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

*Consolidated Financial Statements
for the Year Ended March 31, 2013,
and Independent Auditor's Report*

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. (the "Company") and its consolidated subsidiaries as of March 31, 2013, 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 accordance 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 accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. 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 its consolidated subsidiaries as of March 31, 2013, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Emphasis of Matter

As discussed in Note 25 to the consolidated financial statements, the Company and Furukawa-Sky Aluminum Corp. ("FSA") have entered into the Basic Integration Agreement on August 29, 2012, regarding integration of their businesses on October 1, 2013, as the effective date (scheduled). In connection with this business integration, the Company has entered into the Merger Agreement with FSA based on resolutions at the Company's Board of Directors' meeting held on April 26, 2013. The Merger Agreement was approved at the 10th Ordinary Shareholders' Meeting of FSA held on June 20, 2013, and the 69th Annual Shareholders' Meeting of the Company held on June 27, 2013. Our opinion is not qualified in respect of this matter.

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 accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Deloitte Touche Tohmatsu LLC

June 27, 2013

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2013

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013		2013	2012	2013
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 17)	¥ 8,206	¥ 8,961	\$ 87,253	Short-term borrowings (Notes 8 and 17)	¥ 29,724	¥ 28,263	\$ 316,041
Time deposits (Note 17)	96	62	1,024	Current portion of long-term debt (Notes 8 and 17)	50,331	59,008	535,156
Receivables (Note 17):				Commercial paper (Note 8)	2,999	3,000	31,891
Trade notes	5,094	7,151	54,163	Payables (Note 17):			
Trade accounts	29,538	31,637	314,067	Trade notes	26,025	27,538	276,709
Unconsolidated subsidiaries and associated companies	4,460	6,303	47,420	Trade accounts	39,690	39,562	422,009
Other	3,851	5,605	40,942	Unconsolidated subsidiaries and associated companies	1,092	1,081	11,612
Allowance for doubtful receivables	(27)	(50)	(282)	Other	4,291	5,005	45,620
Inventories (Note 5)	40,812	39,294	433,936	Income taxes payable (Note 17)	1,534	725	16,315
Deferred tax assets (Note 13)	2,519	1,944	26,788	Deferred tax liabilities (Note 13)	8	53	89
Prepaid expenses and other current assets	1,543	1,313	16,402	Accrued expenses and other current liabilities (Note 8)	6,072	7,726	64,553
Total current assets	96,092	102,220	1,021,713	Total current liabilities	161,766	171,961	1,719,995
PROPERTY, PLANT, AND EQUIPMENT (Notes 8 and 16):				LONG-TERM LIABILITIES:			
Land (Note 6)	95,357	95,601	1,013,898	Long-term debt (Notes 8 and 17)	71,185	74,299	756,884
Buildings and structures	63,929	62,674	679,736	Liability for employees' retirement benefits (Note 9)	6,978	6,285	74,194
Machinery and equipment	127,951	124,392	1,360,461	Deferred tax liabilities (Note 13)	1,173	1,065	12,474
Furniture and fixtures	18,295	18,873	194,518	Deferred tax liabilities for land revaluation (Note 6)	7,158	7,193	76,109
Lease assets	14,430	12,826	153,433	Negative goodwill	121	292	1,283
Construction in progress	6,796	6,599	72,256	Other	9,171	7,794	97,512
Total	326,758	320,965	3,474,302	Total long-term liabilities	95,786	96,928	1,018,456
Accumulated depreciation	(177,622)	(171,274)	(1,888,597)	COMMITMENTS AND CONTINGENT LIABILITIES			
Net property, plant, and equipment	149,136	149,691	1,585,705	(Notes 15, 18, 19 and 20)			
INVESTMENTS AND OTHER ASSETS:				EQUITY (Note 11):			
Investment securities (Notes 7 and 17)	28,430	29,202	302,279	Common stock—authorized, 960,000,000 shares; issued, 581,538,867 shares in 2013 and 2012	28,459	28,459	302,596
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 17)	19,208	15,271	204,232	Capital surplus	5,493	5,493	58,401
Long-term loans (Note 17)	6,677	6,033	70,997	Retained earnings	24,315	24,355	258,534
Goodwill	21	27	226	Treasury stock—at cost, 69,592 shares in 2013 and 52,980 shares in 2012	(7)	(5)	(73)
Deferred tax assets (Note 13)	5,859	7,417	62,298	Accumulated other comprehensive income (loss):			
Other assets	12,996	12,289	138,181	Unrealized gain on available-for-sale securities	972	28	10,339
Total investments and other assets	73,191	70,239	778,213	Deferred loss on derivatives under hedge accounting	(114)	(202)	(1,211)
				Land revaluation surplus (Note 6)	10,654	10,666	113,274
				Foreign currency translation adjustments	(9,867)	(16,392)	(104,914)
				Total	59,905	52,402	636,946
				Minority interests	962	859	10,234
				Total equity	60,867	53,261	647,180
TOTAL	¥318,419	¥322,150	\$3,385,631	TOTAL	¥318,419	¥322,150	\$3,385,631

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2013</u>	<u>2012</u>	<u>2013</u>
NET SALES	¥252,784	¥258,927	\$2,687,759
COST OF SALES	<u>221,073</u>	<u>225,364</u>	<u>2,350,590</u>
Gross profit	31,711	33,563	337,169
SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 14)	<u>21,981</u>	<u>21,213</u>	<u>233,709</u>
Operating income	<u>9,730</u>	<u>12,350</u>	<u>103,460</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	649	600	6,902
Interest expense	(3,213)	(3,735)	(34,163)
Loss on sales or disposals of property, plant, and equipment	(161)	(68)	(1,719)
Impairment losses (Note 16)	(40)	(937)	(422)
Loss on valuation of investment securities	(4,301)	(6,327)	(45,730)
Gain on sales of investment securities	59	1,187	631
Contribution for construction	20	937	217
Equity in earnings of unconsolidated subsidiaries and associated companies	1,709	896	18,169
Foreign exchange gain (loss)	590	(150)	6,275
Insurance income	660		7,016
Gain on bargain purchase	502	134	5,332
Business integration expenses	(506)		(5,380)
Other—net	<u>(1,528)</u>	<u>(916)</u>	<u>(16,245)</u>
Other expenses—net	<u>(5,560)</u>	<u>(8,379)</u>	<u>(59,117)</u>
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	<u>4,170</u>	<u>3,971</u>	<u>44,343</u>
INCOME TAXES (Note 13):			
Current	2,069	1,364	21,998
Deferred	499	(5,810)	5,309
Total income taxes	<u>2,568</u>	<u>(4,446)</u>	<u>27,307</u>
NET INCOME BEFORE MINORITY INTERESTS	1,602	8,417	17,036
MINORITY INTERESTS IN NET INCOME	<u>92</u>	<u>119</u>	<u>976</u>
NET INCOME	<u>¥ 1,510</u>	<u>¥ 8,298</u>	<u>\$ 16,060</u>

