NETUREN

# Annual Report 2012

**For the year ended March 31, 2012**

NETUREN CO., LTD.

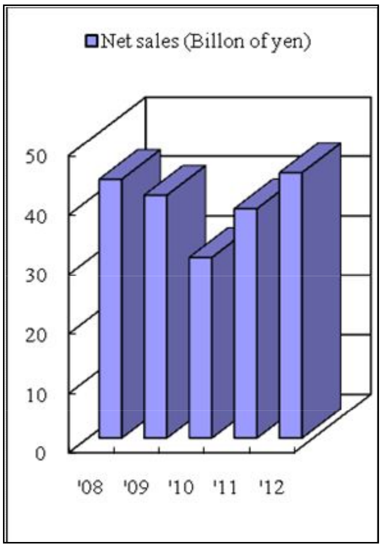
CONTENTS

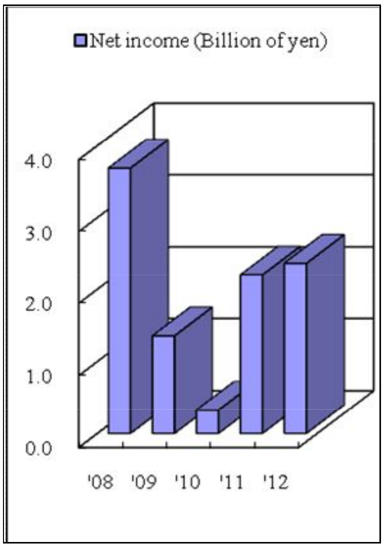
# FIVE－YEAR SUMMARY

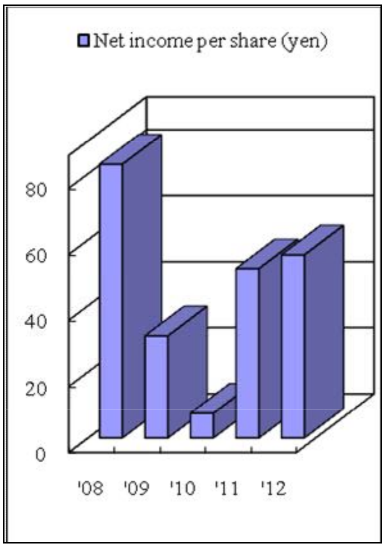
Neturen Co., Ltd. and Consolidated Subsidiaries
Five years ended March 31

| | Millions of yen | | | | | Thousands of U.S. dollars |
|---|---|---|---|---|---|---|
| | 2008 | 2009 | 2010 | 2011 | **2012** | **2012** |
| Net sales.......................................... | ¥43,530 | ¥40,846 | ¥30,423 | ¥38,592 | **¥44,635** | **$543,082** |
| Operating income............................ | 5,593 | 3,507 | 236 | 3,035 | **4,207** | **51,195** |
| Income before income taxes and minority interests....................... | 6,613 | 1,653 | 1,053 | 3,807 | **4,354** | **52,980** |
| Net income...................................... | 3,686 | 1,353 | 324 | 2,201 | **2,363** | **28,758** |
| Comprehensive income................... | — | — | — | 1,628 | **2,137** | **26,012** |
| Total assets....................................... | 67,995 | 60,921 | 60,846 | 64,342 | **66,785** | **812,572** |
| Net assets......................................... | 50,616 | 48,181 | 48,458 | 49,344 | **51,311** | **624,305** |
| Per share of common stock (in yen and dollars): | | | | | | |
| Net income................................. | ¥82.89 | ¥30.85 | ¥ 7.47 | ¥ 51.26 | **¥ 55.43** | **$0.67** |
| Diluted net income………......... | 82.86 | — | — | — | **—** | **—** |
| Cash dividends........................... | 17.00 | 15.00 | 10.00 | 10.00 | **14.00** | **0.17** |
| Stockholders' equity.................. | 1,099.37 | 1,047.23 | 1,070.89 | 1,102.56 | **1,134.81** | **13.81** |

Note: U.S. dollar amounts in this report are translated from Japanese yen, for convenience only, at the rate of ¥82.19=US$1.



# TO OUR SHAREHOLDERS

The Group, consisting of the Company (Neturen Co., Ltd.), 14 subsidiaries and 5 affiliates, manufactures and sells prestressing steel bars and deformed steel bars for prestressed concrete used in the civil engineering and construction field, Induction Heated, Quenched and Tempered Wire (ITW) used mainly in suspension springs for automobiles and motorcycles, auto parts and construction machine parts, and induction heating equipment for various industries. It also conducts, heat treatment services of major security parts of automobiles, machine tools and construction equipment.

**(1) Activities and Results**

Domestic demand in Japan grew worse due to the confusion and the fragmentation of the supply chain resulting from the Great East Japan Earthquake in the first half of the current consolidated fiscal year. While this situation gradually recovered in the second half, there was another supply chain problem caused by the flooding in Thailand. The economic condition in Japan was getting difficult. In addition, exchange rate fluctuations and power supply instability impacted corporate results significantly.

Overseas, the economy is slowing in China due to monetary tightening; EU countries are experiencing an economic downturn due to European sovereign risks; and while the economy is on a slow recovery track in the United States, there is still uncertainty.

Under such circumstances, the Group strove to develop new products and technologies and expand the sales of products, as well as strengthen its manufacturing bases at home and abroad, in accordance with its 11th medium-term business plan; "Challenge toward Innovation and Great Leap - 65" (which is a three-year plan). We also worked on reducing costs and improving operational efficiency on a groupwide basis. We also strived to maintain and enhance production efficiency while cooperating with the power usage restrictions by changing operation days and working hours.

As a result, net sales were ¥44,635 million (up 15.7% from the previous fiscal year), with operating income at ¥4,207 million (up 38.6%). Net income was ¥2,363 million (up 7.4%).

**Status by business segment**

**a. Specialty Steel and Wire Products Division**

The sales volume of our main products, construction-related products, rose from the previous fiscal year. This was attributed primarily to the increase in orders for shear reinforcement bars.

The sales volume for ITW used in suspension springs for automobiles and motorcycles, while lower than the previous fiscal year in Japan, increased overall primarily due to strong sales in China.

As a result, sales in this segment were ¥21,881 million (up 23.6% from the previous fiscal year) and operating income was ¥2,060 million (up 51.8%).

**b. Induction Heat Treatment Service and Heating Machine Division**

Due to the effects of the earthquake, orders temporarily decreased in induction heat treatment services and auto parts, however, they recovered in the second half, with sales volumes greater than they were a year ago. Orders for construction machine parts grew slowly as a consequence of the economic downturn in China, etc., and the sales volume declined from the previous year.

Induction heating equipment was partly affected by the earthquake, however, corporate willingness to invest in equipment is showing signs of recovery, and the sales volume increased from a year earlier.

As a result, sales in this segment were ¥22,588 million (up 9.1% from the previous fiscal year) and operating income was ¥2,133 million (up 38.6%).

