	¥31,459	\$285,445
Investments in unconsolidated subsidiaries that do not have a quoted market price in an active market	14,840	2,400	180,565

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

	Millions of Yen		
	<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>March 31, 2012</u>			
Cash and cash equivalents	¥ 8,961		
Time deposits	62		
Receivables	49,550		
Investments in and advances to unconsolidated subsidiaries and associated companies	317	¥ 183	
Long-term loans	<u>1,007</u>	<u>3,789</u>	<u>¥2,245</u>
Total	<u>¥59,897</u>	<u>¥3,972</u>	<u>¥2,245</u>

	Thousands of U.S. Dollars		
	<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>March 31, 2012</u>			
Cash and cash equivalents	\$109,028		
Time deposits	755		
Receivables	602,877		
Investments in and advances to unconsolidated subsidiaries and associated companies	3,850	\$ 2,234	
Long-term loans	<u>12,256</u>	<u>46,096</u>	<u>\$27,311</u>
Total	<u>\$728,766</u>	<u>\$48,330</u>	<u>\$27,311</u>

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

## 16. 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 the 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.

***Derivative Transactions to Which Hedge Accounting Is Applied***

<u>March 31, 2012</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	¥ 682		¥ (21)
Selling Thailand baht	Receivables	45		
Selling Hong Kong dollar	Receivables	1		
Selling Malaysia ringgit	Payables	190		7
Selling Chinese yuan	Payables	248		(3)
Buying U.S. dollar	Payables	70		3
Buying Hong Kong dollar	Payables	1		
Commodity futures—Buying	Raw material and supplies	4,709		18
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	3,500	¥3,000	(104)
<u>March 31, 2011</u>				
Foreign currency forward contracts:				
Selling U.S. dollar	Receivables	¥1,642		¥ (16)
Selling Thailand baht	Receivables	84		(3)
Selling Hong Kong dollar	Receivables	3		
Selling Malaysia ringgit	Payables	204		1
Selling Chinese yuan	Payables	314		1
Buying U.S. dollar	Payables	2,442		(9)
Buying Hong Kong dollar	Payables	2		
Commodity futures—Buying	Raw material and supplies	6,104		154
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	4,000	¥3,500	(135)

<u>March 31, 2012</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	\$ 8,307		\$ (250)
Selling Thailand baht	Receivables	546		(4)
Selling Hong Kong dollar	Receivables	11		(1)
Selling Malaysia ringgit	Payables	2,310		81
Selling Chinese yuan	Payables	3,016		(35)
Buying U.S. dollar	Payables	849		35
Buying Hong Kong dollar	Payables	11		
Commodity futures—Buying	Raw material and supplies	57,299		223
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	42,584	\$36,501	(1,261)

The foreign currency forward contracts noted below 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. 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, 2012</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	¥1,381	
Selling Thailand baht	Receivables	274	
Selling Hong Kong dollar	Receivables	4	
Buying U.S. dollar	Payables	585	
<u>March 31, 2011</u>			
Foreign currency forward contracts:			
Selling U.S. dollar	Receivables	¥1,645	
Selling Thailand baht	Receivables	388	
Selling Hong Kong dollar	Receivables	4	
Buying U.S. dollar	Payables	599	

<u>March 31, 2012</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	\$16,801	
Selling Thailand baht	Receivables	3,336	
Selling Hong Kong dollar	Receivables	55	
Buying U.S. dollar	Payables	7,115	

The interest rate swaps noted below that 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 is 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, 2012</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	¥56,096	¥29,100

<u>March 31, 2011</u>			
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	¥62,962	¥42,382

<u>March 31, 2012</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	\$682,510	\$354,051

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

The derivative contracts that are included 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.

## 17. CONTINGENT LIABILITIES

At March 31, 2012, the Group had the following contingent liabilities:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Trade notes discounted	¥ 776	\$ 9,442
Trade notes endorsed	611	7,431
Export drafts discounted	353	4,291
Guarantees to employees' debt and items of a similar nature	1,095	13,324

## 18. COMMITMENTS

### *Raw Material Purchase Commitments*

At March 31, 2012, the Company had a number of raw material purchase commitments. However, purchase prices are contingent upon fluctuations of market prices.