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income Year Ended March 31, 2013

PER SHARE OF COMMON STOCK (Notes 2.q and 22):

	Yen		U.S. Dollars
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Basic net income	¥2.60	¥14.95	\$0.03
Diluted net income		14.95	
Cash dividends applicable to the year	3.50	1.5	0.04
	<u>Thousands of Shares</u>		
Weighted-average shares	581,479	554,948	

Diluted net income per share is not disclosed because it is not dilutive.

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2013

	<u>Millions of Yen</u>		Thousands of U.S. Dollars (Note 1)
	<u>2013</u>	<u>2012</u>	<u>2013</u>
NET INCOME BEFORE MINORITY INTERESTS	¥1,602	¥8,417	\$17,036
OTHER COMPREHENSIVE INCOME (LOSS) (Note 21):			
Unrealized gain (loss) on available-for-sale securities	943	(258)	10,027
Deferred losses on derivatives under hedge accounting	(48)	(2)	(508)
Land revaluation surplus	17	1,002	182
Foreign currency translation adjustments	4,818	(2,164)	51,224
Share of other comprehensive income (loss) in affiliated companies	<u>1,915</u>	<u>(60)</u>	<u>20,355</u>
Total other comprehensive income (loss)	<u>7,645</u>	<u>(1,482)</u>	<u>81,280</u>
COMPREHENSIVE INCOME	<u>¥9,247</u>	<u>¥6,935</u>	<u>\$98,316</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥9,084	¥6,830	\$96,584
Minority interests	163	105	1,732

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2013

	Thousands	Millions of Yen											
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Total	Minority Interests	Total Equity
						Unrealized Gain (Loss) on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments				
BALANCE, APRIL 1, 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 12)	149,500	5,493	5,493							10,986		10,986	
Transfer from capital surplus to retained earnings (Note 12)			(3,260)	3,260									
Reversal of land revaluation surplus				32						32		32	
Reserve for employees' welfare fund				(3)						(3)		(3)	
Net change in the year						(261)	(141)	1,002	(2,070)	(1,470)	150	(1,320)	
BALANCE, MARCH 31, 2012	581,539	28,459	5,493	24,355	(5)	28	(202)	10,666	(16,392)	52,402	859	53,261	
Cash dividends, ¥3.00 per share				(1,744)						(1,744)		(1,744)	
Net income				1,510						1,510		1,510	
Change of scope of consolidation				168						168		168	
Reversal of land revaluation surplus				30						30		30	
Reserve for employees' welfare fund				(4)						(4)		(4)	
Purchases of treasury stock					(2)					(2)		(2)	
Net change in the year						944	88	(12)	6,525	7,545	103	7,648	
BALANCE, MARCH 31, 2013	581,539	¥28,459	¥5,493	¥24,315	¥(7)	¥972	¥(114)	¥10,654	¥ (9,867)	¥59,905	¥962	¥60,867	

	Thousands of U.S. Dollars (Note 1)											
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)					Total	Minority Interests	Total Equity
					Unrealized Gain on Available- for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Land Revaluation Surplus	Foreign Currency Translation Adjustments				
BALANCE, MARCH 31, 2012	\$302,596	\$58,401	\$258,959	\$(58)	\$ 303	\$(2,144)	\$113,407	\$(174,288)	\$557,176	\$ 9,130	\$566,306	
Cash dividends, \$0.03 per share			(18,548)						(18,548)		(18,548)	
Net income			16,060						16,060		16,060	
Change of scope of consolidation			1,786						1,786		1,786	
Reversal of land revaluation surplus			315						315		315	
Reserve for employees' welfare fund			(38)						(38)		(38)	
Purchases of treasury stock				(15)					(15)		(15)	
Net change in the year					10,036	933	(133)	69,374	80,210	1,104	81,314	
BALANCE, MARCH 31, 2013	\$302,596	\$58,401	\$258,534	\$(73)	\$10,339	\$(1,211)	\$113,274	\$(104,914)	\$636,946	\$10,234	\$647,180	

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2013</u>	<u>2012</u>	<u>2013</u>
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	<u>¥ 4,170</u>	<u>¥ 3,971</u>	<u>\$ 44,343</u>
Adjustments for:			
Income taxes—paid	(1,429)	(2,159)	(15,190)
Depreciation and amortization	9,255	10,452	98,409
Loss on valuation of investment securities	4,301	6,327	45,730
Amortization of negative goodwill	(167)	(189)	(1,774)
Equity in earnings of unconsolidated subsidiaries and an associated company	(1,709)	(896)	(18,169)
Changes in assets and liabilities:			
Decrease (increase) in trade accounts receivable	8,324	(1,840)	88,500
Increase in inventories	(540)	(1,511)	(5,747)
Increase (decrease) in trade accounts payable	(4,817)	3,688	(51,213)
Increase in liability for retirement benefits	691	684	7,349
Other—net	<u>(1,813)</u>	<u>103</u>	<u>(19,285)</u>
Total adjustments	<u>12,096</u>	<u>14,659</u>	<u>128,610</u>
Net cash provided by operating activities	<u>16,266</u>	<u>18,630</u>	<u>172,953</u>
INVESTING ACTIVITIES:			
Payments into time deposits	(2,051)	(1,580)	(21,803)
Proceeds from withdrawal of time deposits	2,026	1,666	21,540
Purchase of property, plant, and equipment	(7,481)	(5,722)	(79,541)
Proceeds from sales of property, plant, and equipment	1,243	1,776	13,221
Purchase of investment securities	(405)	(11,906)	(4,310)
Proceeds from sales of investment securities	680	2,075	7,225
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(32)	(70)	(339)
Decrease in investments in and advances to unconsolidated subsidiaries and associated companies	202	44	2,142
Payments of long-term loans receivable	(782)	(2,635)	(8,319)
Collection of long-term loans receivable	964	651	10,253
Other—net	<u>(686)</u>	<u>(1,336)</u>	<u>(7,290)</u>
Net cash used in investing activities	<u>(6,322)</u>	<u>(17,037)</u>	<u>(67,221)</u>
FORWARD	<u>¥ 9,944</u>	<u>¥ 1,593</u>	<u>\$ 105,732</u>

