2013

INABATA

# Financial Statements

KPMG

## Independent Auditor's Report

To the Board of Directors of Inabata & Co., Ltd.:

We have audited the accompanying consolidated financial statements of Inabata & Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2013 and 2012, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended , and a summary of significant accounting policies and other explanatory information 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 misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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 our judgement, 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, we consider 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, while the objective of the financial statement audit is 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 present fairly, in all material respects, the financial position of Inabata & Co., Ltd. and its consolidated subsidiaries as at March 31, 2013 and 2012, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2013 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

June 25, 2013
Osaka, Japan

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| ASSETS | | | |
| Current assets: | | | |
| Cash and time deposits (Notes 14 and 17) | ¥ 19,259 | ¥ 11,243 | $ 204,774 |
| Receivables: | | | |
| Trade notes and accounts (Note 17): | | | |
| Unconsolidated subsidiaries and affiliates | 1,288 | 1,977 | 13,695 |
| Sumitomo Chemical Company, Limited | 2,207 | 1,852 | 23,466 |
| Other | 134,075 | 135,896 | 1,425,572 |
| Other | 2,781 | 3,473 | 29,569 |
| Allowance for doubtful receivables (Note 17) | (672) | (579) | (7,145) |
| | 139,679 | 142,619 | 1,485,157 |
| Merchandise and finished goods | 31,418 | 29,287 | 334,056 |
| Work in Process | 705 | 586 | 7,496 |
| Raw materials and supplies | 2,617 | 2,517 | 27,826 |
| Deferred tax assets (Note 7) | 710 | 803 | 7,549 |
| Other | 2,915 | 2,415 | 30,994 |
| Total current assets | 197,303 | 189,470 | 2,097,852 |
| Investments and long-term receivables: | | | |
| Investment securities (Notes 5, 8 and 17): | | | |
| Unconsolidated subsidiaries and affiliates | 4,681 | 4,055 | 49,771 |
| Other | 55,598 | 36,174 | 591,154 |
| Long-term loans receivables (Note 17): | | | |
| Unconsolidated subsidiaries and affiliates | 114 | 84 | 1,212 |
| Other | 1,428 | 2,108 | 15,183 |
| Other | 4,627 | 5,063 | 49,197 |
| Allowance for doubtful receivables | (1,037) | (1,661) | (11,026) |
| | 65,411 | 45,823 | 695,491 |
| Property and equipment: | | | |
| Land | 2,015 | 1,963 | 21,425 |
| Buildings and structures | 11,614 | 11,580 | 123,488 |
| Machinery and equipment | 12,602 | 11,780 | 133,993 |
| Construction in progress | 91 | 77 | 968 |
| Other | 2,773 | 2,662 | 29,484 |
| | 29,095 | 28,062 | 309,358 |
| Less accumulated depreciation | (19,405) | (18,381) | (206,326) |
| | 9,690 | 9,681 | 103,032 |
| Other assets | | | |
| Deferred tax assets (Note 7) | 309 | 442 | 3,285 |
| Intangible assets | 4,220 | 5,629 | 44,870 |
| | 4,529 | 6,071 | 48,155 |
| | ¥ 276,933 | ¥ 251,045 | $ 2,944,530 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS (CONTINUED)
March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| LIABILITIES AND NET ASSETS | | | |
| Current liabilities: | | | |
| Short-term loans (Notes 12 and 17) | ¥ 57,342 | ¥ 62,642 | $ 609,697 |
| Payables: | | | |
| Trade notes and accounts (Note 17): | | | |
| Unconsolidated subsidiaries and affiliates | 2,896 | 3,057 | 30,792 |
| Sumitomo Chemical Company, Limited | 2,951 | 4,769 | 31,377 |
| Other | 79,943 | 74,351 | 850,005 |
| Accrued employees' bonuses | 908 | 835 | 9,654 |
| Other | 2,025 | 1,927 | 21,532 |
| | 88,723 | 84,939 | 943,360 |
| Income taxes and enterprise tax payable | 1,430 | 739 | 15,205 |
| Accrued expenses | 1,276 | 1,223 | 13,567 |
| Provision for loss on business liquidation (Note 11) | 252 | 149 | 2,679 |
| Other current liabilities (Note 7) | 1,388 | 2,437 | 14,758 |
| Total current liabilities | 150,411 | 152,129 | 1,599,266 |
| Long-term liabilities: | | | |
| Long-term debt (Notes 12 and 17) | 10,731 | 11,430 | 114,099 |
| Liability for severance and retirement benefits (Note 13) | 638 | 451 | 6,784 |
| Directors' retirement benefits | 22 | 18 | 234 |
| Deferred tax liabilities (Note 7) | 14,701 | 7,680 | 156,310 |
| Provision for loss on business liquidation (Note 11) | 35 | 59 | 372 |
| Provision for loss on debt guarantees | 19 | 19 | 202 |
| Other non-current liabilities | 1,665 | 1,528 | 17,703 |
| | 27,811 | 21,185 | 295,704 |
| Contingent liabilities (Note 20) | | | |
| Net assets (Note 18): | | | |
| Shareholders' equity | | | |
| Common stock: | | | |
| Authorized - 200,000,000 shares | | | |
| Issued - 65,159,227 shares in 2013 and 65,159,227 shares in 2012 | 9,364 | 9,364 | 99,564 |
| Capital surplus | 7,708 | 7,708 | 81,956 |
| Retained earnings | 56,489 | 50,908 | 600,627 |
| Treasury stock, at cost: | | | |
| 1,887,522 shares in 2013 and 1,090,674 shares in 2012 | (935) | (495) | (9,941) |
| Total shareholders' equity | 72,626 | 67,485 | 772,206 |
| Accumulated other comprehensive income | | | |
| Net unrealized holding gains on securities | 28,692 | 15,810 | 305,073 |
| Net unrealized holding gains on derivatives | 30 | 34 | 319 |
| Foreign currency translation adjustments | (3,424) | (6,355) | (36,406) |
| Total accumulated other comprehensive income | 25,298 | 9,489 | 268,986 |
| Minority interests | 787 | 757 | 8,368 |
| Total net assets | 98,711 | 77,731 | 1,049,560 |
| | ¥ 276,933 | ¥ 251,045 | $ 2,944,530 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
Years ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Revenues: | | | |
| Net sales | ¥ 501,104 | ¥ 464,430 | $ 5,328,060 |
| Cost and expenses: | | | |
| Cost of sales (Note 10) | 466,861 | 432,670 | 4,963,966 |
| Selling, general and administrative expenses (Note 10) | 26,081 | 24,128 | 277,310 |
| Operating income | 8,162 | 7,632 | 86,784 |
| Other income (expenses): | | | |
| Interest and dividend income | 1,643 | 1,343 | 17,469 |
| Interest expense (Note 12) | (1,018) | (953) | (10,824) |
| Gain on foreign exchange | 88 | 182 | 936 |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 611 | 229 | 6,497 |
| Loss on impairment of noncurrent assets (Note 9) | (238) | - | (2,531) |
| Gain on sales of noncurrent assets | 131 | - | 1,393 |
| Gain on sales of investment securities | 335 | 390 | 3,562 |
| Loss on sales of investment securities | - | (85) | - |
| Loss on valuation of investment securities | - | (281) | - |
| Loss on sales of investments in subsidiaries and affiliates | (111) | - | (1,180) |
| Loss on valuation of investments in subsidiaries and affiliates | (257) | - | (2,733) |
| Provision for allowance for doubtful receivables | - | (397) | - |
| Compensation income | - | 159 | - |
| Gain on sales of goodwill | 299 | - | 3,179 |
| Provision for loss on business liquidation (Note 11) | (252) | (149) | (2,679) |
| Other, net | 548 | 402 | 5,826 |
| | 1,779 | 840 | 18,915 |
| Income before income taxes | 9,941 | 8,472 | 105,699 |
| Provision for income taxes (Note 7) | | | |
| Current | 2,473 | 1,727 | 26,295 |
| Deferred | 331 | 252 | 3,519 |
| | 2,804 | 1,979 | 29,814 |
| Income before minority interests | 7,137 | 6,493 | 75,885 |
| Minority interests | (154) | (195) | (1,637) |
| Net income | ¥ 6,983 | ¥ 6,298 | $ 74,248 |

| Amounts per share: | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| Net income per share - basic | ¥ 109.83 | ¥ 97.45 | $ 1.17 |
| Cash dividends per share applicable to the year | 23.00 | 21.00 | 0.24 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Income before minority interests | ¥ 7,137 | ¥ 6,493 | $ 75,885 |
| Other comprehensive income (Note 15): | | | |
| Net unrealized holding gains (losses) on securities | 12,850 | 2,644 | 136,629 |
| Net unrealized holding gains (losses) on derivatives | (4) | (4) | (43) |
| Foreign currency translation adjustments | 2,756 | (1,075) | 29,304 |
| Share of other comprehensive income of associates accounted for using the equity method | 205 | (79) | 2,180 |
| Total other comprehensive income | 15,807 | 1,486 | 168,070 |
| Comprehensive income | ¥ 22,944 | ¥ 7,979 | $ 243,955 |
| Comprehensive income attributable to: | | | |
| Owners of the parent | ¥ 22,792 | ¥ 7,799 | $ 242,339 |
| Minority interests | 152 | 180 | 1,616 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS
Year ended March 31, 2013