### c. Others

This segment deals with real estate leasing business, etc. not included in the reportable segments. In the previous consolidated fiscal year, the leasing income decreased as the Company sold one of the 2.5 floors of the rental office it owns in the "Oval Court Ohsaki Mark West" building.

As a result, sales in this segment were ¥165 million (down 11.4% from the previous fiscal year) and operating income was ¥67 million (down 51.7%).

## (2) Cash Flow

At the end of the fiscal year under review, the balance of cash and cash equivalents amounted to ¥10,923 million (up ¥1,429 million from the previous fiscal year).

### a. Cash Flow Provided by Operating Activities

Net cash provided by operating activities amounted to ¥3,838 million (up from ¥3,714 million in the previous fiscal year).

This was caused primarily by net income before income taxes and minority interests totaling ¥4,354 million which was over the amount of increases in trade notes and accounts receivable and inventories.

### b. Cash Flow Used in Investing Activities

Net cash used in investing activities amounted to ¥2,798 million (down from ¥63 million in the previous fiscal year).

This was caused primarily by payments for purchases of property, plant and equipment amounting to ¥4,093 million which was over the amount of proceeds from sales and redemption of investment securities totaling ¥600 million.

### c. Cash Flow Used in Financing Activities

Net cash used in financing activities amounted to ¥558 million (up from ¥1,418 million in the previous fiscal year).

This was caused primarily by repayments of long-term debt amounting to ¥615 million which was over the amount of proceeds from stock issuance to minority shareholders totaling ¥364 million.

## (3) Equipment Investment

The Group has been focused on capital expenditures to meet investments and orders received concerning new products and businesses. To cope with the abruptly changing business climate, we also have invested in rationalization. We are rigorously reviewing the effects of individual capital investment by establishing standards for returns on investments.

The Group finances equipment investment mainly with funds on hand.

In the fiscal year under review, equipment investment amounted to ¥4,184 million on a consolidated basis.

## (4) Issues for the Coming Term

It is difficult to be optimistic about future trends in both the world and Japanese economies. Under such circumstances, however, the Group will endeavor to enhance corporate values by tackling the following challenges.

1. Promote energy saving including necessary equipment investment and keep the impact of the electricity conditions on business results to a minimum, as there is anxiety about increases in electricity rates and the electricity supply itself.
2. Supply products of consistent quality to the market in a timely fashion by recognizing that taking appropriate action to meet the demand generated by reconstruction for the earthquake is the social responsibility of the Group.
3. Establish strategies to promote global expansion, enhance technology, and urgently secure and develop the human resources we need.

**Tetsukazu Fukuhara**
**President**

# CONSOLIDATED BALANCE SHEETS

Neturen Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| **ASSETS** | | | |
| **Current assets:** | | | |
| Cash and deposits(Note4) | ¥ 10,098 | **¥ 11,028** | **$134,186** |
| Short-term investment securities (Note4,5) | 601 | **—** | **—** |
| Notes and accounts receivable: | | | |
| Trade(Note4) | 14,438 | **16,427** | **199,877** |
| Other | 408 | **397** | **4,841** |
| Less: allowance for doubtful accounts | (97) | **(68)** | **(828)** |
| Inventories (Note3) | 3,060 | **3,632** | **44,197** |
| Deferred tax assets (Note7) | 461 | **458** | **5,583** |
| Other current assets | 254 | **34** | **418** |
| Total current assets | 29,226 | **31,912** | **388,275** |
| **Property, plant and equipment**: | | | |
| Land | 9,094 | **9,457** | **115,067** |
| Buildings and structures | 14,818 | **15,088** | **183,575** |
| Machinery and equipment | 34,939 | **36,533** | **444,502** |
| Lease assets (Note8) | 96 | **105** | **1,278** |
| Construction in progress | 601 | **2,180** | **26,531** |
| Less: accumulated depreciation | (35,172) | **(37,678)** | **(458,437)** |
| Net property, plant and equipment | 24,377 | **25,685** | **312,517** |
| **Investments and other assets:** | | | |
| Investment securities (Note4,5) | 6,449 | **5,970** | **72,647** |
| Stocks of subsidiaries and affiliates (Note5) | 3,603 | **2,599** | **31,632** |
| Deferred tax assets (Note7) | 17 | **24** | **302** |
| Other assets | 667 | **591** | **7,195** |
| Total investments and other assets | 10,738 | **9,187** | **111,778** |
| | ¥64,342 | **¥66,785** | **$812,572** |

*See Notes to Consolidated Financial Statements.*

| | Millions of yen 2011 | 2012 | Thousands of U.S. dollars (Note2) 2012 |
|---|---|---|---|
| **LIABILITIES AND NET ASSETS** | | | |
| **Current liabilities:** | | | |
| Notes and accounts payable: | | | |
| Trade(Note4) | ¥ 5,091 | **¥ 5,884** | **$71,599** |
| Other | 28 | **47** | **580** |
| Short-term bank loans (Note4,6) | 1,744 | **1,984** | **24,140** |
| Current portion of long-term debt (Note4,6) | 616 | **416** | **5,064** |
| Lease obligations (Note6, 8) | 28 | **28** | **348** |
| Accrued income taxes (Note7) | 1,226 | **725** | **8,827** |
| Accrued expenses | 3,684 | **4,346** | **52,884** |
| Deferred tax liabilities (Note7) | 0 | **—** | **—** |
| Other current liabilities | 700 | **625** | **7,614** |
| Total current liabilities | 13,120 | **14,059** | **171,059** |
| **Long-term liabilities:** | | | |
| Long-term debt (Note6) | 586 | **166** | **2,031** |
| Lease obligations (Note6, 8) | 74 | **54** | **661** |
| Provision for retirement benefits (Note13) | 250 | **283** | **3,443** |
| Deferred tax liabilities (Note7) | 677 | **628** | **7,652** |
| Other long-term liabilities | 286 | **280** | **3,417** |
| Total long-term liabilities | 1,876 | **1,414** | **17,206** |
| **NET ASSETS:** | | | |
| **Shareholders' equity:** | | | |
| Common stock: | | | |
| Authorized:150,000,000 shares in 2011 and 2012 | | | |
| Issued:44,713,930 shares in 2011 and 2012 | 6,418 | **6,418** | **78,091** |
| Additional paid-in capital | 5,528 | **5,528** | **67,266** |
| Retained earnings | 38,606 | **40,500** | **492,772** |
| Less: Treasury stock, at cost | (1,655) | **(1,668)** | **(20,304)** |
| Total shareholders' equity | 48,897 | **50,779** | **617,826** |
| **Accumulated other comprehensive income:** | | | |
| Unrealized gain on available-for-sale securities | 30 | **(214)** | **(2,615)** |
| Foreign currency translation adjustments | (1,914) | **(2,194)** | **(26,705)** |
| Total accumulated other comprehensive income | (1,883) | **(2,409)** | **(29,320)** |
| **Minority interests** | 2,329 | **2,942** | **35,800** |
| Total net assets | 49,344 | **51,311** | **624,305** |
| | ¥64,342 | **¥66,785** | **$812,572** |

## CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note2) |
|---|---|---|---|
| | 2011 | 2012 | 2012 |
| **Net sales** | ¥38,592 | **¥44,635** | **$543,082** |
| **Cost of sales** | 30,336 | **34,323** | **417,614** |
| Gross profit | 8,256 | **10,312** | **125,468** |
| **Selling, general and administrative expenses** (Note9) | 5,221 | **6,104** | **74,272** |
| Operating income | 3,035 | **4,207** | **51,195** |
| **Other income (expenses):** | | | |
| Interest and dividend income | 183 | **192** | **2,340** |
| Interest expenses | (88) | **(82)** | **(1,007)** |
| Gain on sales of short-term and investments in securities | 239 | **8** | **104** |
| Gain (loss) on sales or disposals of property, plant and equipment | 221 | **(11)** | **(139)** |
| Write-down of investments in securities | — | **—** | **—** |
| Impairment loss (Note10) | (86) | **(102)** | **(1,241)** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | 193 | **241** | **2,941** |
| Other net (Note11) | 107 | **(99)** | **(1,213)** |
| | 771 | **146** | **1,785** |
| Income before income taxes and minority interests | 3,807 | **4,354** | **52,980** |
| **Income taxes** (Note7) | | | |
| Current | (1,567) | **(1,588)** | **(19,321)** |
| Deferred | 137 | **(92)** | **(1,126)** |
| | (1,429) | **(1,680)** | **(20,447)** |
| **Income before minority interests** | 2,377 | **2,673** | **32,533** |
| **Minority interests in income** | (176) | **(310)** | **(3,775)** |
| **Net income** | ¥ 2,201 | **¥ 2,363** | **$ 28,758** |
| Minority interests in income | (176) | **(310)** | **(3,775)** |
| **Income before minority interests** | 2,377 | **2,673** | **32,533** |
| **Other comprehensive income** | | | |
| Unrealized gain on available-for-sale securities | (146) | **(241)** | **(2,943)** |
| Foreign currency translation adjustments | (440) | **(95)** | **(1,156)** |
| Share of other comprehensive income of associates accounted for using equity method | (162) | **(198)** | **(2,420)** |
| **Total other comprehensive income** | (749) | **(535)** | **(6,520)** |
| **Comprehensive income** | 1,628 | **2,137** | **26,012** |
| **Comprehensive income attributable to:** | | | |
| Comprehensive income attributable to owners of the parent | 1,638 | **1,837** | **22,356** |
| Comprehensive income attributable to minority interests | (9) | **300** | **3,656** |

| | Yen | | U.S. dollars |
|---|---|---|---|
| **Per share of common stock:** | | | |
| Net income | ¥ 51.26 | **¥ 55.43** | **$0.67** |
| Cash dividends | 10.00 | **14.00** | **0.17** |

*See Notes to Consolidated Financial Statements*

## CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| Balance at April 1, 2010…..... | ¥ 6,418 | ¥ 5,528 | ¥36,835 | ¥ (1,370) | ¥47,411 |
| Changes during the year | | | | | |
| Dividends from surplus........ | | | (430) | | (430) |
| Net income............................ | | | 2,201 | | 2,201 |
| Acquisition of treasury stock. | | | | (284) | (284) |
| Disposal of treasury stock.... | | | | | |
| Other..................................... | | | | | |
| **Balance at March 31, 2011…....** | **¥ 6,418** | **¥ 5,528** | **¥38,606** | **¥ (1,655)** | **¥48,897** |
| **Changes during the year** | | | | | |
| **Dividends from surplus........** | | | **(469)** | | **(469)** |
| **Net income............................** | | | **2,363** | | **2,363** |
| **Acquisition of treasury stock.** | | | | **(13)** | **(13)** |
| **Disposal of treasury stock....** | | **(0)** | | **0** | **0** |
| **Other.....................................** | | | | | |
| **Balance at March 31, 2012.…...** | **¥ 6,418** | **¥ 5,528** | **¥40,500** | **¥ (1,668)** | **¥50,779** |

| | Thousands of U.S. dollars (Note2) | | | | |
|---|---|---|---|---|---|
| | Shareholders' equity | | | | |
| | Common stock | Additional paid-in capital | Retained earnings | Treasury stock, at cost | Total shareholders' equity |
| **Balance at March 31, 2011…....** | **$78,091** | **$67,266** | **$469,721** | **$ (20,141)** | **$594,938** |
| **Changes during the year** | | | | | |
| **Dividends from surplus........** | | | **(5,706)** | | **(5,706)** |
| **Net income............................** | | | **28,758** | | **28,758** |
| **Acquisition of treasury stock.** | | | | **(163)** | **(163)** |
| **Disposal of treasury stock....** | | **(0)** | | **0** | **0** |
| **Other.....................................** | | | | | |
| **Balance at March 31, 2012.…...** | **$78,091** | **$67,266** | **$492,772** | **$ (20,304)** | **$617,826** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | Accumulated other comprehensive income | | Minority interests | Total net assets |
| | Unrealized gain on available-for-sale securities | Foreign currency translation adjustments | | |
| Balance at April 1, 2010....... | ¥ 183 | ¥ (1,503) | ¥ 2,367 | ¥48,458 |
| Changes during the year | | | | |
| Dividends from surplus........ | | | | (430) |
| Net income............................ | | | | 2,201 |
| Acquisition of treasury stock. | | | | (284) |
| Disposal of treasury stock.... | | | | |
| Other..................................... | (152) | (411) | (37) | (600) |
| **Balance at March 31, 2011…....** | **¥ 30** | **¥ (1,914)** | **¥ 2,329** | **¥49,344** |
| **Changes during the year** | | | | |
| **Dividends from surplus........** | | | | **(469)** |
| **Net income............................** | | | | **2,363** |
| **Acquisition of treasury stock.** | | | | **(13)** |
| **Disposal of treasury stock....** | | | | **0** |
| **Other.....................................** | **(245)** | **(280)** | **612** | **86** |
| **Balance at March 31, 2012…....** | **¥ (214)** | **¥ (2,194)** | **¥ 2,942** | **¥51,311** |

| | Thousands of U.S. dollars (Note2) | | | |
|---|---|---|---|---|
| | Accumulated other comprehensive income | | Minority interests | Total net assets |
| | Unrealized gain on available-for-sale securities | Foreign currency translation adjustments | | |
| **Balance at March 31, 2011…....** | **$ 376** | **$(23,294)** | **$28,348** | **$600,367** |
| **Changes during the year** | | | | |
| **Dividends from surplus........** | | | | **(5,706)** |
| **Net income............................** | | | | **28,758** |
| **Acquisition of treasury stock.** | | | | **(163)** |
| **Disposal of treasury stock....** | | | | **0** |
| **Other.....................................** | **(2,991)** | **(3,410)** | **7,451** | **1,049** |
| **Balance at March 31, 2012…....** | **$ (2,615)** | **$(26,705)** | **$35,800** | **$624,305** |