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
FORWARD	<u>¥ 9,944</u>	<u>¥ 1,593</u>	<u>\$ 105,732</u>
FINANCING ACTIVITIES:			
Increase in short-term borrowings—net	1,371	720	14,575
Proceeds from long-term debt	48,400	20,190	514,620
Repayments of long-term debt	(62,108)	(36,535)	(660,370)
Proceeds from sale and leaseback transactions	1,686	1,174	17,932
Increase in commercial paper		3,000	(4)
Proceeds from issuances of common stock		10,986	
Cash dividends paid	(1,725)		(18,343)
Cash dividends paid to minority shareholders	(59)	(37)	(626)
Other—net	(1)	(6)	(14)
Net cash used in financing activities	<u>(12,436)</u>	<u>(508)</u>	<u>(132,230)</u>
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	<u>344</u>	<u>(79)</u>	<u>3,659</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(2,148)	1,006	(22,839)
INCREASE IN CASH AND CASH EQUIVALENTS FROM NEWLY CONSOLIDATED SUBSIDIARY	1,393		14,813
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>8,961</u>	<u>7,955</u>	<u>95,279</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>¥ 8,206</u>	<u>¥ 8,961</u>	<u>\$ 87,253</u>

See notes to consolidated financial statements.

Sumitomo Light Metal Industries, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2013

1. BASIS OF PRESENTATION OF 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 accordance with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of 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 2012 consolidated financial statements to conform to the classifications used in 2013 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 ¥94.05 to \$1, the approximate rate of exchange at March 31, 2013. 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, 2013, include the accounts of the Company and its significant 28 (28 in 2012) 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 2 (2 in 2012) unconsolidated subsidiaries and 3 (3 in 2012) associated companies are accounted for by the equity method.

Investments in the remaining 11 unconsolidated subsidiaries and 5 associated companies are stated at cost. Even 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 excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized on a straight-line basis over 5 years. The excess of the fair value of the net assets of an acquired subsidiary over the cost of acquisition at the date of acquisition which was recognized from the business combination on or before March 31, 2010, is amortized on a straight-line basis over 5 years. The excess of the fair value of the net assets of an acquired subsidiary over the cost of acquisition at the date of acquisition which was recognized from the business combination on or after April 1, 2010, is charged to income as incurred.

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 also 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 that 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. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for, the following items which 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 consolidated financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, consolidated 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: (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 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.
- 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 6). 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.

Nonmarketable 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 consolidated balance sheet date. The transitional obligation of ¥24,563 million (\$261,170 thousand), determined as of April 1, 2000, is being amortized over 15 years.

j. Asset Retirement Obligations—In March 2008, the ASBJ published 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 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 are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

k. Research and Development Costs—Research and development costs are charged to income as incurred.

- l. 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. 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 consolidated 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.

- m. 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.
- n. 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 consolidated 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.
- o. Foreign Currency Financial Statements**—The balance sheet and revenue and expense accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the consolidated 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" under accumulated other comprehensive income in a separate component of equity and part of "Minority interests."
- p. Derivatives and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange, interest rates, and raw material prices. 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. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments 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 such 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, 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 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 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.

- q. 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.

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

- r. 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 following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions in which case the 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.

- s. 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 guidance, and 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, is 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 any resulting 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

The revised accounting standard does 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 have not yet been 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.

(c) Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both 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 for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. CHANGES IN ACCOUNTING POLICIES

(Depreciation Method of Property, Plant, and Equipment)

The Company and its certain domestic subsidiaries changed their depreciation methods of property, plant, and equipment acquired on or after April 1, 2012, in accordance with the revised corporate tax law. The effect of this accounting policy change was immaterial.

4. CHANGES IN PRESENTATIONS

Prior to April 1, 2012, foreign exchange gains (losses) were included in other—net among the other income (expenses) section of the consolidated statement of income. Due to an increase in foreign exchange gains/losses during the year ended March 31, 2013, such amount is disclosed separately in the other income (expenses) section of the consolidated statement of income for the year ended March 31, 2013. The consolidated statement of income for the year ended March 31, 2012, is also disclosed in accordance with the new presentation.

Prior to April 1, 2012, collection of long-term loans receivable was included in other—net among the investing activities section of the consolidated statement of cash flows. Due to an increase in long-term loans receivable during the year ended March 31, 2013, such amount is disclosed separately in the investing activities section of the consolidated statement of cash flows for the year ended March 31, 2013. The consolidated statement of cash flows for the year ended March 31, 2012, is also disclosed in accordance with the new presentation.

Prior to April 1, 2012, cash dividends paid to minority shareholders was included in other—net among the financing activities section of the consolidated statement of cash flows. Due to an increase in cash dividends paid to minority shareholders during the year ended March 31, 2013, such amount is disclosed separately in the financing activities section of the consolidated statement of cash flows for the year ended March 31, 2013. The consolidated statement of cash flows for the year ended March 31, 2012, is also disclosed in accordance with the new presentation.

5. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Finished products	¥17,624	¥16,630	\$ 187,391
Work in process	15,484	15,799	164,637
Raw materials and supplies	<u>7,704</u>	<u>6,865</u>	<u>81,908</u>
Total	<u>¥40,812</u>	<u>¥39,294</u>	<u>\$ 433,936</u>

6. 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 (Nalco Iwai 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, 2013, the carrying amount of the land after the above one-time revaluation exceeded the market value by ¥13,147 million (\$139,786 thousand).

7. INVESTMENT SECURITIES

Investment securities as of March 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Noncurrent:			
Marketable equity securities	¥ 6,136	¥ 5,741	\$ 65,240
Unlisted securities	<u>22,294</u>	<u>23,461</u>	<u>237,039</u>
Total	<u>¥28,430</u>	<u>¥29,202</u>	<u>\$ 302,279</u>

Included in the above marketable securities were stock lending transactions of ¥2,034 million (\$21,624 thousand) and ¥1,588 million at March 31, 2013 and 2012, respectively.

The cost and aggregate fair values of investment securities at March 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>			
	<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
<u>March 31, 2013</u>				
Securities classified as available-for-sale—equity securities	¥4,606	¥2,426	¥896	¥6,136
<u>March 31, 2012</u>				
Securities classified as available-for-sale—equity securities	¥5,728	¥1,388	¥1,375	¥5,741
	<u>Thousands of U.S. Dollars</u>			
	<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
<u>March 31, 2013</u>				
Securities classified as available-for-sale—equity securities	\$48,972	\$25,791	\$9,523	\$65,240

The proceeds, realized gains, and realized losses of the available-for-sale securities, which were sold during the years ended March 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>		
	<u>Proceeds</u>	<u>Realized</u> <u>Gains</u>	<u>Realized</u> <u>Losses</u>
<u>March 31, 2013</u>			
Available-for-sale—equity securities	¥655	¥43	¥468
<u>March 31, 2012</u>			
Available-for-sale—equity securities	¥1,550	¥692	¥15
	<u>Thousands of U.S. Dollars</u>		
	<u>Proceeds</u>	<u>Realized</u> <u>Gains</u>	<u>Realized</u> <u>Losses</u>
<u>March 31, 2013</u>			
Available-for-sale—equity securities	\$6,959	\$461	\$4,980

The impairment losses on available-for-sale equity securities for the years ended March 31, 2013 and 2012, were ¥4,301 million (\$45,730 thousand) and ¥6,327 million, respectively.

8. SHORT-TERM BORROWINGS, COMMERCIAL PAPER, LONG-TERM DEBT, AND INTEREST-BEARING LIABILITIES

Short-term borrowings and commercial paper at March 31, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Short-term borrowings principally from banks, 0.56% to 4.15% (2013) and 0.58% to 5.8% (2012)	¥29,724	¥28,263	\$316,041
Commercial paper, 0.27% (2013) and 0.13% (2012)	<u>2,999</u>	<u>3,000</u>	<u>31,891</u>
Total	<u>¥32,723</u>	<u>¥31,263</u>	<u>\$347,932</u>

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Loans from banks and other financial institutions, due serially through 2018 with interest rates ranging from 1.15% to 4.31% (2013) and from 1.44% to 4.31% (2012)	¥111,830	¥123,336	\$1,189,045
Obligations under finance leases	<u>9,686</u>	<u>9,971</u>	<u>102,995</u>
Total	<u>121,516</u>	<u>133,307</u>	<u>1,292,040</u>
Less current portion	<u>(50,331)</u>	<u>(59,008)</u>	<u>(535,156)</u>
Long-term debt, less current portion	<u>¥ 71,185</u>	<u>¥ 74,299</u>	<u>\$ 756,884</u>

Annual maturities of long-term debt, excluding finance leases (see Note 15), as of March 31, 2013, for the next five years were as follows:

<u>Year Ending March 31</u>	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
2014	¥ 47,718	\$ 507,373
2015	27,182	289,015
2016	22,646	240,785
2017	10,091	107,289
2018	<u>4,193</u>	<u>44,583</u>
Total	<u>¥111,830</u>	<u>\$1,189,045</u>

At March 31, 2013, property, plant, and equipment of ¥12,736 million (\$135,416 thousand) were pledged as collateral for short-term borrowings and long-term debt of ¥2,628 million (\$27,943 thousand) in total. Among the pledged assets, ¥9,417 million (\$100,125 thousand) were pledged as plant mortgage for short-term borrowings and long-term debt of ¥968 million (\$10,292 thousand) in total.

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.

In addition, collateral must be provided if requested by lending banks, and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the bank concerned. The Company has never received any such request.

Other interest-bearing liabilities consisted of deposits received of ¥191 million (\$2,030 thousand) included in other current liabilities as of March 31, 2013. The annual interest rate applicable to the deposits received is 0.97% at March 31, 2013.

9. 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 occurs. 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, 2013 and 2012, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Projected benefit obligation	¥22,545	¥22,794	\$239,712
Fair value of plan assets	(9,503)	(8,850)	(101,042)
Unrecognized prior service cost	(266)	215	(2,832)
Unrecognized actuarial gain	(3,021)	(3,543)	(32,120)
Unrecognized transitional obligation	(3,016)	(4,524)	(32,070)
Prepaid benefit costs	<u>239</u>	<u>193</u>	<u>2,546</u>
Net liability	<u>¥ 6,978</u>	<u>¥ 6,285</u>	<u>\$ 74,194</u>

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012, are as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Service cost	¥1,233	¥1,200	\$13,116
Interest cost	426	450	4,526
Expected return on plan assets	(180)	(176)	(1,908)
Amortization of prior service cost	(2)	(50)	(23)
Recognized actuarial loss	569	561	6,050
Amortization of transitional obligation	<u>1,508</u>	<u>1,508</u>	<u>16,033</u>
Net periodic benefit costs	<u>¥3,554</u>	<u>¥3,493</u>	<u>\$37,794</u>

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	1.3%–2.2%	2.0%–2.2%
Expected rate of return on plan assets	2.0%–2.5%	2.5%
Amortization period of prior service cost	10–13 years	13 years
Recognition period of actuarial gain/loss	9–13 years	9–13 years
Amortization period of transitional obligation	15 years	15 years

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2013</u>	<u>2012</u>	<u>U.S. Dollars</u>
			<u>2013</u>
Balance at beginning of year	¥1,161	¥1,160	\$12,345
Additional provisions associated with newly consolidated subsidiary	10		106
Reconciliation associated with passage of time	17	16	178
Reduction associated with meeting asset retirement obligations		(15)	
Balance at end of year	<u>¥1,188</u>	<u>¥1,161</u>	<u>\$12,629</u>

11. 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 (noncash 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.