| | Thousands | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | Accumulated other comprehensive income | | | | |
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Net unrealized holding gains on derivatives | Foreign currency translation adjustments | Minority interests | Total |
| Balance at April 1, 2012 | 65,159 | ¥ 9,364 | ¥ 7,708 | ¥ 50,908 | ¥ (495) | ¥ 15,810 | ¥ 34 | ¥ (6,355) | ¥ 757 | ¥ 77,731 |
| Net income | - | - | - | 6,983 | - | - | - | - | - | 6,983 |
| Cash dividends paid - ¥22 per share | - | - | - | (1,402) | - | - | - | - | - | (1,402) |
| Treasury stock, net | - | - | - | - | (440) | - | - | - | - | (440) |
| Change in scope of consolidation | - | - | - | - | - | - | - | - | - | - |
| Change in scope of equity method | - | - | - | - | - | - | - | - | - | - |
| Net changes in items other than shareholders' equity | - | - | - | - | - | 12,882 | (4) | 2,931 | 30 | 15,839 |
| Balance at March 31, 2013 | 65,159 | ¥ 9,364 | ¥ 7,708 | ¥ 56,489 | ¥ (935) | ¥ 28,692 | ¥ 30 | ¥ (3,424) | ¥ 787 | ¥ 98,711 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Shareholders' equity | | | | Accumulated other comprehensive income | | | | |
| | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Net unrealized holding gains on derivatives | Foreign currency translation adjustments | Minority interests | Total |
| Balance at April 1, 2012 | $ 99,564 | $ 81,956 | $ 541,287 | $ (5,263) | $ 168,102 | $ 362 | $ (67,570) | $ 8,049 | $ 826,487 |
| Investments and long-term receivables: | | | | | | | | | |
| Net income | - | - | 74,248 | - | - | - | - | - | 74,248 |
| Cash dividends paid - $0.234 per share | - | - | (14,908) | - | - | - | - | - | (14,908) |
| Treasury stock, net | - | - | - | (4,678) | - | - | - | - | (4,678) |
| Change in scope of consolidation | - | - | - | - | - | - | - | - | - |
| Change in scope of equity method | - | - | - | - | - | - | - | - | - |
| Net changes in items other than shareholders' equity | - | - | - | - | 136,971 | (43) | 31,164 | 319 | 168,411 |
| Balance at March 31, 2013 | $ 99,564 | $ 81,956 | $ 600,627 | $ (9,941) | $ 305,073 | $ 319 | $ (36,406) | $ 8,368 | $ 1,049,560 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS (CONTINUED)
Year ended March 31, 2012

| | Thousands | Millions of yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Shareholders' equity | | | | Accumulated other comprehensive income | | | | |
| | Number of shares of common stock | Common stock | Capital surplus | Retained earnings | Treasury stock | Net unrealized holding gains on securities | Net unrealized holding gains on derivatives | Foreign currency translation adjustments | Minority interests | Total |
| Balance at April 1, 2011 | 65,159 | ¥ 9,364 | ¥ 7,708 | ¥ 46,420 | ¥ (140) | ¥ 13,174 | ¥ 38 | ¥ (5,225) | ¥ 701 | ¥ 72,040 |
| Net income | - | - | - | 6,298 | - | - | - | - | - | 6,298 |
| Cash dividends paid - ¥28 per share | - | - | - | (1,816) | - | - | - | - | - | (1,816) |
| Treasury stock, net | - | - | - | - | (355) | - | - | - | - | (355) |
| Change in scope of consolidation | - | - | - | 6 | - | - | - | - | - | 6 |
| Change in scope of equity method | - | - | - | - | - | - | - | - | - | - |
| Net changes in items other than shareholders' equity | - | - | - | - | - | 2,636 | (4) | (1,130) | 56 | 1,558 |
| Balance at March 31, 2012 | 65,159 | ¥ 9,364 | ¥ 7,708 | ¥ 50,908 | ¥ (495) | ¥ 15,810 | ¥ 34 | ¥ (6,355) | ¥ 757 | ¥ 77,731 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Cash flows from operating activities: | | | |
| Income before income taxes | ¥ 9,941 | ¥ 8,472 | $ 105,699 |
| Adjustments to reconcile net income before income taxes to cash provided by operating activities: | | | |
| Depreciation and amortization | 3,140 | 2,849 | 33,386 |
| Loss on impairment of noncurrent assets (Note 9) | 238 | - | 2,531 |
| Allowance for doubtful receivables | (581) | (1,497) | (6,178) |
| Interest and dividend income | (1,643) | (1,343) | (17,469) |
| Interest expense | 1,018 | 953 | 10,824 |
| Equity in losses (earnings) of unconsolidated subsidiaries and affiliates | (611) | (229) | (6,497) |
| Increase (decrease) in provision for loss on business liquidation (Note 11) | 70 | 138 | 744 |
| Loss (gain) on sales of noncurrent assets | (131) | - | (1,393) |
| Loss (gain) on sales of investment securities | (335) | (305) | (3,562) |
| Loss on valuation of investment securities | - | 281 | - |
| Loss (gain) on sales of investments in subsidiaries and affiliates | 111 | - | 1,180 |
| Loss on valuation of investments in subsidiaries and affiliates | 257 | - | 2,733 |
| Gain on sales of goodwill | (299) | - | (3,179) |
| Compensation income | - | (159) | - |
| Decrease (increase) in receivables | 9,695 | (16,401) | 103,083 |
| Decrease (increase) in inventories | 30 | (3,738) | 319 |
| Decrease (increase) in other current assets | 145 | 526 | 1,542 |
| Decrease (increase) in other noncurrent assets | 520 | 1,611 | 5,529 |
| Increase (decrease) in payables | (577) | (2,175) | (6,135) |
| Increase (decrease) in other current liabilities | (873) | (1,973) | (9,282) |
| Other - net | 45 | 333 | 478 |
| Subtotal | 20,160 | (12,657) | 214,353 |
| Interest and dividends received | 1,675 | 1,373 | 17,810 |
| Interest paid | (1,037) | (935) | (11,026) |
| Gain on compensation received for damages | - | - | - |
| Proceeds from compensation | 159 | - | 1,691 |
| Income taxes paid | (1,851) | (3,316) | (19,681) |
| Income taxes refund | 693 | - | 7,368 |
| Net cash provided by (used in) operating activities | 19,799 | (15,535) | 210,515 |
| Cash flows from investing activities: | | | |
| Payments for time deposits | (875) | (1,108) | (9,304) |
| Proceeds from time deposits | 1,173 | 1,347 | 12,472 |
| Purchase of short term investment securities | - | (0) | - |
| Acquisitions of property and equipment | (1,551) | (1,266) | (16,491) |
| Proceeds from sales of property and equipment | 409 | 41 | 4,349 |
| Acquisitions of intangible assets | (314) | (558) | (3,339) |
| Payments for purchase of investment securities | (497) | (906) | (5,284) |
| Proceeds from sales of investment securities | 901 | 895 | 9,580 |
| Proceeds from redemption of investment securities | 100 | 969 | 1,063 |
| Payments for sales of shares of subsidiaries excluded from the consolidation scope (Note 14) | (14) | (57) | (149) |
| Net decrease (increase) in short-term loans receivable | (129) | (329) | (1,372) |
| Long-term loans receivable advanced | (4) | (971) | (43) |
| Proceeds from collection of long-term loans receivable | 812 | 297 | 8,634 |
| Proceeds from sales of goodwill | 299 | - | 3,179 |
| Other - net | (74) | 18 | (786) |
| Net cash provided by (used in) investing activities | 236 | (1,628) | 2,509 |

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
Years ended March 31, 2013 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Cash flows from financing activities: | | | |
| Net increase (decrease) in short-term loans payable | ¥ (9,534) | ¥ 16,011 | $ (101,372) |
| Proceeds from long-term debt | 4,000 | 1,735 | 42,531 |
| Repayment of long-term debt | (5,429) | (2,987) | (57,725) |
| Purchase of treasury stock | (440) | (355) | (4,678) |
| Dividends paid | (1,406) | (1,823) | (14,949) |
| Dividends paid to minority interests | (131) | (109) | (1,393) |
| Other - net | (104) | (72) | (1,106) |
| Net cash provided by (used in) financing activities | (13,044) | 12,400 | (138,692) |
| Effects of foreign exchange rates on cash and cash equivalents | 1,041 | (318) | 11,069 |
| Net increase (decrease) in cash and cash equivalents | 8,032 | (5,081) | 85,401 |
| Cash and cash equivalents at beginning of year | 10,757 | 15,778 | 114,375 |
| Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation | 197 | 60 | 2,095 |
| Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation | - | - | - |
| Increase in cash and cash equivalents due to merger of consolidated subsidiaries | - | - | - |
| Cash and cash equivalents at end of year (Note 14) | ¥ 18,986 | ¥ 10,757 | $ 201,871 |

See accompanying Notes to Consolidated Financial Statements.

## INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES
## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements

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

The accounts of consolidated overseas subsidiaries are prepared in accordance with mainly either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified six items as applicable in compliance with ASBJ Practical Solution No.18, "Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements," May 17, 2006.

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2013, which was ¥94.05 to U.S.$1.00. These translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

## 2. Summary of significant accounting policies

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its 46 (48 in 2012) significant domestic and foreign subsidiaries (together “the Companies”), the management of which is controlled by the Company. Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for by the equity method. The Company has 1 (2 in 2012) unconsolidated subsidiaries and 10 (10 in 2012) affiliates accounted for by the equity method. Intercompany transactions and accounts have been eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary. The excess of investment cost over the value of the net assets of the subsidiary acquired is, with minor exceptions, amortized on the straight-line basis over a period of five years.

All consolidated subsidiaries have fiscal years ending on December 31. Significant transactions taking place between December 31 and March 31, the fiscal year-end of the Company, are reflected in the consolidated financial statements.

### (b) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (c) Allowance for doubtful receivables

An allowance for doubtful receivables is provided to cover possible losses on collection. With respect to normal trade accounts receivable, the allowance is stated at an amount based on the actual rate of bad debts in the past. For certain doubtful receivables, the uncollectible amount has been individually estimated. With respect to doubtful receivables of overseas consolidated subsidiaries, the allowance is determined by estimates of management.

(d) Securities

Equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method are stated at moving average cost.

Available-for-sale equity securities with available fair market values are stated at the average fair market value for the last month of the year. Non-equity available-for-sale securities with available fair market values are stated at fair market value on the last day of the year. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available fair market values are also stated at moving average cost.

(e) Derivative transactions and hedge accounting

Derivatives are generally stated at fair value.

If a derivative financial instrument is used as a hedge and meets certain hedging criteria, the Companies defer recognition of gain or loss resulting from change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized.

However, in cases where forward foreign exchange contracts or currency swap contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts, currency swap contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract or a currency swap contract is executed to hedge an existing foreign currency receivable or payable,

(1) the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable translated using the spot rate at the inception date of the contract and the book value of the receivable or payable is recognized in the income statement in the period which includes the inception date, and

(2) the discount or premium on the contract (that is, the difference between the Japanese yen amount of the contract translated using the contracted forward rate or swap rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign exchange contract is recognized.

(f) Inventories

Inventories of the Company and its consolidated domestic subsidiaries, other than real estate held for sale, are mainly stated at the lower of cost determined by the moving average method or net realizable value. Real estate held for sale is stated at the lower of cost determined by the specific identification method or net realizable value.

(g) Property and equipment

Property and equipment are carried at cost and depreciated mainly by the declining balance method (straight-line method for certain subsidiaries) over the estimated useful life of the asset. However, buildings acquired after April 1, 1998 are depreciated using the straight-line method.

(h) Leased assets

Property and equipment capitalized under finance leases are depreciated by the straight-line method over the term of the respective lease.

(i) Intangible assets

Intangible assets are depreciated mainly by the straight-line method. Software is depreciated by the straight-line method over its estimated useful life.

(j) Goodwill

Goodwill is depreciated by the straight-line method over five years.

And negative goodwill which occurred before March 31, 2010 is depreciated by the straight-line method over five years.

(k) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitants taxes and enterprise tax. The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax purposes and financial reporting purposes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(l) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end exchange rates.

Financial statements of overseas subsidiaries are translated into Japanese yen at year-end exchange rates, except for net asset accounts, which are translated at historical exchange rates. The resulting translation adjustments are presented separately in the consolidated financial statements as foreign currency translation adjustments and in minority interests.

(m) Retirement benefits

The Companies provide retirement payment plans and funded non-contributory pension plans under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies sometime make additional payments that are not based on the amounts obtained by actuarial calculations. The Company has employee retirement benefit trusts for both plans.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the year. Actuarial differences and prior service costs are mainly recognized in expenses using the straight-line method within the average of the estimated remaining service years of employees commencing with the following period.

Directors, corporate auditors and executive officers of certain subsidiaries receive retirement payments based on established guidelines similar to the employees' retirement benefit plan, subject to shareholders' approval. Retirement benefits provided for directors and corporate auditors are sufficient to cover stipulated benefits arising from services performed as of the balance sheet date.

A provision for retirement allowances for these officers of the Company's subsidiaries had been made at an estimated amount based on the Company's internal rules for retirement allowances.

(n) Accrued employees' bonuses

The Company and certain subsidiaries accrue amounts for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(o) Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the year ended March 31, 2012 have been made to conform to the 2013 presentation.

(p) Amounts per share

Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

3. Changes in accounting policies

(Change in depreciation method)

From the year ending March 31, 2013, in accordance with the amendment in corporate tax law, the Company has changed its depreciation method for property, plant and equipment. Assets acquired on or after April 1, 2012 are depreciated using the method prescribed in amended corporate tax law.

There was no material effect as a result of the adoption on the consolidated financial statements for the year ended March 31, 2013.

4. Accounting standards issued but not yet applied

(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 and the other related guidance.

Under the revised accounting standard, actuarial gains and losses and past service costs shall be recognized within net assets in the consolidated balance sheets, after adjusting tax effects, and the funding deficit or surplus shall be recognized as a liability or asset. In addition, the new accounting standard allows a choice for the method of attributing expected benefits to periods of either the straight-line basis or plan's benefit formula basis. In addition, the determination method of the discount rate was amended.

The Company expects to apply the revised accounting standard from the end of the fiscal year ending December 31, 2014. However, the amendment of the calculation method for present value of defined benefit obligations and current service costs will be adopted from the begging of the fiscal year ending December 31, 2015.

The effect of adoption of this revised accounting standard is now under assessment at the time of preparation of the accompanying consolidation financial statements.

## 5. Securities

(a) The following summarizes information on securities with available fair values as of March 31, 2013 and 2012.

(1) Trading securities:

At March 31, 2013 and 2012, there were no trading securities with fair market values.

(2) Available-for-sale securities as of March 31, 2013 and 2012:

Securities with book values (fair values) exceeding acquisition costs:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Equity securities: | | | |
| Acquisition costs | ¥ 5,420 | ¥ 4,896 | $ 57,629 |
| Book values | 50,120 | 30,180 | 532,908 |
| Differences | ¥ 44,700 | ¥ 25,284 | $ 475,279 |
| Bonds: | | | |
| Acquisition costs | ¥ - | ¥ 100 | $ - |
| Book values | - | 100 | - |
| Differences | ¥ - | ¥ 0 | $ - |

Securities with book values (fair values) not exceeding acquisition costs:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Equity securities: | | | |
| Acquisition costs | ¥ 2,638 | ¥ 3,361 | $ 28,049 |
| Book values | 2,080 | 2,666 | 22,116 |
| Differences | ¥ (558) | ¥ (695) | $ (5,933) |
| Bonds: | | | |
| Acquisition costs | ¥ 10 | ¥ - | $ 106 |
| Book values | 10 | - | 106 |
| Differences | ¥ 0 | ¥ - | $ 0 |
| Others: | | | |
| Acquisition costs | ¥ 35 | ¥ 31 | $ 372 |
| Book values | 35 | 31 | 372 |
| Differences | ¥ - | ¥ - | $ - |

(b) The following table summarizes information on available-for-sale securities sold in the years ended March 31, 2013 and 2012:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Total sales of available-for-sale securities | ¥ 725 | ¥ 880 | $ 7,709 |
| Amount of related gains | 335 | 390 | 3,562 |
| Amount of related losses | 11 | 85 | 117 |

(c) The loss on valuation of investment securities as of March 31, 2013 and 2012:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Available-for-sale securities | ¥ 23 | ¥ 281 | $ 245 |
| Investment in subsidiaries and affiliates | 257 | - | 2,733 |

The Companies recognize impairment loss when, at the end of the period, the fair value of marketable and investment securities is reduced to less than 50% of the acquisition cost. A loss may also be recognized when the fair market value declines less than 50% but more than 30% if necessary, considering the possibility of market value recovery and other factors.

6. Derivative financial instruments and hedging transactions

The Companies enter into forward foreign exchange contracts, interest rate swap transactions, and currency swap transactions to control risks related to foreign currencies and interest rates. Forward foreign exchange contracts and currency swap contracts are used to hedge the risk of fluctuations in foreign currency exchange rates with respect to monetary receivables and payables denominated in foreign currencies. Interest rate swap contracts are used to convert variable rates to fixed rates with respect to borrowings. The Companies use derivative transactions in connection with managing their market risk and not for speculation or dealing purposes.

The Companies minimize the credit risk exposure of these derivative transactions by using only highly rated financial institutions as counterparties. The derivative transactions are entered into in accordance with risk management policies and rules approved by the Board of Directors, which receives periodic reports on the results of the derivative transactions.

In sum, the Companies use forward foreign exchange contracts to hedge future transactions denominated in foreign currencies and currency swap transactions to hedge foreign currency monetary assets and liabilities.

With regard to forward foreign exchange contracts and currency swap contracts, the Companies do not evaluate the hedge effectiveness if the significant terms of the hedging instruments and those of the hedged items were the same, and the risk of change in foreign exchange rates was effectively hedged.