## CONSOLIDATED STATEMENTS OF CASH FLOWS

Neturen Co., Ltd. and Consolidated Subsidiaries
Years ended March 31, 2011 and 2012

| | Millions of yen | | Thousands of U.S. dollars (Note2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| **Cash flows from operating activities:** | | | |
| Income before income taxes and minority interests | ¥ 3,807 | **¥ 4,354** | **$52,980** |
| **Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:** | | | |
| Depreciation and amortization | 2,774 | **2,699** | **32,841** |
| Impairment loss | 86 | **102** | **1,241** |
| Increase (decrease) in allowance for doubtful accounts | (84) | **(25)** | **(309)** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (193) | **(241)** | **(2,941)** |
| Increase (decrease) in provision for retirement benefits | 136 | **32** | **391** |
| Increase (decrease) in other accrued liabilities | 1,547 | **836** | **10,182** |
| Gain on sales of short-term and investment securities | (239) | **(8)** | **(104)** |
| Loss (gain) on sales or disposals of property, plant and equipment | (221) | **11** | **139** |
| Write-down of investment securities | — | **1** | **24** |
| Decrease (increase) in notes and accounts receivable | (3,877) | **(1,992)** | **(24,238)** |
| Decrease (increase) in inventories | (696) | **(580)** | **(7,066)** |
| Increase (decrease) in notes and accounts payable | 982 | **798** | **9,714** |
| Income taxes paid | (696) | **(2,091)** | **(25,443)** |
| Other | 390 | **(57)** | **(701)** |
| Total adjustments | (93) | **(515)** | **(6,272)** |
| Net cash provided by operating activities | 3,714 | **3,838** | **46,708** |

| | Millions of yen | | Thousands of U.S. dollars (Note2) |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| **Cash flows from investing activities:** | | | |
| Payments into time deposits | (2,306) | **(5)** | **(61)** |
| Proceeds from withdrawal of time deposits | 1,809 | **505** | **6,144** |
| Payments for purchases of property, plant and equipment | (1,503) | **(4,093)** | **(49,810)** |
| Proceeds from sales of property, plant and equipment | 2,786 | **107** | **1,304** |
| Payments for purchases of intangible assets | (0) | **(2)** | **(25)** |
| Payments for purchases of short-term investment securities | (906) | **—** | **—** |
| Proceeds from sales of short-term investment securities | 900 | **600** | **7,300** |
| Proceeds from sales and redemption of investment securities | — | **114** | **1,391** |
| Payments for purchases of investment securities | (1,446) | **(13)** | **(161)** |
| Proceeds from sales of investment securities | 656 | **—** | **—** |
| Payments for other assets | (14) | **(9)** | **(109)** |
| Proceeds from other assets | 14 | **16** | **201** |
| Other | (54) | **(18)** | **(229)** |
| Net cash used in investing activities | (63) | **(2,798)** | **(34,054)** |
| **Cash flows from financing activities:** | | | |
| Repayment of treasury stock | (284) | **(13)** | **(163)** |
| Proceeds from long-term debt | 0 | **—** | **—** |
| Repayment of long-term debt | (618) | **(615)** | **(7,486)** |
| Proceeds from short-term debt | 302 | **410** | **4,997** |
| Repayment of short-term debt | (339) | **(154)** | **(1,876)** |
| Dividends paid | (430) | **(469)** | **(5,706)** |
| Proceeds from stock issuance to minority shareholders | — | **364** | **4,432** |
| Other | (48) | **(81)** | **(991)** |
| Net cash used in financing activities | (1,418) | **(558)** | **(6,795)** |
| **Translation adjustments on cash and cash equivalents** | (84) | **(47)** | **(581)** |
| **Net increase in cash and cash equivalents** | 2,146 | **433** | **5,276** |
| **Cash and cash equivalents at beginning of year** | 7,346 | **9,493** | **115,507** |
| **Cash and cash equivalents of newly consolidated subsidiary** | — | **996** | **12,121** |
| **Cash and cash equivalents at end of year** | ¥ 9,493 | **¥ 10,923** | **$132,905** |

*See Notes to Consolidated Financial Statements.*

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## 1. Summary of Significant Accounting Policies

Neturen Co., Ltd. (the Company) and its domestic subsidiaries maintain their books of account in conformity with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial instruments and Exchange Law of Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in dollars) do not necessarily agree with the sum of the individual amounts.

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a form that is more familiar to readers outside Japan.

### *(1) Principle of Consolidation and Investments in Subsidiaries and Affiliates*

The accompanying consolidated financial statements include the accounts of the Company and 13 significant subsidiaries. All significant intercompany accounts and transactions are eliminated in consolidation. All unrealized profits and losses with regard to intercompany transactions of assets are also wholly eliminated in consolidation. The difference after offsetting the amounts in the investment accounts of the parent company and the capital accounts of the subsidiaries is to be equally amortized for 5 years. The equity method to account for investments in an unconsolidated subsidiary and 5 affiliates has been followed by the Company in the accompanying consolidated financial statements. Accordingly, earnings corresponding to the equity ownership are included as income of the Company and the consolidated subsidiaries in investment accounts.

The fiscal year-end of all subsidiaries differs from that of the Company. Accounts of those subsidiaries which have different fiscal periods have been adjusted for significant transactions to properly reflect their financial positions and the results of operations.

### *(2) Foreign Currency financial statement*

In translating the financial statements of foreign subsidiaries and affiliates into Japanese yen, all assets, liabilities, revenues and expenses are translated at the current exchange rates in effect each balance sheet date except for capital and retained earnings which are translated at the historical exchange rates in effect at the time of the transactions. The resulting translation adjustments are reflected as separate components in the accompanying consolidated financial statements as foreign currency translation adjustments.

### *(3) Cash and Cash Equivalents*

Cash and cash equivalents for the consolidated statements of cash flows include cash on hand, readily-available deposits and short-term highly liquid investments with maturities of not exceeding three months at the time of purchase.

### *(4) Short-term Securities, Investment securities*

Short-term securities and investment securities are classified and account for, depending on management's intent, as follows:

Held-to-maturity securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are amortized or accumulated to face value. Other securities, "available-for-sale securities" with fair value are carried at fair value with unrealized holding gains and losses excluded from earnings and reported as a net amount in a separate component of net assets until realized. Other securities without fair value are carried at cost. In computing realized gain or loss, cost of other securities are principally determined by the moving-average method.

### *(5) Inventories*

Inventories are principally stated at cost on a first-in, first-out basis, evaluates the amount of the inventories shown on the balance sheet by writing them down based on their decrease in profitability.

### *(6) Property, Plant and Equipment (except under lease)*

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is principally computed under the declining-balance method at rates based on estimated useful lives of the assets while the straight-line method is applied to buildings acquired after April 1, 1998, and to the assets of foreign subsidiaries.