12. 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 and capital surplus increased by ¥4,777 million, 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 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 and capital surplus increased by ¥716 million, respectively.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rates of approximately 37.7% and 40.5% for the years ended March 31, 2013 and 2012, respectively.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, are as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Deferred tax assets:			
Accrued enterprise tax	¥ 170	¥ 92	\$ 1,805
Employees' retirement benefits	2,508	2,233	26,669
Tax loss carryforwards	8,223	8,043	87,432
Other	2,537	2,535	26,977
Less valuation allowance	<u>(2,802)</u>	<u>(2,262)</u>	<u>(29,794)</u>
Total deferred tax assets	<u>10,636</u>	<u>10,641</u>	<u>113,089</u>
Deferred tax liabilities:			
Unrealized gains on inventories	1,609	1,260	17,112
Unrealized gains on investment securities	543	61	5,770
Other	<u>1,287</u>	<u>1,077</u>	<u>13,684</u>
Total deferred tax liabilities	<u>3,439</u>	<u>2,398</u>	<u>36,566</u>
Net deferred tax assets	<u>¥ 7,197</u>	<u>¥ 8,243</u>	<u>\$ 76,523</u>

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statement of income for the year ended March 31, 2013, with the corresponding figures for 2012 is as follows:

	<u>2013</u>	<u>2012</u>
Normal effective statutory tax rate	37.7%	40.5 %
Net decrease in valuation allowance	(13.0)	(239.0)
Expenses not deductible for income tax purposes	41.4	66.9
Equity in losses of unconsolidated subsidiaries and an associated company	(15.4)	(9.1)
Reconciliation of undistributed foreign earnings	9.6	6.0
Effect of tax rate reduction	0.2	20.6
Inhabitant tax on per capita basis	1.5	1.2
Other—net	<u>(0.4)</u>	<u>0.9</u>
Actual effective tax rate	<u>61.6%</u>	<u>(112.0)%</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% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.5% afterwards.

On April 1, 2012, new tax cuts ordinance came into force in Nagoya-City, which changed the normal effective statutory tax rate from approximately 38% to 37.7% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and 35.5% to 35.4% afterwards.

The effect of this change was to decrease deferred taxes in the consolidated balance sheet as of March 31, 2013, by ¥42 million (\$449 thousand) and to increase income taxes—deferred in the consolidated statement of income for the year then ended by ¥43 million (\$459 thousand). In addition, the effect of this change was also to decrease deferred tax liabilities, which is related to land revaluation surplus, by ¥17 million (\$182 thousand) and to increase land revaluation surplus by ¥17 million (\$182 thousand).

At March 31, 2013, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥23,330 million (\$248,062 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	\$ 1,697
2015		
2016		
2017		
2018	608	6,468
2019	15,184	161,441
2020	851	9,053
2021 and thereafter	<u>6,527</u>	<u>69,403</u>
Total	<u>¥23,330</u>	<u>\$248,062</u>

14. R&D COSTS

R&D costs charged to income were ¥2,171 million (\$23,084 thousand) and ¥2,215 million for the years ended March 31, 2013 and 2012, respectively.

15. LEASES

The Group leases certain production facilities.

Total rental expenses, including lease payments under finance leases, for the years ended March 31, 2013 and 2012, were ¥5,726 million (\$60,878 thousand) and ¥5,808 million, respectively.

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>	
	<u>2013</u>	<u>2013</u>	<u>2013</u>	<u>2013</u>
	<u>Finance Leases</u>	<u>Operating Leases</u>	<u>Finance Leases</u>	<u>Operating Leases</u>
Due within one year	¥2,613	¥1,879	\$ 27,783	\$19,982
Due after one year	<u>7,074</u>	<u>1,778</u>	<u>75,212</u>	<u>18,905</u>
Total	<u>¥9,687</u>	<u>¥3,657</u>	<u>\$102,995</u>	<u>\$38,887</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							
	2013				2012			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥3,642	¥123	¥130	¥3,895	¥6,603	¥473	¥182	¥7,258
Accumulated depreciation	2,866	114	123	3,103	5,470	400	158	6,028
Accumulated impairment loss	7	—	—	7	27	—	—	27
Net leased property	<u>¥ 769</u>	<u>¥ 9</u>	<u>¥ 7</u>	<u>¥ 785</u>	<u>¥1,106</u>	<u>¥ 73</u>	<u>¥ 24</u>	<u>¥1,203</u>

	Thousands of U.S. Dollars			
	2013			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	\$38,725	\$1,302	\$1,385	\$41,412
Accumulated depreciation	30,473	1,210	1,308	32,991
Accumulated impairment loss	78	—	—	78
Net leased property	<u>\$ 8,174</u>	<u>\$ 92</u>	<u>\$ 77</u>	<u>\$ 8,343</u>

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
	Due within one year	¥416	¥ 685
Due after one year	<u>376</u>	<u>545</u>	<u>4,002</u>
Total	<u>¥792</u>	<u>¥1,230</u>	<u>\$8,421</u>

An allowance for impairment loss on leased property of ¥7 million (\$78 thousand) as of March 31, 2013, and ¥27 million as of March 31, 2012, 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 ¥434 million (\$4,612 thousand) and ¥1,016 million for the years ended March 31, 2013 and 2012, respectively.

16. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2013 and 2012. As a result, the Group recognized impairment losses of ¥40 million (\$422 thousand) and ¥937 million for the years ended March 31, 2013 and 2012, 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, and furniture and fixtures, was written down to the recoverable amount.

17. 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 risk 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 part 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 18 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, at an 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 bank loans.

Commodity futures are used to manage exposure to market risks from changes in raw material prices.