(a) Derivative transactions for which hedge accounting is not applied

Currency related

| Classification | Type of derivative transaction | March 31, 2013 Millions of yen Contracted amount | Contracted amount over 1 year | Fair value | Recognized gains (losses) |
|---|---|---|---|---|---|
| Non-market transaction | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | ¥ 17 | ¥ - | ¥ (0) | ¥ (0) |
| | S.G. dollars | 92 | - | (0) | (0) |
| | Japanese yen | 23 | - | 0 | 0 |
| | Buying: | | | | |
| | U.S. dollars | 259 | - | (0) | (0) |
| | S.G. dollars | 64 | - | (0) | (0) |
| | Japanese yen | 444 | - | (24) | (24) |
| | Total | ¥ 899 | ¥ - | ¥ (24) | ¥ (24) |

| Classification | Type of derivative transaction | March 31, 2013 Thousands of U.S. dollars Contracted amount | Contracted amount over 1 year | Fair value | Recognized gains (losses) |
|---|---|---|---|---|---|
| Non-market transaction | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | $ 181 | $ - | $ (0) | $ (0) |
| | S.G. dollars | 978 | - | (0) | (0) |
| | Japanese yen | 245 | - | 0 | 0 |
| | Buying: | | | | |
| | U.S. dollars | 2,754 | - | (0) | (0) |
| | S.G. dollars | 680 | - | (0) | (0) |
| | Japanese yen | 4,721 | - | (255) | (255) |
| | Total | $ 9,559 | $ - | $ (255) | $ (255) |

| Classification | Type of derivative transaction | March 31, 2012 Millions of yen Contracted amount | Contracted amount over 1 year | Fair value | Recognized gains (losses) |
|---|---|---|---|---|---|
| Non-market transaction | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | S.G. dollars | ¥ 78 | ¥ - | ¥ (0) | ¥ (0) |
| | Japanese yen | 3 | - | (0) | (0) |
| | Buying: | | | | |
| | U.S. dollars | 230 | - | 3 | 3 |
| | S.G. dollars | 54 | - | 0 | 0 |
| | Japanese yen | 390 | - | 4 | 4 |
| | Total | ¥ 775 | ¥ - | ¥ 7 | ¥ 7 |

Fair values are based on year-end forward rates and prices presented by principal financial institutions at March 31, 2013 and 2012, respectively.

(b) Derivative transactions for which hedge accounting is applied

Currency related

| | | | March 31, 2013 | | |
|---|---|---|---|---|---|
| | | | Millions of yen | | |
| Method for hedge accounting | Type of derivative transaction | Major hedged item | Contracted amount | Contracted amount over 1 year | Fair value |
| Deferral hedge accounting | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | ¥ 2,214 | ¥ - | ¥ (49) |
| | G.B. pound | | 0 | - | 0 |
| | Euro | | 18 | - | 1 |
| | Swiss franc | | 2 | - | 0 |
| | Buying: | | | | |
| | U.S. dollars | Accounts payable | 1,466 | - | 71 |
| | Euro | | 630 | - | 25 |
| | G.B. pound | | 1 | - | (0) |
| Allocation method for forward foreign exchange contracts, etc. | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | ¥ 5,202 | ¥ - | ¥ - |
| | G.B. pound | | 42 | - | - |
| | Euro | | 148 | - | - |
| | Swiss franc | | 1 | - | - |
| | Japanese yen | | 20 | - | - |
| | Buying: | | | | |
| | U.S. dollars | Payables: Trade notes and accounts | 5,515 | - | - |
| | G.B. pound | Accounts payable | 267 | - | - |
| | Euro | | 89 | - | - |
| | Chinese yuan | | 0 | - | - |
| | Japanese yen | | 5 | - | - |
| | Currency swap contracts: | Long-term debt | 3,305 | 3,305 | - |
| | Total | | ¥ 18,925 | ¥ 3,305 | ¥ 48 |

| Method for hedge accounting | Type of derivative transaction | Major hedged item | Contracted amount | Contracted amount over 1 year | Fair value |
|---|---|---|---|---|---|
| | | March 31, 2013 | | | |
| | | Thousands of U.S. dollars | | | |
| Deferral hedge accounting | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | $ 23,541 | $ - | $ (521) |
| | G.B. pound | | 0 | - | 0 |
| | Euro | | 191 | - | 11 |
| | Swiss franc | | 21 | - | 0 |
| | Buying: | | | | |
| | U.S. dollars | Accounts payable | 15,587 | - | 754 |
| | Euro | | 6,699 | - | 266 |
| | G.B. pound | | 11 | - | (0) |
| Allocation method for forward foreign exchange contracts, etc. | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | $ 55,310 | $ - | $ - |
| | G.B. pound | | 447 | - | - |
| | Euro | | 1,574 | - | - |
| | Swiss franc | | 11 | - | - |
| | Japanese yen | | 213 | - | - |
| | Buying: | | | | |
| | U.S. dollars | Payables: Trade notes and accounts | 58,639 | - | - |
| | G.B. pound | Accounts payable | 2,839 | - | - |
| | Euro | | 946 | - | - |
| | Chinese yuan | | 0 | - | - |
| | Japanese yen | | 53 | - | - |
| | Currency swap contracts: | Long-term debt | 35,141 | 35,141 | - |
| | Total | | $ 201,223 | $ 35,141 | $ 510 |

| Method for hedge accounting | Type of derivative transaction | Major hedged item | March 31, 2012 Millions of yen Contracted amount | Contracted amount over 1 year | Fair value |
|---|---|---|---|---|---|
| Deferral hedge accounting | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | ¥ 1,963 | ¥ - | ¥ (42) |
| | G.B. pound | | 0 | - | 0 |
| | Buying: | | | | |
| | U.S. dollars | Accounts payable | 2,237 | - | 73 |
| | Euro | | 454 | - | 22 |
| | Thai baht | | 7 | - | 1 |
| Allocation method for forward foreign exchange contracts, etc. | Forward foreign exchange contracts: | | | | |
| | Selling: | | | | |
| | U.S. dollars | Accounts receivable | ¥ 6,827 | ¥ - | ¥ - |
| | G.B. pound | | 49 | - | - |
| | Euro | | 265 | - | - |
| | Swiss franc | | 2 | - | - |
| | Buying: | | | | |
| | U.S. dollars | Payables: Trade notes and accounts | 4,402 | - | - |
| | G.B. pound | Accounts payable | 23 | - | - |
| | Euro | | 120 | - | - |
| | Currency swap contracts: | Long-term debt | 1,805 | 1,805 | - |
| | Total | | ¥ 18,154 | ¥ 1,805 | ¥ 54 |

Fair values are based on year-end forward rates and prices presented by principal financial institutions at March 31, 2013 and 2012, respectively.

## 7. Income taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 37.8% and 40.5% for the years ended March 31, 2013 and 2012, respectively.

The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes:

| | 2013 | 2012 |
|---|---|---|
| Statutory tax rate | 37.8% | 40.5% |
| Equity in (earnings) losses of unconsolidated subsidiaries and affiliates | (2.3) | (1.1) |
| Nondeductible expenses | 2.7 | 2.8 |
| Dividend income, not taxable | (6.3) | (7.1) |
| Elimination of dividend income | 4.8 | 5.7 |
| Unrealized tax benefit, such as, on prior losses of consolidated subsidiaries | (5.2) | (12.4) |
| Decrease of deferred tax assets for enacted changes in tax rate | - | 0.9 |
| Adjustment of loss on sales of investments in subsidiaries and affiliates | 0.5 | - |
| Income taxes for prior periods | 0.9 | 0.1 |
| Foreign subsidiaries' tax rates | (7.3) | (7.8) |
| Other | 2.6 | 1.8 |
| Effective tax rate | 28.2% | 23.4% |

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2013 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Deferred tax assets: | | | |
| Allowance for doubtful receivables | ¥ 279 | ¥ 299 | $ 2,967 |
| Loss carryforwards | 580 | 1,219 | 6,167 |
| Severance and retirement benefits | 359 | 339 | 3,817 |
| Directors' retirement benefits | 137 | 137 | 1,457 |
| Unrealized profit on inventories | 180 | 192 | 1,914 |
| Unrealized profit on property and equipment | 372 | 421 | 3,955 |
| Depreciation | 664 | 919 | 7,060 |
| Write-down of golf club memberships | 21 | 21 | 223 |
| Write-down of investment securities | 301 | 485 | 3,200 |
| Write-down of inventories | 43 | 97 | 457 |
| Accrued employees' bonuses | 289 | 280 | 3,073 |
| Enterprise tax payable | 91 | 11 | 968 |
| Provision for loss on business liquidation | 278 | 145 | 2,956 |
| Other | 481 | 476 | 5,114 |
| Total deferred tax assets | 4,075 | 5,041 | 43,328 |
| Valuation allowance | (1,505) | (2,108) | (16,002) |
| Net deferred tax assets | 2,570 | 2,933 | 27,326 |
| Deferred tax liabilities: | | | |
| Gain on securities contributed to employee retirement benefit trust | (765) | (765) | (8,134) |
| Net unrealized holding gains on securities | (15,399) | (8,446) | (163,732) |
| Other | (94) | (160) | (1,000) |
| Total deferred tax liabilities | (16,258) | (9,371) | (172,866) |
| Net deferred tax liabilities | ¥ (13,688) | ¥ (6,438) | $ (145,540) |

Net deferred tax liabilities as of March 31, 2013 and 2012 were included in the consolidated balance sheets as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | |
| Deferred tax assets (current assets) | ¥ | 710 | ¥ | 803 | $ | 7,549 |
| Deferred tax assets (other assets) | | 309 | | 442 | | 3,285 |
| Other (current liabilities) | | (6) | | (3) | | (64) |
| Deferred tax liabilities (long-term liabilities) | | (14,701) | | (7,680) | | (156,310) |
| Net deferred tax liabilities | ¥ | (13,688) | ¥ | (6,438) | $ | (145,540) |

## 8. Pledged assets

At March 31, 2013 and 2012, the following assets were pledged as security for trading transactions:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | |
| Investment securities | ¥ | 9,408 | ¥ | 5,434 | $ | 100,032 |

## 9. Loss on impairment of noncurrent assets

Loss on impairment of noncurrent assets for the years ended March 31, 2013 consisted of the following.