## 19. COMPREHENSIVE INCOME

The components of other comprehensive loss for the year ended March 31, 2012 were as follows:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Unrealized gains (losses) on available-for-sale securities:		
Losses arising during the year	¥ (433)	\$ (5,264)
Reclassification adjustments to profit or loss	<u>(10)</u>	<u>(127)</u>
Amount before income tax effect	(443)	(5,391)
Income tax effect	<u>185</u>	<u>2,254</u>
Total	<u>¥ (258)</u>	<u>\$ (3,137)</u>
Deferred gains (losses) on derivatives under hedge accounting:		
Losses arising during the year	¥(1,254)	\$(15,256)
Reclassification adjustments to profit or loss	<u>1,159</u>	<u>14,096</u>
Amount before income tax effect	(95)	(1,160)
Income tax effect	<u>93</u>	<u>1,128</u>
Total	<u>¥ (2)</u>	<u>\$ (32)</u>
Land revaluation surplus—Income tax effect	<u>¥ 1,002</u>	<u>\$ 12,187</u>
Foreign currency translation adjustments— Losses arising during the year	<u>¥(2,164)</u>	<u>\$(26,326)</u>
Share of other comprehensive income in affiliated companies:		
Losses arising during the year	¥ (98)	\$ (1,189)
Reclassification adjustments to profit or loss	<u>38</u>	<u>463</u>
Total	<u>¥ (60)</u>	<u>\$ (726)</u>
Total other comprehensive loss	<u>¥(1,482)</u>	<u>\$(18,034)</u>

The corresponding information for the year ended March 31, 2011 was not required under the accounting standard for presentation of comprehensive income as an exemption for the first year of adopting that standard and not disclosed herein.

## 20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2012 and 2011 is as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
<u>Year Ended March 31, 2012</u>	<u>Net Income</u>	<u>Weighted- Average Shares</u>	<u>EPS</u>	
Basic EPS—Net income available to common shareholders	¥8,298	554,948	<u>¥14.95</u>	<u>\$0.18</u>
Effect of dilutive securities—Convertible bonds	_____	_____		
Diluted EPS—Net income for computation	<u>¥8,298</u>	<u>554,948</u>	<u>¥14.95</u>	<u>\$0.18</u>
 <u>Year Ended March 31, 2011</u>				
Basic EPS—Net income available to common shareholders	¥7,190	431,999	<u>¥16.64</u>	
Effect of dilutive securities—Convertible bonds	_____	<u>15</u>		
Diluted EPS—Net income for computation	<u>¥7,190</u>	<u>432,014</u>	<u>¥16.64</u>	

## 21. SEGMENT INFORMATION

### (1) *Description of Reportable Segments*

The Group's reportable segments are the constituent units of the Group for which separate financial information is available and which are subject to periodic reviews by the board of directors, in order to make decisions on the allocation of business resources and to evaluate the business performance of the respective segments.

The Group manufactures and sells rolled and fabricated non-ferrous metal (e.g., aluminum, copper) and defines its reportable segments as "Aluminum Rolling Products Division," "Copper Tubes Division" and "Aluminum and Copper Related Business Division" because the Group evaluates the performance of and makes decisions on business investments for each of these reportable segments.

The Aluminum Rolling Products Division manufactures and sells aluminum sheets and extrusions. The Copper Tubes Division manufactures and sells copper tubes, copper joints and titanium tubes. The Aluminum and Copper Related Business Division manufactures and sells aluminum and copper fabricated products, contracting civil engineering work related to these fabricated products and transporting cargo related to the Group's business.

### (2) *Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities and Other Items for Each Reportable Segment*

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Millions of Yen						
2012						
Reportable Segment						
	Aluminum Rolling Products Division	Copper Tubes Division	Aluminum and Copper Related Business Division	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥166,794	¥48,318	¥43,815	¥258,927		¥258,927
Intersegment sales or transfers	2,855	1,338	5,706	9,899	¥ (9,899)	
Total	<u>¥169,649</u>	<u>¥49,656</u>	<u>¥49,521</u>	<u>¥268,826</u>	<u>¥ (9,899)</u>	<u>¥258,927</u>
Segment profit	¥ 13,175	¥ 1,416	¥ 929	¥ 15,520	¥ (3,170)	¥ 12,350
Segment assets	231,783	38,276	28,090	298,149	24,001	322,150
Other:						
Depreciation	7,054	1,236	571	8,861	30	8,891
Investments accounted for by the equity method	12,459	52	1,168	13,679		13,679
Increase in property, plant and equipment and intangible assets	4,456	580	281	5,317	34	5,351
Impairment losses	785		135	920	17	937