The range of useful lives is principally from 5 to 50 years for buildings and structures, from 2 to 10 years for machinery and equipment.

### *(7) Intangible assets*

Intangible assets are carried at cost less accumulated amortization, which are amortized by the straight-line method. Goodwill is amortized by the straight-line method within a 5-year period.

### *(8) Lease assets*

Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciation on a straight-line basis, with lease period used as their useful lives and no residual value. The accounting treatment for finance leases that do not transfer ownership of the leased property to the lessee which took place before March 31, 2008 continues to be in accordance with the method used for operating lease transaction.

### *(9) Allowance for Doubtful Accounts*

The allowance for doubtful accounts has been provided at an amount computed based on the actual ratio of bad debts in the past and the estimated uncollectible amounts based on the analysis of certain individual receivables.

### *(10) Research and Development Costs*

Research and development costs are charged to income as incurred.

### *(11) Retirement and severance benefits*

Provision for retirement benefits for employees is provided based on the estimated retirement benefit obligation and the pension assets.

The unrecognized actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

Directors and corporate auditors of the Companies are not covered by the trustee pension plan. However, the recorded liability for accrued severance indemnities includes an amount equal to the management's estimate of the amounts payable to the end of each financial period if they had retired on such dates, which is determined according to the rules on special retirement benefits for officers. The Company revised them in June, 2004. No additional provisions have been recorded for retirement benefits to be paid to the Company's directors and corporate auditors since July, 2004.

### *(12) Income Taxes*

Income taxes of the Company and subsidiaries are provided on the basis of amounts payable as indicated in the tax returns.

The Company and its consolidated subsidiaries have adopted the assets and liabilities method of tax effect accounting in order to recognize the effect of all temporary differences in the recognition of assets and liabilities for tax financial reporting purpose.

### *(Aditional information)*

For accounting changes and error corrections, etc. made on and after the beginning of the year ended March 31, 2012, the Company has applied the following accounting standard and guidance:"Accounting Standard for Accounting Changes and Error Corrections"(ASBJ Statement No.24, issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections"(ASBJ Guidance No.24, issued on December 4, 2009).

## 2. Translation in U.S. Dollars

For the convenience of the reader, the accompanying consolidated financial statements have been presented in U.S. dollars by translating all Japanese yen amounts at the exchange rate of ¥82.19 to $1, the approximate rate of exchange on March 31, 2012, at the Tokyo foreign exchange market. 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 amounts at such rate or at any other rate.

## 3. Inventories

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Finished goods | ¥ 585 | **¥ 682** | **$ 8,303** |
| Work in process | 1,085 | **1,315** | **16,010** |
| Raw materials and supplies | 1,389 | **1,634** | **19,883** |
| | ¥ 3,060 | **¥ 3,632** | **$44,197** |

## 4. Status of financial instruments

(1) Policies for financial instruments

The Companies raised the funds by bank borrowings and retained earnings according to capital investment. The Companies manage funds only through short-term time deposit and others. The Companies use derivatives for the purposes of managings foreign currency exchange risk related to trading receivables and payables. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk.

Trade receivables —notes receivable and accounts receivable— are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers. Equity securities —the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices. Trade payable —notes payable and accounts payable— mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Short-term debt is raised mainly in connection with business activities. Long-term debt is taken out principally for the purpose of capital expenditure. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Company undertakes interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management of financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instrument.

(c) Monitoring of liquidity risks for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage the liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives listed below are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated fair value of financial instruments:

The book value of the financial instruments on the consolidated balance sheets as of March 31, 2011 and 2012 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

| | Millions of yen | | |
|---|---|---|---|
| | 2011 | | |
| | Book value | Fair value | Difference |
| Cash and Deposits | ¥ 10,098 | ¥ 10,098 | ¥ — |
| Notes and accounts receivable | 14,438 | 14,438 | — |
| Marketable securities and investment securities: | | | |
| Held-to-maturity securities | 1,208 | 1,210 | 2 |
| Other securities | 5,153 | 5,153 | — |
| Total | ¥ 30,899 | ¥ 30,901 | ¥ 2 |
| Notes and accounts payable | ¥ 5,091 | ¥ 5,091 | ¥ — |
| Short-term debt | 2,360 | 2,360 | — |
| Total | ¥ 7,452 | ¥ 7,452 | ¥ — |

| | Millions of yen | | |
|---|---|---|---|
| | 2012 | | |
| | Book value | Fair value | Difference |
| Cash and Deposits | **¥ 11,028** | **¥ 11,028** | **¥ —** |
| Notes and accounts receivable | **16,427** | **16,427** | **—** |
| Marketable securities and investment securities: | | | |
| Held-to-maturity securities | **504** | **501** | **(3)** |
| Other securities | **4,780** | **4,780** | **—** |
| Total | **¥ 32,742** | **¥ 32,738** | **¥ (3)** |
| Notes and accounts payable | **¥ 5,884** | **¥ 5,884** | **¥ —** |
| Short-term debt | **2,400** | **2,400** | **—** |
| Total | **¥ 8,285** | **¥ 8,285** | **¥ —** |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | 2012 | | |
| | Book value | Fair value | Difference |
| Cash and Deposits | **$ 134,186** | **$ 134,186** | **$ —** |
| Notes and accounts receivable | **199,877** | **199,877** | **—** |
| Marketable securities and investment securities: | | | |
| Held-to-maturity securities | **6,141** | **6,099** | **(42)** |
| Other securities | **58,165** | **58,165** | **—** |
| Total | **$ 398,371** | **$ 398,328** | **$ (42)** |
| Notes and accounts payable | **$ 71,599** | **$ 71,599** | **$ —** |
| Short-term debt | **29,204** | **29,204** | **—** |
| Total | **$ 100,804** | **$ 100,804** | **$ —** |

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities

Cash and deposits and notes and accounts receivable

Since these items are settled in a short period, their book value approximates fair value.

Investment securities

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 5.