For the year ended March 31, 2013

| Use | Type of asset | Location | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| Production facilities for chemical raw material | Buildings and structures | JiangYin, JiangSu, China | ¥ | 128 | $ | 1,361 |
| | Machinery and equipment | | ¥ | 108 | $ | 1,149 |
| | Construction in progress | | ¥ | 2 | $ | 21 |
| | Total | | ¥ | 238 | $ | 2,531 |

The Company and its subsidiaries grouped their assets principally by each industry segment. Leased assets and idle assets are grouped independently. The Companies reduced the book value of the asset groups in the above tables to the recoverable amounts and recognized impairment losses of 238 million ($2,531 thousand) due to the planning of the restructuring of a consolidated subsidiary.

The recoverable amounts were determined based on the estimated net selling value.

## 10. Research and development expenses

Research and development expenses included in cost of products manufactured or selling, general and administrative expenses for the years ended March 31, 2013 and 2012 totaled ¥190 million ($2,020 thousand) and ¥121 million, respectively.

## 11. Provision for loss on business liquidation

The Company and its subsidiaries planned the restructuring of some consolidated subsidiaries, estimated the loss and recognized it as expense in this accounting period.

## 12. Short-term loans and long-term debt

Short-term loans at March 31, 2013 and 2012 consisted of bank loans bearing interest at average annual rates of 0.97% and 1.04%, respectively. Long-term loans due within one year at March 31, 2013 and 2012 consisted of bank loans bearing interest at average annual rates of 1.48% and 1.48%, respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Unsecured loans from banks and insurance companies due through 2019 with interest principally at 0.48% - 4.98% | ¥ 15,581 | ¥ 16,831 | $ 165,667 |
| Less amounts due within one year | (4,850) | (5,401) | (51,568) |
| | ¥ 10,731 | ¥ 11,430 | $ 114,099 |

The aggregate annual maturities of long-term debt at March 31, 2013 were as follows:

| Year ending March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2015 | ¥ 2,936 | $ 31,217 |
| 2016 | 2,386 | 25,369 |
| 2017 | 1,909 | 20,298 |
| 2018 | 2,500 | 26,582 |
| 2019 and thereafter | 1,000 | 10,633 |
| | ¥ 10,731 | $ 114,099 |

The Company has commitment line contracts with six banks in the aggregate amount of ¥21,286 million ($226,326 thousand) in order to secure the efficient procurement of operating funds. At March 31, 2013, the total ¥21,286 million ($226,326 thousand) was unused and available.

## 13. Employees' severance and pension benefits

The liability for employees' severance and retirement benefits included in the liability section of the consolidated balance sheets as of March 31, 2013 and 2012 consisted of the following:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | |
| Projected benefit obligation | ¥ | 7,918 | ¥ | 7,055 | $ | 84,190 |
| Fair value of pension assets | | (7,300) | | (6,744) | | (77,618) |
| Unrecognized prior service cost | | 27 | | 27 | | 287 |
| Unrecognized actuarial differences | | (2,747) | | (2,539) | | (29,208) |
| Prepaid expense for pension assets | | 2,740 | | 2,652 | | 29,133 |
| Liability for severance and retirement benefits | ¥ | 638 | ¥ | 451 | $ | 6,784 |

Severance and retirement benefit expense included in the consolidated statements of income for the years ended March 31, 2013 and 2012 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2013 | |
| Service costs - benefits earned during the year | ¥ | 415 | ¥ | 324 | $ | 4,413 |
| Interest cost on projected benefit obligation | | 119 | | 115 | | 1,265 |
| Expected return on plan assets | | (156) | | (152) | | (1,659) |
| Amortization of actuarial differences | | 264 | | 232 | | 2,807 |
| Amortization of prior service cost | | 2 | | (0) | | 21 |
| Others | (*) | 115 | (*) | 98 | | 1,223 |
| Severance and retirement benefit expense | ¥ | 759 | ¥ | 617 | $ | 8,070 |

(*) This amount includes payment to the defined contribution pension plan in the amount of ¥76 million ($808 thousand) in 2013 and ¥56 million in 2012 and payment to the mutual aid pension plan in the amount of ¥39 million ($415 thousand) in 2013 and ¥41 million in 2012.

The discount rate used by the Company was 1.0% at March 31, 2013 and 1.6% at March 31, 2012. The rate of expected return on plan assets used by the Company at March 31, 2013 and 2012 was 3.0%. The estimated amount of all retirement benefits to be paid at future retirement dates is allocated equally to each service year using the estimated total number of service years. Actuarial differences are recognized in the income statement using the straight-line method over mainly 13 years beginning with the following term at March 31, 2013 and 2012. Prior service costs are recognized in the income statement using the straight-line method over 14 years at March 31, 2013 and 2012.

## 14. Note to consolidated statements of cash flows

(a) The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2013and 2012 were as follows:

| | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|
| | 2013 | | 2012 | | 2012 | |
| Cash and time deposits in balance sheets | ¥ | 19,259 | ¥ | 11,243 | $ | 204,774 |
| Time deposits maturing after three months | | (273) | | (486) | | (2,903) |
| Cash and cash equivalents in statements of cash flow | ¥ | 18,986 | ¥ | 10,757 | $ | 201,871 |

(b) Assets and liabilities of the subsidiaries excluded from scope of consolidation

Assets and liabilities of the subsidiaries excluded from the scope of consolidation at the time the Company sold investment securities in the consolidated subsidiaries, the related sale price of shares and the payments (net) from the sale of the shares were as follows:

| Year ended March 31, 2013 | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| Current Assets | ¥ | 84 | $ | 893 |
| Fixed Assets | | 91 | | 968 |
| Current Liabilities | | (73) | | (776) |
| Long-term Liabilities | | (4) | | (43) |
| Loss on sales of shares | | (98) | | (1,042) |
| Sale price of sales of shares for the year | | - | | - |
| Cash and cash equivalents of the company excluded from the scope of consolidation | | (14) | | (149) |
| Payments for sale of shares of subsidiaries excluded from the scope of consolidation | ¥ | (14) | $ | (149) |

| Year ended March 31, 2012 | Millions of yen | |
|---|---|---|
| Current Assets | ¥ | 151 |
| Fixed Assets | | 19 |
| Current Liabilities | | (95) |
| Long-term Liabilities | | (53) |
| Minority interests | | (9) |
| Loss on sales of shares | | (5) |
| Sale price of sales of shares for the year | | 8 |
| Cash and cash equivalents of the company excluded from the scope of consolidation | | (65) |
| Payments for sale of shares of subsidiaries excluded from the scope of consolidation | ¥ | (57) |

## 15. Note to consolidated statements of comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Net unrealized holding gains (losses) on securities | | | |
| Increase (decrease) during the year | 20,113 | 2,587 | 213,854 |
| Reclassification adjustments | (301) | 69 | (3,200) |
| Sub- total, before tax | 19,812 | 2,656 | 210,654 |
| Tax (expense) or benefit | (6,962) | (12) | (74,025) |
| Sub- total, net of tax | ¥ 12,850 | ¥ 2,644 | $ 136,629 |
| Net unrealized holding gains (losses) on derivatives | | | |
| Increase (decrease) during the year | (6) | (9) | (64) |
| Sub- total, before tax | (6) | (9) | (64) |
| Tax (expense) or benefit | 2 | 5 | 21 |
| Sub- total, net of tax | ¥ (4) | ¥ (4) | $ (43) |
| Foreign currency translation adjustments | | | |
| Increase (decrease) during the year | 2,756 | (1,087) | 29,304 |
| Reclassification adjustments | (0) | - | (0) |
| Sub- total, before tax | 2,756 | (1,087) | 29,304 |
| Tax (expense) or benefit | 0 | 12 | 0 |
| Sub- total, net of tax | ¥ 2,756 | ¥ (1,075) | $ 29,304 |
| Share of other comprehensive income of associates accounted for by using the equity method | | | |
| Increase (decrease) during the year | 204 | (81) | 2,169 |
| Reclassification adjustments | 1 | 2 | 11 |
| Sub- total | ¥ 205 | ¥ (79) | $ 2,180 |
| Total other comprehensive income | ¥ 15,807 | ¥ 1,486 | $ 168,070 |

16. Segment information

(a) General information about reportable segments

Inabata Group's reportable segments represent the group's component divisions for which separate financial information is available. This information is regularly evaluated by the Board of Directors in deciding how to allocate management resources and in assessing performance.