Millions of Yen						
2011						
Reportable Segment						
	Aluminum Rolling Products Division	Copper Tubes Division	Aluminum and Copper Related Business Division	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥174,365	¥45,011	¥40,100	¥259,476		¥259,476
Intersegment sales or transfers	1,081	924	63	2,068	¥ (2,068)	
Total	<u>¥175,446</u>	<u>¥45,935</u>	<u>¥40,163</u>	<u>¥261,544</u>	<u>¥ (2,068)</u>	<u>¥259,476</u>
Segment profit	¥ 17,733	¥ 328	¥ 492	¥ 18,553	¥ (2,958)	¥ 15,595
Segment assets	222,394	36,229	28,085	286,708	19,941	306,649
Other:						
Depreciation	7,669	1,182	563	9,414	26	9,440
Investments accounted for by the equity method		128	1,045	1,173		1,173
Increase in property, plant and equipment and intangible assets	3,468	849	399	4,716	17	4,733
Impairment losses	287			287	857	1,144

	Thousands of U.S. Dollars					
	2012					
	Reportable Segment			Total	Reconciliations	Consolidated
Aluminum Rolling Products Division	Copper Tubes Division	Aluminum and Copper Related Business Division				
Sales:						
Sales to external customers	\$2,029,365	\$587,882	\$533,099	\$3,150,346		\$3,150,346
Intersegment sales or transfers	34,738	16,277	69,426	120,441	\$(120,441)	
Total	<u>\$2,064,103</u>	<u>\$604,159</u>	<u>\$602,525</u>	<u>\$3,270,787</u>	<u>\$(120,441)</u>	<u>\$3,150,346</u>
Segment profit	\$ 160,303	\$ 17,229	\$ 11,296	\$ 188,828	\$ (38,569)	\$ 150,259
Segment assets	2,820,094	465,706	341,767	3,627,567	292,012	3,919,579
Other:						
Depreciation	85,822	15,040	6,942	107,804	365	108,169
Investments accounted for by the equity method	151,586	633	14,210	166,429		166,429
Increase in property, plant and equipment and intangible assets	54,210	7,063	3,420	64,693	413	65,106
Impairment losses	9,548		1,639	11,187	211	11,398

Notes: 1. The components of "Reconciliations" for the years ended March 31, 2012 and 2011 are as follows:

- (1) Reconciliations to segment profit of ¥3,170 million (\$38,569 thousand) in 2012 and ¥2,958 million in 2011 include adjustments to inventories of ¥3 million (\$37 thousand) (positive amount) and ¥3 million (negative amount), intersegment eliminations of ¥338 million (\$4,110 thousand) (positive amount) and ¥401 million (positive amount), and unallocated corporate expenses of ¥3,511 million (\$42,716 thousand) (negative amount) and ¥3,356 million (negative amount), respectively. Corporate expenses are the Company's administrative expenses.
- (2) Reconciliations to segment assets of ¥24,001 million (\$292,012 thousand) in 2012 and ¥19,941 million in 2011 include adjustments to inventories of ¥24 million (\$297 thousand) (negative amount) and ¥27 million (negative amount), intersegment eliminations of ¥3,060 million (\$37,228 thousand) (negative amount) and ¥3,749 million (negative amount), and unallocated corporate assets of ¥27,085 million (\$329,537 thousand) (positive amount) and ¥23,717 million (positive amount), respectively. Corporate assets are the Company's investment securities and assets.
- (3) Reconciliations to segment depreciation of ¥30 million (\$365 thousand) in 2012 and ¥26 million in 2011 represent depreciation on general corporate assets.
- (4) Reconciliations to segment impairment losses of ¥17 million (\$211 thousand) in 2012 and ¥857 million in 2011 are impairment losses on general corporate assets.
- (5) Reconciliations to segment increase in property, plant and equipment and intangible assets of ¥34 million (\$413 thousand) in 2012 and ¥17 million in 2011 represent increases in general corporate assets.