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.

(a) Fair value of financial instruments

<u>March 31, 2013</u>	<u>Millions of Yen</u>		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	¥ 8,206	¥ 8,206	
Time deposits	96	96	
Receivables	41,703	41,703	
Investment securities	6,136	6,136	
Investments in and advances to unconsolidated subsidiaries and associated companies	315	315	
Long-term loans	<u>7,679</u>	<u>7,679</u>	
Total	<u>¥ 64,135</u>	<u>¥ 64,135</u>	
Short-term borrowings	¥ 29,724	¥ 29,724	
Commercial paper	2,999	2,999	
Payables	71,098	71,098	
Income taxes payable	1,534	1,534	
Long-term debt	<u>121,516</u>	<u>122,370</u>	¥(854)
Total	<u>¥226,871</u>	<u>¥227,725</u>	<u>¥(854)</u>
Derivative transactions	<u>¥ (172)</u>	<u>¥ (172)</u>	

<u>March 31, 2012</u>	Millions of Yen		
	<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	<u>7,041</u>	<u>7,041</u>	<u> </u>
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	<u>133,307</u>	<u>134,179</u>	<u>¥(872)</u>
Total	<u>¥238,481</u>	<u>¥239,353</u>	<u>¥(872)</u>
Derivative transactions	<u>¥ (100)</u>	<u>¥ (100)</u>	<u> </u>

<u>March 31, 2013</u>	Thousands of U.S. Dollars		
	<u>Carrying Amount</u>	<u>Fair Value</u>	<u>Unrealized Gain/Loss</u>
Cash and cash equivalents	\$ 87,253	\$ 87,253	
Time deposits	1,024	1,024	
Receivables	443,412	443,412	
Investment securities	65,240	65,240	
Investments in and advances to unconsolidated subsidiaries and associated companies	3,347	3,344	\$ (3)
Long-term loans	<u>81,650</u>	<u>81,650</u>	<u> </u>
Total	<u>\$ 681,926</u>	<u>\$ 681,923</u>	<u>\$ (3)</u>
Short-term borrowings	\$ 316,041	\$ 316,041	
Commercial paper	31,891	31,891	
Payables	755,950	755,950	
Income taxes payable	16,315	16,315	
Long-term debt	<u>1,292,040</u>	<u>1,301,117</u>	<u>\$(9,077)</u>
Total	<u>\$2,412,237</u>	<u>\$2,421,314</u>	<u>\$(9,077)</u>
Derivative transactions	<u>\$ (1,831)</u>	<u>\$ (1,831)</u>	<u> </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. Fair value information for investment securities is included in Note 7.

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 18.

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

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥22,294	¥23,461	\$237,039
Investments in unconsolidated subsidiaries and associated companies that do not have a quoted market price in an active market	18,407	14,840	195,724

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

	<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>
<u>March 31, 2013</u>				
Cash and cash equivalents	¥ 8,206			
Time deposits	96			
Receivables	41,703			
Investment securities and advances to unconsolidated subsidiaries and associated companies	247	¥ 68		
Long-term loans	<u>1,002</u>	<u>2,531</u>	<u>¥1,867</u>	<u>¥2,279</u>
Total	<u>¥51,254</u>	<u>¥2,599</u>	<u>¥1,867</u>	<u>¥2,279</u>

	<u>Thousands of U.S. Dollars</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>
<u>March 31, 2013</u>				
Cash and cash equivalents	\$ 87,253			
Time deposits	1,024			
Receivables	443,412			
Investment securities and advances to unconsolidated subsidiaries and associated companies	2,628	\$ 719		
Long-term loans	<u>10,656</u>	<u>26,914</u>	<u>\$19,847</u>	<u>\$24,233</u>
Total	<u>\$544,973</u>	<u>\$27,633</u>	<u>\$19,847</u>	<u>\$24,233</u>

Please see Note 8 for annual maturities of long-term debt and Note 15 for obligations under finance leases.

18. 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 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, 2013</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	¥1,385		¥(55)
Selling Thailand baht	Receivables	54		(1)
Selling Euro	Receivables	6		
Selling Malaysia ringgit	Payables	65		8
Selling Chinese yuan	Payables	92		(1)
Buying U.S. dollar	Payables	68		2
Commodity futures—Buying	Raw material and supplies	4,692		(56)
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	3,000	¥2,100	(69)
<u>March 31, 2012</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, 2013</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	\$14,723		\$(583)
Selling Thailand baht	Receivables	579		(9)
Selling Euro	Receivables	62		1
Selling Malaysia ringgit	Payables	694		83
Selling Chinese yuan	Payables	980		(9)
Buying U.S. dollar	Payables	719		18
Commodity futures—Buying	Raw material and supplies	49,885		(593)
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	31,898	\$22,328	(739)

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 (i.e., receivable and payable).

<u>March 31, 2013</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	¥1,099	
Selling Thailand baht	Receivables	111	
Buying U.S. dollar	Payables	948	

March 31, 2012

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, 2013</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	\$11,686	
Selling Thailand baht	Receivables	1,175	
Buying U.S. dollar	Payables	10,080	

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 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 (i.e., long-term debt).

<u>March 31, 2013</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	¥48,708	¥28,005
<u>March 31, 2012</u>			
Interest rate swaps—Fixed rate payment, floating rate receipt	Long-term debt	¥56,096	¥29,100
<u>March 31, 2013</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	\$517,889	\$297,762

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 contract 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.

19. CONTINGENT LIABILITIES

At March 31, 2013, the Group had the following contingent liabilities:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Trade notes discounted	¥ 691	\$ 7,346
Trade notes endorsed	217	2,306
Export drafts discounted	231	2,458
Guarantees to employees' debt and items of a similar nature	1,444	15,349

20. COMMITMENTS

Raw Material Purchase Commitments

At March 31, 2013, the Company had a number of raw material purchase commitments. However, purchase prices are contingent upon fluctuations of market prices.