Inabata Group is primarily engaged in the trading of merchandise, the manufacture and sale of various products and the provision of services in Japan and abroad and operates its business in line with a comprehensive strategy regarding merchandise, products and services for domestic and international markets. For effective business management purposes, Inabata Group has segmented its corporate sales and marketing functions into 5 divisions (reportable segments) based on merchandise, products and target markets/industries, namely: Information Technology, Chemicals, Life Industry, Plastics and Housing and Construction. Major merchandise, products and services covered by each reportable segment are as follows.

| | |
|---|---|
| Information Technology: | Semiconductor manufacturing equipment |
| | Electronic materials, including parts |
| | Dyes for printing |
| | Raw materials for copying |
| Chemicals: | Motor parts and raw materials |
| | Raw materials for plastic resin |
| | Dyestuffs |
| Life Industry: | Pharmaceutical and agricultural chemicals and bulk raw materials |
| | Raw materials for insecticides |
| | Raw materials for toiletries |
| | Raw and processed agricultural products |
| | Raw and processed marine products |
| Plastics: | General purpose plastics |
| | Engineering plastics |
| Housing and Construction: | Lumber |
| | Composite materials |
| | Wooden building materials |
| | Residential housing equipment |

(Information on change in reportable segment)

Effective from the fiscal year ended 31 March, 2013, with the amendment of the Company's organization aiming to improve the speed of the Company's decision making and build a mobile organization, a part of "Chemicals" segment and "Foods" segment have been integrated into "Life Industry" segment.

After this integration, the newly-organized "Life Industry" segment handles life-related products and materials consisting of the business of the former "Foods" segment and the life-related business of the former "Chemicals" segment. The modified "Chemicals" segment specializes in the industrial chemistry-related business while the former "Chemicals" segment treated both of life science-related business and industrial chemistry-related business.

The segment information for the year ended March 31, 2012 was presented after rearrangement under the new segmentation.

(b) Basis of measurement for reportable segment profit and loss, segment assets, segment liabilities and other material items

Accounting methods applied to the reportable business segments are generally the same as those described in Note 2, "Summary of significant accounting policies." Segmental income derives from operating income. Inter-segment profits and transfers are based on prevailing market prices.

(c) Information about reported segment profit and loss, segment assets, segment liabilities and other material items for the years ended March 31, 2013and 2012 was as follows:

| Year ended March 31, 2013 | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
| Revenues: | | | | | | | | |
| Outside customers | ¥201,519 | ¥ 43,728 | ¥ 36,954 | ¥196,103 | ¥ 22,278 | ¥ 522 | ¥ - | ¥ 501,104 |
| Intersegment | - | 537 | - | - | - | - | (537) | - |
| Total | 201,519 | 44,265 | 36,954 | 196,103 | 22,278 | 522 | (537) | 501,104 |
| Segmental income (loss) | ¥ 3,415 | ¥ 346 | ¥ 1,553 | ¥ 2,456 | ¥ 159 | ¥ 233 | ¥ - | ¥ 8,162 |
| Total assets | ¥ 76,874 | ¥ 22,022 | ¥ 15,375 | ¥ 84,488 | ¥ 9,523 | ¥ 677 | ¥ 67,974 | ¥ 276,933 |
| Depreciation and amortization | ¥ 783 | ¥ 356 | ¥ 347 | ¥ 1,532 | ¥ 122 | ¥ 0 | ¥ - | ¥ 3,140 |
| Amortization of goodwill | 40 | - | 47 | 28 | - | - | - | 115 |
| Investment in equity method | 1,078 | 1,772 | 157 | 535 | - | - | - | 3,542 |
| Increase in property and equipment and intangible assets | ¥ 194 | ¥ 200 | ¥ 202 | ¥ 870 | ¥ 0 | ¥ 4 | ¥ 395 | ¥ 1,865 |

| Year ended March 31, 2013 | Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
| Revenues: | | | | | | | | |
| Outside customers | $2,142,679 | $ 464,944 | $392,919 | $2,085,093 | $ 236,874 | $ 5,551 | $ - | $ 5,328,060 |
| Intersegment | - | 5,710 | - | - | - | - | (5,710) | - |
| Total | 2,142,679 | 470,659 | 392,919 | 2,085,093 | 236,874 | 5,551 | (5,710) | 5,328,060 |
| Segmental income (loss) | $ 36,310 | $ 3,679 | $ 16,512 | $ 26,114 | $ 1,691 | $ 2,478 | $ - | $ 86,784 |
| Total assets | $ 817,374 | $ 234,152 | $ 163,477 | $ 898,331 | $ 101,255 | $ 7,198 | $ 722,743 | $ 2,944,530 |
| Depreciation and amortization | $ 8,325 | $ 3,785 | $ 3,690 | $ 16,289 | $ 1,297 | $ 0 | $ - | $ 33,386 |
| Amortization of goodwill | 425 | - | 500 | 298 | - | - | - | 1,223 |
| Investment in equity method | 11,462 | 18,842 | 1,669 | 5,688 | - | - | - | 37,661 |
| Increase in property and equipment and intangible assets | $ 2,063 | $ 2,127 | $ 2,148 | $ 9,250 | $ 0 | $ 42 | $ 4,200 | $ 19,830 |

| Year ended March 31, 2012 | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
| Revenues: | | | | | | | | |
| Outside customers | ¥185,567 | ¥ 42,052 | ¥ 38,021 | ¥175,875 | ¥ 22,371 | ¥ 544 | ¥ - | ¥ 464,430 |
| Intersegment | - | 593 | - | - | - | - | (594) | - |
| Total | 185,567 | 42,646 | 38,021 | 175,875 | 22,371 | 544 | (594) | 464,430 |
| Segmental income (loss) | ¥ 2,734 | ¥ 391 | ¥ 1,532 | ¥ 2,594 | ¥ 128 | ¥ 253 | ¥ - | ¥ 7,632 |
| Total assets | ¥ 78,471 | ¥ 20,752 | ¥ 17,897 | ¥ 78,678 | ¥ 9,664 | ¥ 639 | ¥ 44,944 | ¥ 251,045 |
| Depreciation and amortization | ¥ 739 | ¥ 310 | ¥ 319 | ¥ 1,364 | ¥ 117 | ¥ 0 | ¥ - | ¥ 2,849 |
| Amortization of goodwill | 37 | 18 | 7 | 35 | - | 5 | - | 102 |
| Investment in equity method | 812 | 1,623 | 130 | 592 | - | - | - | 3,157 |
| Increase in property and equipment and intangible assets | ¥ 288 | ¥ 82 | ¥ 266 | ¥ 824 | ¥ 26 | ¥ 0 | ¥ 339 | ¥ 1,825 |

Notes: 1. Classified as "Other" are business segments not included in reportable segments, such as real estate rental services.

2. (1) Corporate assets included above in the elimination and corporate column in the amount of ¥67,974 million ($722,743 thousand) and ¥44,944 million for the years ended March 31, 2013 and 2012, respectively, are composed mainly of surplus funds (cash and deposits), long-term investment funds (investment securities, etc.) and assets pertaining to administrative functions of the Company.

(2) An increase in capital expenditure stated in the elimination and corporate column in the amount of ¥395 million ($4,200 thousand) and ¥339 million for the years ended March 31, 2013 and 2012, respectively, is attributable to the Company's administrative functions.

3. Segmental income or loss has been adjusted to be consistent with operating income in the consolidated financial statements.

[Related information]

(a) Information about geographic areas

(1) Revenues

Year ended March 31, 2013

| Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia | | | North America | Europe | Consolidated |
| | | China | Taiwan | Other | | | |
| ¥ 213,560 | ¥ 95,108 | ¥ 94,198 | ¥ 53,826 | ¥ 15,465 | ¥ 14,365 | ¥ 14,582 | ¥ 501,104 |

Year ended March 31, 2013

| Thousands of U.S dollars | | | | | | | |
|---|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia | | | North America | Europe | Consolidated |
| | | China | Taiwan | Other | | | |
| $ 2,270,707 | $ 1,011,249 | $ 1,001,574 | $ 572,313 | $ 164,434 | $ 152,7348 | $ 155,045 | $ 5,328,060 |

Year ended March 31, 2012

| Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia | | | North America | Europe | Consolidated |
| | | China | Taiwan | Other | | | |
| ¥ 221,433 | ¥ 76,859 | ¥ 78,213 | ¥ 47,675 | ¥ 15,012 | ¥ 9,840 | ¥ 15,398 | ¥ 464,430 |

Note: Sales amounts are based on customer locations and divided into countries and regions.