Notes and accounts payable and short-term debt

Since these items are settled in a short period of time, their book value approximates fair value.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2011 and 2012, the cost of non-marketable securities consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Other securities without fair value: | | | |
| Unlisted equity securities | ¥ 689 | **¥ 685** | **$ 8,340** |

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2011 and 2012

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Year through Ten Years | Due after Ten Years |
| Cash and Deposits | ¥ 10,098 | ¥ — | ¥ — | ¥ — |
| Notes and accounts receivable | 14,438 | — | — | — |
| Marketable securities and investment securities: | | | | |
| Held-to-maturity securities: | | | | |
| Bonds | 300 | — | 600 | — |
| Others | 300 | — | — | — |
| Total | ¥ 25,137 | ¥ — | ¥ 600 | ¥ — |

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Year through Ten Years | Due after Ten Years |
| Cash and Deposits | **¥ 11,028** | **¥ —** | **¥ —** | **¥ —** |
| Notes and accounts receivable | **16,427** | **—** | **—** | **—** |
| Marketable securities and investment securities: | | | | |
| Held-to-maturity securities: | | | | |
| Bonds | **—** | **—** | **500** | **—** |
| Others | **—** | **—** | **—** | **—** |
| Total | **¥ 27,456** | **¥ —** | **¥ 500** | **¥ —** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | Due in One Year or Less | Due after One Year through Five Years | Due after Five Year through Ten Years | Due after Ten Years |
| Cash and Deposits | **$ 134,186** | **$ —** | **$ —** | **$ —** |
| Notes and accounts receivable | **199,877** | **—** | **—** | **—** |
| Marketable securities and investment securities: | | | | |
| Held-to-maturity securities: | | | | |
| Bonds | **—** | **—** | **6,083** | **—** |
| Others | **—** | **—** | **—** | **—** |
| Total | **$ 334,063** | **$ —** | **$ 6,083** | **$ —** |

## 5. Short-term Investment Securities, Investment Securities and Other Securities

The following is an analytical summary of held-to-maturity securities and available-for-sale securities consisted of short-term investment securities, investment securities and stocks of subsidiaries and affiliates as of March 31, 2011 and 2012.

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2011 | | | **2012** | | | **2012** | | |
| Held-to-maturity securities: | Book value | Difference | Fair value | Book value | Difference | Fair value | Book value | Difference | Fair value |
| Bonds…................ | ¥ 907 | ¥ 2 | ¥ 909 | **¥ 504** | **¥ (3)** | **¥ 501** | **$ 6,141** | **$ (42)** | **$ 6,099** |
| Others.................. | 301 | (0) | 301 | **—** | **—** | **—** | **—** | **—** | **—** |
| | ¥ 1,208 | ¥ 2 | ¥ 1,210 | **¥ 504** | **¥ (3)** | **¥ 501** | **$ 6,141** | **$ (42)** | **$ 6,099** |
| Other securities: | | | | | | | | | |
| Available-for-sale securities | Acquisition cost | Unrealized gain (loss) | Book value (Fair value) | Acquisition cost | Unrealized gain (loss) | Book value (Fair value) | Acquisition cost | Unrealized gain (loss) | Book value (Fair value) |
| Bonds…................ | ¥ — | ¥ — | ¥ — | **¥ —** | **¥ —** | **¥ —** | **$ —** | **$ —** | **$ —** |
| Equity securities... | 4,457 | 648 | 5,105 | **4,470** | **261** | **4,732** | **54,394** | **3,184** | **57,578** |
| Others.................. | 51 | (3) | 47 | **51** | **(3)** | **48** | **630** | **(43)** | **586** |
| | ¥ 4,509 | ¥ 644 | ¥ 5,153 | **¥ 4,522** | **¥ 258** | **¥ 4,780** | **$ 55,024** | **$ 3,140** | **$ 58,165** |

As of March 31, 2011 and 2012, the cost of non-marketable securities consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Other securities without fair value: | | | |
| Unlisted equity securities…............................................................ | ¥ 689 | **¥ 685** | **$ 8,340** |
| Non-consolidated subsidiaries and affiliates: | | | |
| Equity securities............................................................................. | ¥ 3,603 | **¥ 2,599** | **$ 31,632** |

## 6. Short-term Bank Loans and Long-term Debt

Short-term bank loans consist mainly of short-term notes and short-term borrowings under the loan agreements. The weighted average interest rates applicable to such loans as of March 31, 2011 and 2012 were approximately 2.8% and 3.1% respectively.

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Unsecured loans from banks............................................................... | ¥ 1,203 | **¥ 583** | **$7,095** |
| Less: current portion............................................................................ | (616) | **(416)** | **(5,064)** |
| Lease obligations................................................................................. | 103 | **83** | **1,010** |
| Less: current portion............................................................................ | (28) | **(28)** | **(348)** |
| | ¥ 661 | **¥ 221** | **$ 2,693** |

Interest rates applicable to the long-term loans mentioned above ranged from 1.8% and 2.3% as of March 31, 2011 and 2012 respectively.

The aggregate annual maturities of long-term debt payable as of March 31, 2012 were as follows:

| As of March 31, | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2014.......................................................................................................... | **¥ 145** | **$ 1,773** |
| 2015.......................................................................................................... | **21** | **257** |
| 2016.......................................................................................................... | **—** | **—** |
| 2017.......................................................................................................... | **—** | **—** |
| | **¥ 166** | **$2,031** |

## 7. Income Taxes

In Japan, following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc., for the Purpose of Creating a Taxation System Responding to Changes in Economic and Social Structures” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011), effective from fiscal years beginning on and after April 1, 2012, corporate tax rates will be reduced and a special temporary recovery tax will be imposed. In accordance with this reform, the applicable income tax rate, used to measure deferred tax assets and deferred tax liabilities, will be reduced to38.0% from 39.7% for temporary differences and others that are expected to be realized during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014, and to 35.6% for temporary differences and others that are expected to be realized during and after the fiscal year beginning on April 1, 2015. The effects due to this change on income tax expense and other comprehensive income are immaterial.

The following table summarizes the significant differences between the statutory tax rate and the Companies’ effective tax rate for financial statement purpose for the years ended March 31, 2012 and 2011.

| | As of March 31 | |
|---|---|---|
| | 2011 | **2012** |
| Statutory tax rate | 39.7% | **39.7%** |
| Permanent differences-Entertainment expenses and other | 0.4 | **0.4** |
| Permanent differences-Dividend income and other | (4.8) | **(3.8)** |
| Per capita tax | 1.1 | **1.0** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | (2.0) | **(2.2)** |
| Dividends from consolidated subsidiaries | 4.4 | **3.4** |
| Undistributed earnings in foreign subsidiaries | — | — |
| Unrecording dererred tax assets to unrealized gain | 0.5 | **(0.3)** |
| Tax rate differences | (2.2) | **(3.8)** |
| Amortization of goodwill and impairment loss | — | — |
| Amortization of goodwill | 0.5 | **0.4** |
| Deficit of consolidated subsidiaries | 1.0 | **1.4** |
| Valuation allowance for deferred tax assets | (0.4) | **0.7** |
| Tax credit | (1.4) | **(1.9)** |
| Other-net | 0.8 | **3.6** |
| Effective tax rate | 37.6% | **38.6%** |

The significant components of the Companies’ deferred tax assets and liabilities as of March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Deferred tax assets: | | | |
| Inventories | ¥ 32 | **¥ 30** | **$ 374** |
| Depreciation | 63 | **65** | **796** |
| Intangible assets | 33 | **24** | **295** |
| Unrealized loss on valuation of other securities | 88 | **79** | **968** |
| Allowance for doubtful accounts | 34 | **34** | **420** |
| Accrued enterprise tax | 106 | **67** | **816** |
| Accrued employees’ bonuses | 236 | **267** | **3,250** |
| Excess allowance for retirement benefits | 298 | **266** | **3,246** |
| Impairment loss | 524 | **475** | **5,782** |
| Valuation allowance | (512) | **(500)** | **(6,095)** |
| Others | 153 | **179** | **2,182** |
| Total | ¥ 1,061 | **¥ 989** | **$12,038** |
| Deferred tax liabilities: | | | |
| Accumulated earnings of consolidated subsidiaries | ¥ 85 | **¥ 167** | **$ 2,038** |
| Reserve for deferred capital gains | 497 | **440** | **5,359** |
| Unrealized gain on available-for-sale securities | 572 | **426** | **5,185** |
| Others | 105 | **100** | **1,221** |
| Total | ¥ 1,260 | **¥ 1,134** | **$13,804** |
| Net deferred tax assets (liabilities) | ¥ (198) | **¥ (145)** | **$(1,765)** |

## 8. Lease assets

Periodic lease payments under financing lease contracts totaled ¥68 million and ¥53 million($ 648 thousand) for the years ended March 31, 2011 and 2012, respectively, and were charged to income.