21. COMPREHENSIVE INCOME

The components of other comprehensive income (loss) for the years ended March 31, 2013 and 2012, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Unrealized gain (loss) on available-for-sale securities:			
Gain (loss) arising during the year	¥1,011	¥ (433)	\$10,756
Reclassification adjustments to profit or loss	<u>450</u>	<u>(10)</u>	<u>4,782</u>
Amount before income tax effect	1,461	(443)	15,538
Income tax effect	<u>(518)</u>	<u>185</u>	<u>(5,511)</u>
Total	<u>¥ 943</u>	<u>¥ (258)</u>	<u>\$10,027</u>
Deferred gain (loss) on derivatives under hedge accounting:			
Loss arising during the year	¥ (133)	¥(1,254)	\$ (1,408)
Reclassification adjustments to profit or loss	<u>57</u>	<u>1,159</u>	<u>604</u>
Amount before income tax effect	(76)	(95)	(804)
Income tax effect	<u>28</u>	<u>93</u>	<u>296</u>
Total	<u>¥ (48)</u>	<u>¥ (2)</u>	<u>\$ (508)</u>
Land revaluation surplus—Income tax effect	<u>¥ 17</u>	<u>¥ 1,002</u>	<u>\$ 182</u>
Foreign currency translation adjustments— Adjustment arising during the year	<u>¥4,818</u>	<u>¥(2,164)</u>	<u>\$51,224</u>
Share of other comprehensive income (loss) in affiliated companies:			
Gain (loss) arising during the year	¥1,803	¥ (98)	\$19,164
Reclassification adjustments to profit or loss	<u>112</u>	<u>38</u>	<u>1,191</u>
Total	<u>¥1,915</u>	<u>¥ (60)</u>	<u>\$20,355</u>
Total other comprehensive income (loss)	<u>¥7,645</u>	<u>¥(1,482)</u>	<u>\$81,280</u>

22. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2013 and 2012, 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, 2013</u>	<u>Net Income</u>	<u>Weighted- Average Shares</u>	<u>EPS</u>	
Basic EPS—Net income available to common shareholders	<u>¥1,510</u>	<u>581,479</u>	<u>¥2.60</u>	<u>\$0.03</u>

<u>Year Ended March 31, 2012</u>	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>
	<u>Net</u>	<u>Weighted-Average</u>	<u>EPS</u>
	<u>Income</u>	<u>Shares</u>	
Basic EPS—Net income available to common shareholders	¥8,298	554,948	<u>¥14.95</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>

Diluted EPS is not disclosed because it is not dilutive.

23. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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.

(1) *Description of Reportable Segments*

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Group. Therefore, the Group's reportable segments consist of the "Aluminum Rolling Products Division," "Copper Tubes Division," and "Aluminum and Copper Related Business Division."

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.

Effective April 1, 2012, the Copper Tubes Division of Alumi-Center Co., Ltd. (a consolidated subsidiary) has been transferred to Sumikei Copper Tube Sales Co, Ltd. (a consolidated subsidiary) and, as a result, part of the Aluminum and Copper Related Business Division was included in the Aluminum Rolling Products Division and the Copper Tubes Division.

The segment information for the year end March 31, 2012, is also disclosed in accordance with the new segmentation.

(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						
2013						
Reportable Segment						
	Aluminum Rolling Products Division	Copper Tubes Division	Aluminum and Copper Related Business Division	Total	Reconciliations	Consolidated
Sales:						
Sales to external customers	¥163,681	¥51,111	¥37,992	¥252,784		¥252,784
Intersegment sales or transfers	<u>1,884</u>	<u>560</u>	<u>5,793</u>	<u>8,237</u>	¥ (8,237)	
Total	<u>¥165,565</u>	<u>¥51,671</u>	<u>¥43,785</u>	<u>¥261,021</u>	<u>¥ (8,237)</u>	<u>¥252,784</u>
Segment profit	¥ 10,311	¥ 1,720	¥ 926	¥ 12,957	¥ (3,227)	¥ 9,730
Segment assets	232,781	39,699	24,727	297,207	21,212	318,419
Other:						
Depreciation	6,041	1,207	565	7,813	27	7,840
Investments accounted for by the equity method	15,612	87	1,225	16,924		16,924
Impairment losses	10		20	30	10	40
Increase in property, plant, and equipment and intangible assets	5,493	1,159	332	6,984	52	7,036

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	¥168,635	¥50,444	¥39,848	¥258,927		¥258,927
Intersegment sales or transfers	<u>2,085</u>	<u>395</u>	<u>6,396</u>	<u>8,876</u>	¥ (8,876)	
Total	<u>¥170,720</u>	<u>¥50,839</u>	<u>¥46,244</u>	<u>¥267,803</u>	<u>¥ (8,876)</u>	<u>¥258,927</u>
Segment profit	¥ 13,224	¥ 1,395	¥ 897	¥ 15,516	¥ (3,166)	¥ 12,350
Segment assets	232,359	38,919	25,981	297,259	24,891	322,150
Other:						
Depreciation	7,062	1,236	563	8,861	30	8,891
Investments accounted for by the equity method	12,459	52	1,168	13,679		13,679
Impairment losses	785		135	920	17	937
Increase in property, plant, and equipment and intangible assets	4,459	580	278	5,317	34	5,351

	Thousands of U.S. Dollars					
	2013					
	Reportable Segment			Total	Reconciliations	Consolidated
Aluminum Rolling Products Division	Copper Tubes Division	Aluminum and Copper Related Business Division				
Sales:						
Sales to external customers	\$1,740,361	\$543,444	\$403,954	\$2,687,759		\$2,687,759
Intersegment sales or transfers	20,035	5,953	61,590	87,578	\$ (87,578)	
Total	\$1,760,396	\$549,397	\$465,544	\$2,775,337	\$ (87,578)	\$2,687,759
Segment profit	\$ 109,638	\$ 18,286	\$ 9,850	\$ 137,774	\$ (34,314)	\$ 103,460
Segment assets	2,475,080	422,101	262,909	3,160,090	225,541	3,385,631
Other:						
Depreciation	64,229	12,836	6,007	83,072	290	83,362
Investments accounted for by the equity method	165,992	926	13,028	179,946		179,946
Impairment losses	104		216	320	102	422
Increase in property, plant, and equipment and intangible assets	58,405	12,325	3,535	74,265	557	74,822