(2) Tangible fixed asset

Year ended March 31, 2013

| Millions of yen | | | | | | |
|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia | | North America | Europe | Consolidated |
| | | China | Other | | | |
| ¥ 5,089 | ¥ 2,579 | ¥ 993 | ¥ 23 | ¥ 82 | ¥ 924 | ¥ 9,690 |

Year ended March 31, 2013

| Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia | | North America | Europe | Consolidated |
| | | China | Other | | | |
| $ 54,110 | $ 27,422 | $ 10,558 | $ 245 | $ 872 | $ 9,825 | $ 103,032 |

Year ended March 31, 2012

| Millions of yen | | | | | | |
|---|---|---|---|---|---|---|
| Japan | Southeast Asia | Northeast Asia China | Northeast Asia Other | North America | Europe | Consolidated |
| ¥ 5,375 | ¥ 2,294 | ¥ 1,202 | ¥ 12 | ¥ 43 | ¥ 755 | ¥ 9,681 |

## (b) Information on the amount of loss on impairment of noncurrent assets by reportable segment

Year ended March 31, 2013

| Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
| ¥ - | ¥ 238 | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - | ¥ 238 |

Year ended March 31, 2013

| Thousands of U.S. dollars | | | | | | | |
|---|---|---|---|---|---|---|---|
| Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
| $ - | $ 2,531 | $ - | $ - | $ - | $ - | $ - | $ 2,531 |

(C) Information on the amount of amortization and unamortized balance of goodwill by reportable segment

Year ended March 31, 2013 — Millions of yen

| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Goodwill: | | | | | | | | |
| Amortization | ¥ 40 | ¥ - | ¥ 47 | ¥ 28 | ¥ - | ¥ - | ¥ - | ¥ 115 |
| Unamortized balance | 119 | - | - | - | - | - | - | 119 |
| Negative goodwill: | | | | | | | | |
| Amortization | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - | ¥ - |
| Unamortized balance | - | - | - | - | - | - | - | - |

Year ended March 31, 2013 — Thousands of U.S. dollars

| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Goodwill: | | | | | | | | |
| Amortization | $ 425 | $ - | $ 500 | $ 298 | $ - | $ - | $ - | $ 1,223 |
| Unamortized balance | 1,265 | - | - | - | - | - | - | 1,265 |
| Negative goodwill: | | | | | | | | |
| Amortization | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Unamortized balance | - | - | - | - | - | - | - | - |

Year ended March 31, 2012 — Millions of yen

| | Information Technology | Chemicals | Life Industry | Plastics | Housing and Construction | Other | Elimination and Corporate | Consolidated |
|---|---|---|---|---|---|---|---|---|
| Goodwill: | | | | | | | | |
| Amortization | ¥ 37 | ¥ 18 | ¥ 7 | ¥ 35 | ¥ - | ¥ 5 | ¥ - | ¥ 102 |
| Unamortized balance | 137 | - | 32 | 9 | - | - | - | 178 |
| Negative goodwill: | | | | | | | | |
| Amortization | ¥ - | ¥ - | ¥ - | ¥ 56 | ¥ - | ¥ - | ¥ - | ¥ 56 |
| Unamortized balance | - | - | - | - | - | - | - | - |

Note: Amounts stated in the “Other” column are related to the business of design, construction and sale of hoists and cranes.

## 17. Financial Instruments

(Fair values of financial instruments)

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2013 and 2012 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | March 31, 2013 | | |
| | Book values | Fair values | Differences |
| Cash and time deposits | ¥ 19,259 | ¥ 19,259 | ¥ - |
| Receivables: trade notes and accounts | 137,570 | | |
| Allowance for doubtful receivables (*1) | (376) | | |
| | 137,194 | 137,194 | - |
| Trading securities and investment securities | | | |
| Available-for-sale securities | 52,245 | 52,245 | - |
| Long-term loans receivables | 1,542 | 1,548 | 6 |
| Total Assets | ¥ 210,240 | ¥ 210,246 | ¥ 6 |
| Payables: trade note and accounts | ¥ 85,790 | ¥ 85,790 | ¥ - |
| Short-term loans (*2) | 57,342 | 57,342 | - |
| Long-term debt | 10,731 | 10,815 | (84) |
| Total Liabilities | ¥ 153,863 | ¥ 153,947 | ¥ (84) |
| Derivative transactions (*3) | | | |
| Derivative transactions for which hedge accounting is not applied | ¥ (24) | ¥ (24) | ¥ - |
| Derivative transactions for which hedge accounting is applied | 48 | 48 | - |
| Total Derivative Transactions | ¥ 24 | ¥ 24 | ¥ - |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | March 31, 2013 | | |
| | Book values | Fair values | Differences |
| Cash and time deposits | $ 204,774 | $ 204,774 | $ - |
| Receivables: trade notes and accounts | 1,462,733 | | |
| Allowance for doubtful receivables (*1) | (3,998) | | |
| | 1,458,735 | 1,458,735 | - |
| Trading securities and investment securities | | | |
| Available-for-sale securities | 555,502 | 555,502 | - |
| Long-term loans receivables | 16,395 | 16,459 | 64 |
| Total Assets | $ 2,235,406 | $ 2,235,470 | $ 64 |
| Payables: trade note and accounts | $ 912,174 | $ 912,174 | $ - |
| Short-term loans (*2) | 609,697 | 609,697 | - |
| Long-term debt | 114,099 | 114,992 | (893) |
| Total Liabilities | $ 1,635,970 | $ 1,636,863 | $ (893) |
| Derivative transactions (*3) | | | |
| Derivative transactions for which hedge accounting is not applied | $ (255) | $ (255) | $ - |
| Derivative transactions for which hedge accounting is applied | 510 | 510 | - |
| Total Derivative Transactions | $ 255 | $ 255 | $ - |

(*1) The balance of "Allowance for doubtful receivables" is deducted individually from the balances of "Receivables: trade notes and accounts".

(*2) Short-term loans include long-term debt due within one year in the amount of ¥4,850 million ($51,568 thousand).

(*3) Net receivables and payables generated from derivative transactions are shown above. Items that represent net payables are shown in parentheses.

| | Millions of yen | | |
|---|---|---|---|
| | March 31, 2012 | | |
| | Book values | Fair values | Differences |
| Cash and time deposits | ¥ 11,243 | ¥ 11,243 | ¥ - |
| Receivables: trade notes and accounts | 139,725 | | |
| Allowance for doubtful receivables (*1) | (281) | | |
| | 139,444 | 139,444 | - |
| Trading securities and investment securities | | | |
| Available-for-sale securities | 32,978 | 32,978 | - |
| Long-term loans receivables | 2,192 | 2,196 | 4 |
| Total Assets | ¥ 185,857 | ¥ 185,861 | ¥ 4 |
| Payables: trade note and accounts | ¥ 82,177 | ¥ 82,177 | ¥ - |
| Short-term loans (*2) | 62,642 | 62,642 | - |
| Long-term debt | 11,430 | 11,696 | (266) |
| Total Liabilities | ¥ 156,249 | ¥ 156,515 | ¥ (266) |
| Derivative transactions (*3) | | | |
| Derivative transactions for which hedge accounting is not applied | ¥ 7 | ¥ 7 | ¥ - |
| Derivative transactions for which hedge accounting is applied | 54 | 54 | - |
| Total Derivative Transactions | ¥ 61 | ¥ 61 | ¥ - |

(*1) The balance of "Allowance for doubtful receivables" is deducted individually from the balances of "Receivables: trade notes and accounts".

(*2) Short-term loans include long-term debt due within one year in the amount of ¥5,401 million.

(*3) Net receivables and payables generated from derivative transactions are shown above. Items that represent net payables are shown in parentheses.

(a) Methods of calculating fair values of financial instruments and matters relating to securities and derivative transactions

Assets

(1) Cash and time deposits

Because "Cash and time deposits" are short-term and their book values approximate the fair value, these instruments are stated at book value.

(2) Receivables: trade notes and accounts

Because "Receivables: trade notes and accounts" are short-term and their book values approximate the fair value, these instruments are stated at book value. The fair value of doubtful receivables is calculated using the amounts deemed recoverable because of collateral, guarantees, etc.

(3) Trading securities and investment securities

The fair value of equity securities is equivalent to the quoted market price, if available. The fair value of bonds is calculated using the present value as determined by discounting the total amount of principal and interest at a rate determined by taking into account the current maturity and credit risks. Because negotiable deposits are short-term and their book values approximate the fair value, these instruments are stated at book value. Please see Note 5 "Securities" for matters relating to trading securities and investment securities based on holding purposes.

(4) Long-term loans receivables

For long-term loans receivables at floating interest rates, market interest rates are reflected over a short period. As such, they are stated at book value because such amounts approximate fair value unless the borrower's credit status has become materially different after such loans were made. The fair value of long-term loans receivables at fixed interest rates is the present value of future cash flows of the receivables. The receivables are categorized into certain periods and divided into groups according to credit risk. Future cash flows are calculated for each group and discounted by a rate that is the sum of an appropriate index rate, such as the long-term prime rate, and the credit spread. The fair value of doubtful receivables is calculated using the amounts deemed recoverable because of collateral, guarantees, etc.