2. Segment profit is adjusted to operating income in the consolidated statement of income.

(4) **Information Related to Reportable Segment**

a. *Information about geographical areas*

Sales

<u>Millions of Yen</u>				
<u>2012</u>				
<u>Japan</u>	<u>Asia</u>	<u>America and Europe</u>	<u>Other</u>	<u>Total</u>
¥204,360	¥42,564	¥11,808	¥195	¥258,927

<u>Millions of Yen</u>				
<u>2011</u>				
<u>Japan</u>	<u>Asia</u>	<u>America and Europe</u>	<u>Other</u>	<u>Total</u>
¥202,713	¥43,943	¥9,327	¥3,493	¥259,476

<u>Thousands of U.S. Dollars</u>				
<u>2012</u>				
<u>Japan</u>	<u>Asia</u>	<u>America and Europe</u>	<u>Other</u>	<u>Total</u>
\$2,486,429	\$517,874	\$143,663	\$2,380	\$3,150,346

Note: Sales are classified in countries or regions based on the location of customers.

b. *Information about major customers*

<u>Name of Customers</u>	<u>Millions of Yen</u>	
	<u>Sales</u>	<u>2012</u> <u>Related Segment Name</u>
Sumitomo Corporation	¥48,172	All reporting segments

<u>Name of Customers</u>	<u>Millions of Yen</u>	
	<u>Sales</u>	<u>2011</u> <u>Related Segment Name</u>
Sumitomo Corporation	¥65,222	All reporting segments

<u>Name of Customers</u>	<u>Thousands of U.S. Dollars</u>	
	<u>Sales</u>	<u>2012</u> <u>Related Segment Name</u>
Sumitomo Corporation	\$586,106	All reporting segments

c. *Information on amortization of negative goodwill*

Negative goodwill outstanding as of March 31, 2011 and its amortization resulting in earnings for the year then ended were ¥196 million and ¥482 million, respectively.

Negative goodwill outstanding as of March 31, 2012 and its amortization resulting in earnings for the year then ended were ¥189 million (\$2,304 thousand) and ¥293 million (\$3,562 thousand), respectively.

Negative goodwill was recognized, in the current consolidated financial accounting fiscal year, at the acquisition of SK Corporation common stocks, ¥135 million (\$1,637 thousand). The amount of negative goodwill has not been allocated to each reporting segments.

**22. RELATED PARTY DISCLOSURE**

- (1) The Group had a business relationship with Tri-Arrows Aluminum Holding Inc. and its subsidiaries. As it had 40% of the voting rights of Tri-Arrows Aluminum Holding Inc., it considered Tri-Arrows Aluminum Holding Inc. as an associated company. During the year ended March 31, 2012, for strengthening such a relationship, the Group acquired the newly issued shares of common stock of Tri-Arrows Aluminum Holding Inc. for ¥11,665 million (\$142,880 thousand). The Group maintains 40% of voting rights in Tri-Arrows Aluminum Holding Inc. and nominates one director to the board of Tri-Arrows Aluminum Holding Inc. The following table details the profile of Tri-Arrows Aluminum Holding Inc. and key attributes of this particular transaction.

<u>Sort of Related Party</u>	<u>Name</u>	<u>Location</u>	<u>Thousands of U.S. Dollars Capital or Investment</u>	<u>Principal Business</u>	<u>Ownership of Voting Rights</u>	<u>Relation with Related Parties</u>	<u>Contents of Transaction</u>	<u>Millions of Yen/ Thousands of U.S. Dollars Amount of Transaction</u>
Associated company	Tri-Arrows Aluminum Holding Inc.	State of Delaware, United States of America	\$357,205	Holding and management of the stock of Tri-Arrows Aluminum Inc.	40.0%	Nominating a director to Tri-Arrows Aluminum Inc.	Increase of capital	¥11,665 \$142,880

- (2) Condensed financial information for the significant associated company

***For the Year Ended March 31, 2012***

Condensed financial information of the significant associated company, for which the equity method is applied, for the current fiscal year is as follows (Tri-Arrows Aluminum Holding Inc. and Tri-Arrows Aluminum Inc. are included):

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
	<u>2012</u>	<u>2012</u>
Total current assets	¥32,312	\$393,139
Total fixed assets	44,060	536,087
Total current liabilities	17,638	214,602
Total long-term liabilities	25,759	313,417
Total equity	32,975	401,207
Net sales	71,234	866,711
Income before income taxes	2,961	36,029
Net income	2,146	26,113

## 23. SUBSEQUENT EVENT

### *Appropriation of Retained Earnings*

The following appropriation of retained earnings at March 31, 2012 was approved at the shareholders meeting held on June 28, 2012:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥1.5 (\$0.02) per share	¥872	\$10,612

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