Notes: 1. The components of "Reconciliations" for the years ended March 31, 2013 and 2012, are as follows:

- (1) Reconciliations to segment profit of ¥3,227 million (\$34,314 thousand) in 2013 and ¥3,166 million in 2012 include adjustments to inventories of ¥8 million (\$90 thousand) (negative amount) and ¥7 million (positive amount), intersegment eliminations of ¥297 million (\$3,159 thousand) (positive amount) and ¥338 million (positive amount), and unallocated corporate expenses of ¥3,516 million (\$37,383 thousand) (negative amount) and ¥3,511 million (negative amount), respectively. Corporate expenses are the Company's administrative expenses.
- (2) Reconciliations to segment assets of ¥21,212 million (\$225,541 thousand) in 2013 and ¥24,891 million in 2012 include adjustments to inventories of ¥33 million (\$349 thousand) (negative amount) and ¥20 million (negative amount), intersegment eliminations of ¥5,830 million (\$61,986 thousand) (negative amount) and ¥2,173 million (negative amount), and unallocated corporate assets of ¥27,075 million (\$287,876 thousand) (positive amount) and ¥27,084 million (positive amount), respectively. Corporate assets are mainly the Company's investment securities and assets related to administrative division.
- (3) Reconciliations to segment depreciation of ¥27 million (\$290 thousand) in 2013 and ¥30 million in 2012 mainly represent depreciation on assets related to administrative division.
- (4) Reconciliations to segment impairment losses of ¥10 million (\$102 thousand) in 2013 and ¥17 million in 2012 are impairment losses on assets related to administrative division.
- (5) Reconciliations to segment increase in property, plant, and equipment and intangible assets of ¥52 million (\$557 thousand) in 2013 and ¥34 million in 2012 represent increases in assets mainly related to the administrative division.

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

Millions of Yen				
2013				
<u>Japan</u>	<u>Asia</u>	<u>America and Europe</u>	<u>Other</u>	<u>Total</u>
¥197,386	¥42,860	¥12,363	¥175	¥252,784

Millions of Yen				
2012				
<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

Thousands of U.S. Dollars				
2013				
<u>Japan</u>	<u>Asia</u>	<u>America and Europe</u>	<u>Other</u>	<u>Total</u>
\$2,098,735	\$455,716	\$131,446	\$1,862	\$2,687,759

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

b. *Information about major customers*

<u>Name of Customer</u>	2013	
	<u>Millions of Yen Sales</u>	<u>Related Segment Name</u>
Sumitomo Corporation	¥44,574	All reporting segments

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

<u>Name of Customer</u>	2013	
	<u>Thousands of U.S. Dollars Sales</u>	<u>Related Segment Name</u>
Sumitomo Corporation	\$473,935	All reporting segments

c. *Information on amortization and balance of goodwill and negative goodwill*

As of March 31, 2013, amortization cost and ending balance of goodwill were ¥5 million (\$57 thousand) and ¥21 million (\$227 thousand), respectively. Amortization cost and ending balance of negative goodwill, which was recognized from the business combination on or before March 31, 2010, were ¥172 million (\$1,830 thousand) and ¥121 million (\$1,283 thousand), respectively.

As of March 31, 2012, amortization cost and ending balance of negative goodwill, which was recognized from the business combination on or before March 31, 2010, were ¥189 million and ¥293 million, respectively.

The amount of goodwill or negative goodwill has not been allocated to each reporting segment.

d. *Information on gain on bargain purchase*

Gain on bargain purchase of ¥502 million (\$5,332 thousand) was recognized with additional acquisition of Alcut Co., Ltd. common stocks for the year ended March 31, 2013. Gain on bargain purchase of ¥135 million was recognized with acquisition of SK Corporation common stocks for the year ended March 31, 2012.

Gain on bargain purchase has not been allocated to each reporting segment.

24. 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, to strengthen this relationship, the Group acquired the newly issued shares of common stock of Tri-Arrows Aluminum Holding Inc. for ¥11,665 million. 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.

Sort of Related Party	Name	Location	Thousands of U.S. Dollars Capital or Investment	Principal Business	Ownership of Voting Rights	Relation with Related Parties	Contents of Transaction	Millions of Yen/ Thousands of U.S. Dollars Amount of Transaction
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%	Nominating a director to Tri-Arrows Aluminum Inc.	Increase of capital	¥11,665

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

Condensed financial information of the significant associated company, for which the equity method is applied, as of March 31, 2013 and 2012, and for the years then ended, was as follows (Tri-Arrows Aluminum Holding Inc. and Tri-Arrows Aluminum Inc. are included):

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Total current assets	¥ 35,997	¥32,312	\$ 382,745
Total fixed assets	45,630	44,060	485,162
Total current liabilities	18,843	17,638	200,347
Total long-term liabilities	21,806	25,759	231,851
Total equity	40,978	32,975	435,709
Net sales	107,444	71,234	1,142,418
Income before income taxes	6,887	2,961	73,226
Net income	3,961	2,146	42,121

25. SUBSEQUENT EVENTS

Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2013, was approved at the shareholders' meeting held on June 27, 2013:

	<u>Millions of Yen</u>	<u>Thousands of U.S. Dollars</u>
Year-end cash dividends, ¥2.0 (\$0.02) per share	¥1,163	\$12,365

Approval of a Merger Agreement between the Company and Furukawa-Sky Aluminum Corp.

The Company ("SLM") and Furukawa-Sky Aluminum Corp. ("FSA") (collectively, the "Companies") have entered into the Basic Integration Agreement on August 29, 2012, regarding integration of their businesses on October 1, 2013, as the effective date (scheduled), with the spirit of their relationship being based on equality. In connection with this business integration, the Company has entered into the Merger Agreement with FSA based on resolutions at the Company's Board of Directors' meeting held on April 26, 2013. The Merger Agreement was approved at the 10th Ordinary Shareholders' Meeting of FSA held on June 20, 2013, and the 69th Annual Shareholders' Meeting of the Company held on June 27, 2013.

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