Liabilities

(1) Payables: trade notes and accounts and (2) Short-term loans

Because "Payables: trade notes and accounts" and short-term loans are short-term and their book values approximate the fair value, these instruments are stated at book value.

(3) Long-term debt

The fair value of long-term debt is calculated by discounting the total amount of the principal and interest at a rate that is assumed to be applied when a similar loan is newly borrowed. A part of the long-term debt is subject to currency swaps. The fair value of these long-term debts is determined by discounting the future cash flows that were accounted for as a single item with the related currency swap, at the rate that is assumed to apply if a new similar loan was taken out.

Derivative Transactions

See Note 6 "Derivative financial instruments and hedging transactions".

(b) The following table summarizes book values of financial instruments with no available fair value as of March 31, 2013 and 2012:

| | Book value | | |
|---|---|---|---|
| | Millions of yen | Millions of yen | Thousands of U.S. dollars |
| | 2013 | 2012 | 2013 |
| Investments in subsidiaries and affiliates | ¥ 4,681 | ¥ 4,055 | $ 49,771 |
| Available for sale securities | | | |
| Non-quoted equity securities | 3,374 | 3,213 | 35,875 |
| Others | 14 | 14 | 149 |
| Total | ¥ 8,069 | ¥ 7,282 | $ 85,795 |

The above items are not included in "Trading securities and investment securities" because the absence of a market value makes it impossible to estimate future cash flows and extremely difficult to determine the fair value.

(c) Financial instruments with maturities were as follows:

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | Millions of yen | | | |
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Cash and time deposits | ¥ 19,259 | ¥ - | ¥ - | ¥ - |
| Receivables: trade notes and accounts | 136,758 | 812 | - | - |
| Available-for-sale securities | | | | |
| Bonds | | 10 | - | - |
| Others | 35 | - | - | - |
| Long-term loans receivables | - | 1,247 | 233 | 62 |
| Total | ¥ 156,052 | ¥ 2,069 | ¥ 233 | ¥ 62 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Cash and time deposits | $ 204,774 | $ - | $ - | $ - |
| Receivables: trade notes and accounts | 1,454,099 | 8,634 | - | - |
| Available-for-sale securities | | | | |
| Bonds | - | 106 | - | - |
| Others | 372 | - | - | - |
| Long-term loans receivables | - | 13,259 | 2,477 | 659 |
| Total | $ 1,659,245 | $ 21,999 | $ 2,477 | $ 659 |

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | Millions of yen | | | |
| | Within one year | Over one year but within five years | but within ten years | Over five years Over ten years |
| Cash and time deposits | ¥ 11,243 | ¥ - | ¥ - | ¥ - |
| Receivables: trade notes and accounts | 138,884 | 841 | - | - |
| Available-for-sale securities | | | | |
| Bonds | 100 | - | - | - |
| Others | 31 | - | - | - |
| Long-term loans receivables | - | 1,753 | 375 | 64 |
| Total | ¥ 150,258 | ¥ 2,594 | ¥ 375 | ¥ 64 |

(d) Long-term loans and other interest bearing debt with maturities were as follows:

| | March 31, 2013 | | | |
|---|---|---|---|---|
| | Millions of yen | | | |
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Short-term loans | ¥ 57,342 | ¥ - | ¥ - | ¥ - |
| Long-term debt | - | 9,731 | 1,000 | - |
| Total | ¥ 57,342 | ¥ 9,731 | ¥ 1,000 | ¥ - |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Short-term loans | $ 609,697 | $ - | $ - | $ - |
| Long-term debt | - | 103,466 | 10,633 | - |
| Total | $ 609,697 | $ 103,466 | $ 10,633 | $ - |

| | March 31, 2012 | | | |
|---|---|---|---|---|
| | Millions of yen | | | |
| | Within one year | Over one year but within five years | Over five years but within ten years | Over ten years |
| Short-term loans | ¥ 62,642 | ¥ - | ¥ - | ¥ - |
| Long-term debt | - | 11,430 | - | - |
| Total | ¥ 62,642 | ¥ 11,430 | ¥ - | ¥ - |

## 18. Net assets

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases where a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock, they were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

## 19. Related party transactions

The Company is an affiliate of Sumitomo Chemical Company, Limited, which owned 21.8% and 21.5% of the Company's voting shares at March 31, 2013 and 2012, respectively.

Sumika Technology Co., Ltd. and Dongwoo Fine-Chem Co., Ltd. are subsidiaries of Sumitomo Chemical Company, Limited and NOBEL NC CO., LTD is an affiliate of the Company. As of both March 31, 2013 and 2012, the Company controlled 15% of the voting shares of Sumika Technology Co., Ltd. and 49% of the voting shares of NOBEL NC CO., LTD.

Significant transactions with related parties for the years ended March 31, 2013 and 2012 were as follows:

Year ended March 31, 2013

| | Millions of yen | | Thousands of U.S. dollars | |
|---|---|---|---|---|
| Sumitomo Chemical Company, Limited | | | | |
| Net sales | ¥ | 5,179 | $ | 55,066 |
| Purchases | ¥ | 14,061 | $ | 149,506 |
| Trade notes and accounts receivable | ¥ | 2,207 | $ | 23,466 |
| Trade notes and accounts payable | ¥ | 2,951 | $ | 31,377 |
| Pledge of investment securities | ¥ | 8,789 | $ | 93,450 |
| NOBEL NC CO., LTD | | | | |
| Debt guarantees | ¥ | 2,825 | $ | 30,037 |
| Sumika Technology Co., Ltd | | | | |
| Net sales | ¥ | 21,412 | $ | 227,666 |
| Trade notes and accounts receivable | ¥ | 8,705 | $ | 92,557 |
| Debt guarantees | ¥ | 2,758 | $ | 29,325 |
| Dongwoo Fine-Chem Co., Ltd | | | | |
| Net sales | ¥ | 12,776 | $ | 135,843 |
| Trade notes and accounts receivable | ¥ | 2,890 | $ | 30,728 |
| Unconsolidated subsidiaries and affiliates | | | | |
| Allowance for doubtful receivables | ¥ | (*)149 | $ | 1,584 |
| Provision for loss on debt guarantees | ¥ | 19 | $ | 202 |

(*) Reversal of allowance for doubtful receivables included that of the unconsolidated subsidiaries and affiliates in the amount of ¥0 million ($0 thousand) on the consolidated financial statements for the year ended March 31, 2013.

Year ended March 31, 2012

| | | Millions of yen |
|---|---|---|
| Sumitomo Chemical Company, Limited | | |
| Net sales | ¥ | 4,924 |
| Purchases | ¥ | 16,331 |
| Trade notes and accounts receivable | ¥ | 1,852 |
| Trade notes and accounts payable | ¥ | 4,769 |
| Pledge of investment securities | ¥ | 4,939 |
| NOBEL NC CO., LTD | | |
| Debt guarantees | ¥ | 2,812 |
| Sumika Technology Co., Ltd | | |
| Net sales | ¥ | 17,743 |
| Trade notes and accounts receivable | ¥ | 8,060 |
| Debt guarantees | ¥ | 2,708 |
| Dongwoo Fine-Chem Co., Ltd | | |
| Net sales | ¥ | 12,955 |
| Trade notes and accounts receivable | ¥ | 2,999 |
| Unconsolidated subsidiaries and affiliates | | |
| Allowance for doubtful receivables | ¥ | (*)150 |
| Provision for loss on debt guarantees | ¥ | 19 |

(*) Reversal for allowance for doubtful receivables included that of the unconsolidated subsidiaries and affiliates in the amount of ¥0 million on the consolidated financial statements for the year ended March 31, 2012.

The Consolidated subsidiaries' significant transactions with related parties for the years ended March 31, 2013 and 2012 were as follows:

TAIWAN INABATA SANGYO CO., LTD.
Year ended March 31, 2013

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| Sumika Technology Co., Ltd | | | | |
| Purchases | ¥ | 46,680 | $ | 496,332 |
| Trade notes and accounts payable | ¥ | 6,520 | $ | 69,325 |

Year ended March 31, 2012

| | | Millions of yen |
|---|---|---|
| Sumika Technology Co., Ltd | | |
| Purchases | ¥ | 38,732 |
| Trade notes and accounts payable | ¥ | 5,760 |

## 20. Contingent liabilities

At March 31, 2013 and 2012, the Company and its consolidated subsidiaries were contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| As endorsers of notes discounted or endorsed | ¥ 46 | ¥ 72 | $ 489 |
| As guarantors of indebtedness of | | | |
| unconsolidated subsidiaries and affiliates | 4,154 | 4,468 | 44,168 |
| Others | 2,758 | 2,708 | 29,325 |
| | 6,912 | 7,176 | 73,493 |
| | ¥ 6,958 | ¥ 7,248 | $ 73,493 |

## 21. Subsequent events

### Cash dividends

At the meeting of the Board of Directors of the Company held on May 7, 2013, an appropriation of nonconsolidated retained earnings for the year ended March 31, 2013 was duly approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends - ¥13.00 ($0.138) per share | ¥ 825 | $ 8,772 |