The aggregate amounts of the future lease payment as of March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Amount due within one year | ¥ 51 | **¥ 22** | **$ 269** |
| Amount due after one year | 24 | **13** | **167** |
| | ¥ 76 | **¥ 35** | **$ 436** |

Interest expense is included in the above payment under financing leases.

An analysis of leased assets under financing lease contracts, which were not capitalized, as of March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Machinery and equipment and intangible assets | ¥ 340 | **¥ 291** | **$ 3,546** |
| Accumulated depreciation | (264) | **(255)** | **(3,105)** |
| Accumulated impairment loss | (0) | **(0)** | **(6)** |
| | ¥ 75 | **¥ 35** | **$ 434** |

Interest expense is included in the above assets under financing leases.

Depreciation is computed by a straight-line method over the term of lease contracts.

## 9. Research and Development Costs

Research and development costs are charged to income for the years ended March 31, 2011 and 2012 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Research and development costs | ¥ 709 | **¥ 958** | **$ 11,659** |

## 10. Impairment loss

Impairment loss on long-lived assets for the years ended March 31, 2011 and 2012 were as follows:

| | | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | | 2011 | **2012** | **2012** |
| Category of assets | Location | | | |
| Buildings and accompanying facilities | Ishikawa, Japan | ¥ — | **¥ 0** | **$ 2** |
| Machinery and equipment | Ishikawa, Japan | — | **100** | **1,226** |
| Construction in progress | Okayama,Japan | 86 | **—** | **—** |
| Tools, furniture and fixtures | Ishikawa, Japan | — | **1** | **13** |
| | | ¥ 86 | **¥ 102** | **$ 1,241** |

## 11. Other Income / (Expenses) — Other, net

Other income / (expenses) — Other, net consists of the following items:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Gain on insurance claims | ¥ 22 | **¥ 11** | **$ 133** |
| Return gain on allowance for bad debt | 10 | **—** | **—** |
| Exchange loss | (65) | **(51)** | **(626)** |
| Compensation for damage | (21) | **—** | **—** |
| Gain on donation of investment securities | 104 | **—** | **—** |
| Amortization of business commencement expenses | — | **(90)** | **(1,097)** |
| Other | 58 | **30** | **376** |
| | ¥ 107 | **¥ (99)** | **$ (1,213)** |

## 12. Other Comprehensive Income

| Years ending March 31, 2012 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Other consolidated comprehensive income for the year ended March 31, 2012 | | |
| Unrealized gain on available-for sale securities | | |
| Amount arising during the year | **¥(387)** | **$(4,720)** |
| Reclassification adjustments for gains and losses recognized in the income statement | **—** | **—** |
| Amount before tax effect adjustment | **(387)** | **(4,720)** |
| Tax effect | **146** | **1,776** |
| Total | **(241)** | **(2,943)** |
| Foreign currency translation adjustment | | |
| Amount arising during the year | **(95)** | **(1,156)** |
| Share of other comprehensive income of associates accounted for using the equity method | | |
| Amount arising during the year | **(198)** | **(2,420)** |
| Total | **¥ (535)** | **$ (6,520)** |

## 13. Retirement and severance benefits

The Company has adopted a corporate pension plan and a lump-sum pension plan, both of which are defined benefit plans. The Company also adopted a retirement benefit trust.

Domestic consolidated subsidiaries have adopted lump-sum pension plans, and calculated projected benefit obligations by the simplified method.

The Provision for employees' retirement benefits as of March 31, 2011 and 2012 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Projected benefit obligation | ¥(2,311) | **¥(2,150)** | **$(26,169)** |
| Fair value of plan assets | 1,435 | **1,334** | **16,232** |
| Unfunded retirement benefit obligation | (875) | **(816)** | **(9,937)** |
| Unrecognized actuarial loss | 625 | **533** | **6,493** |
| Net amount recognized in consolidated balance sheets | (250) | **(283)** | **(3,443)** |
| Prepaid retirement benefits cost in consolidated balance sheets | — | **—** | **—** |
| Provision for retirement benefits recognized in consolidated balance sheets | ¥ (250) | **¥ (283)** | **$ (3,443)** |

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

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Service cost | ¥ 179 | **¥ 186** | **$2,265** |
| Interest cost | 38 | **36** | **449** |
| Expected return on plan assets | (26) | **(23)** | **(289)** |
| Amortization of actuarial loss | 115 | **103** | **1,257** |
| Net periodic benefit costs | ¥ 308 | **¥ 302** | **$3,682** |

Actuarial assumption and the basis used in accounting for the Company's plans are principally as follows:
Discount rates for the years ended March 31, 2011 and 2012 were 1.9% and 1.9% respectively.
Expected rates of return for the years ended March 31, 2011 and 2012 were 1.9% and 1.9% respectively.
Actuarial gain / loss is recognized using the straight-line method over mainly 10 years from next fiscal year.

## 14. Segment information

Outline of reportable segments

Effective the fiscal year ended March 31, 2012, the Companies have adopted new accounting standards for disclosures about segments of an enterprise and related information. Segment information for the year ended March 31, 2011, has been restated in accordance with such accounting standards for comparative purposes.

notes:

Summary of report segment

The reportable segments of the Companies are components for which discrete financial information is available and whose operating results are regularly reviewed by the board of directors to make decisions about resource allocation and to assess performance.

The Companies divides the business into 2 segments: Specialty Steel & Wire Products Division-related business segment manufactures PC steel bars, deform PC steel bars, shear reinforcement bars for civil engineering and construction works, and high-strength steel spring wires (ITW), etc. mainly for automobile and motorcycle suspension springs. The Induction Heat Treatment Service and Heating Machine Division-related business segment provides induction heat treatment services for major security parts of automobiles and machine tools. The segment also manufactures auto parts and construction machine parts, as well as induction heating equipment for various industries.

Calculating methods of amounts of sales, profit (loss), assets and liabilities etc of each reportable segment

The accounting policies of the segments are substantially the same as those described in the "Summary of Significant Accounting Policies (Note 1)". Segment profit (loss) are based on operating income. Intersegment sales are mainly based on market price.

Operations in different industries:

(1) Specialty Steel and Wire Products Division: Prestressing Bars & Wires, Spiral Wires, etc.

(2) Induction Heat Treatment Service and Heating Machine Division: Surface heat treatment, Induction heating machine, automobile components, etc.

(3) Others: Leasing and others

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2011 | | | | |
| | Reportable segment | | | Others | Total |
| | (1) | (2) | Total | (3) | |
| Sales: | | | | | |
| Customers........................................................ | ¥17,710 | ¥20,695 | ¥38,405 | ¥ 187 | ¥38,592 |
| Inter-segment................................................... | — | 257 | 257 | — | 257 |
| Total................................................................. | 17,710 | 20,952 | 38,663 | 187 | 38,850 |
| Segment profit (loss)....................................... | 1,357 | 1,538 | 2,896 | 139 | 3,035 |
| Segment assets................................................. | 14,785 | 30,356 | 45,141 | 2,569 | 47,710 |
| Other items...................................................... | | | | | |
| Depreciation and amortization.................. | 719 | 1,800 | 2,519 | 219 | 2,738 |
| Increase in property, plant and equipment and intangible assets........................ | ¥ 91 | ¥ 858 | ¥ 949 | ¥ 423 | ¥ 1,372 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | Reportable segment | | | Others | Total |
| | (1) | (2) | Total | (3) | |
| Sales: | | | | | |
| Customers | **¥21,881** | **¥22,588** | **¥44,470** | **¥ 165** | **¥44,635** |
| Inter-segment | **—** | **224** | **224** | **—** | **224** |
| Total | **21,881** | **22,813** | **44,694** | **165** | **44,860** |
| Segment profit (loss) | **2,060** | **2,133** | **4,193** | **67** | **4,261** |
| Segment assets | **16,679** | **31,330** | **48,010** | **2,385** | **50,396** |
| Other items | | | | | |
| Depreciation and amortization | **669** | **1,762** | **2,432** | **230** | **2,662** |
| Increase in property, plant and equipment and intangible assets | **¥ 813** | **¥ 3,302** | **¥ 4,115** | **¥ 52** | **¥ 4,168** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | Reportable segment | | | Others | Total |
| | (1) | (2) | Total | (3) | |
| Sales: | | | | | |
| Customers | **$266,234** | **$274,829** | **$541,063** | **$ 2,018** | **$543,082** |
| Inter-segment | **—** | **2,735** | **2,735** | **—** | **2,735** |
| Total | **266,234** | **277,565** | **543,799** | **2,018** | **545,818** |
| Segment profit (loss) | **25,074** | **25,952** | **51,027** | **818** | **51,846** |
| Segment assets | **202,941** | **381,198** | **584,140** | **29,024** | **613,164** |
| Other items | | | | | |
| Depreciation and amortization | **8,150** | **21,443** | **29,594** | **2,803** | **32,398** |
| Increase in property, plant and equipment and intangible assets | **$ 9,897** | **$ 40,175** | **$ 50,073** | **$ 640** | **$ 50,713** |

Reconciliation between reportable segment total and amounts disclosed in consolidated financial statements

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Sales: | | | |
| Reportable segment total | ¥38,663 | **¥44,694** | **$543,799** |
| Sales in "Others" | 187 | **165** | **2,018** |
| Elimination of inter-segment transaction | (257) | **(224)** | **(2,735)** |
| Sales in consolidated financial statements | ¥38,592 | **¥44,635** | **$543,082** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Profit: | | | |
| Reportable segment total | ¥2,896 | **¥4,193** | **$51,027** |
| Profit in "Others" | 139 | **67** | **818** |
| Elimination of inter-segment transaction | — | **(53)** | **(650)** |
| Operating income in consolidated financial statements | ¥3,035 | **¥4,207** | **$51,195** |

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2011 | **2012** | **2012** |
| Assets: | | | |
| Reportable segment total | ¥45,141 | **¥48,010** | **$584,140** |
| Assets in "Others" | 2,569 | **2,385** | **29,024** |
| Corporate assets | 16,631 | **16,389** | **199,407** |
| Assets in consolidated financial statements | ¥64,342 | **¥66,785** | **$812,572** |

Other items are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2011 | | | |
| | Reportable segment | Others | Adjustments | Consolidated |
| Other items: | | | | |
| Depreciation and amortization....................................... | ¥2,519 | ¥219 | ¥35 | ¥2,774 |
| Increase in property, plant and equipment and intangible assets................................................. | ¥ 949 | ¥423 | ¥ 7 | ¥1,380 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | Reportable segment | Others | Adjustments | Consolidated |
| Other items: | | | | |
| Depreciation and amortization....................................... | **¥2,432** | **¥230** | **¥36** | **¥2,699** |
| Increase in property, plant and equipment and intangible assets................................................. | **¥4,115** | **¥52** | **¥16** | **¥4,184** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2012** | | | |
| | Reportable segment | Others | Adjustments | Consolidated |
| Other items: | | | | |
| Depreciation and amortization....................................... | **$29,594** | **$2,803** | **$445** | **$32,843** |
| Increase in property, plant and equipment and intangible assets................................................. | **$50,073** | **$ 640** | **$ 195** | **$50,909** |

Related information

Information about products and services

| | Millions of yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2012** | | | | | | |
| | PC steel bars | ITW | Heat treatment | Automobile component parts | Induction heating equipment | Others | Total |
| Sales: | | | | | | | |
| Customers............ | **¥13,386** | **¥7,407** | **¥11,498** | **¥5,684** | **¥5,233** | **¥1,424** | **¥44,635** |

| | Thousands of U.S. dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | **2012** | | | | | | |
| | PC steel bars | ITW | Heat treatment | Automobile component parts | Induction heating equipment | Others | Total |
| Sales: | | | | | | | |
| Customers............ | **$162,876** | **$90,131** | **$139,906** | **$69,164** | **$63,676** | **$17,326** | **$543,082** |

Information about geographical areas

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | **2012** | | | | |
| | Japan | Asia | North America | Others | Total |
| Net sales........................................... | **¥37,970** | **¥5,320** | **¥1,337** | **¥6** | **¥44,635** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | **2012** | | | | |
| | Japan | Asia | North America | Others | Total |
| Net sales........................................... | **$461,988** | **$64,729** | **$16,278** | **$84** | **$543,082** |

Note:Net sales is based on a customer's location and classified by countries.

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Japan | Asia | North America | Total |
| Property,plant and equipment.......... | **¥21,402** | **¥3,064** | **¥1,219** | **¥25,685** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2012 | | | |
| | Japan | Asia | North America | Total |
| Property,plant and equipment.......... | **$260,402** | **$37,281** | **$14,834** | **$312,517** |

Impairment loss of assets by reportable segment

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | (1) | (2) | (3) | Corporate and eliminations | Total |
| Impairment loss.............................. | **¥ —** | **¥ 102** | **¥ —** | **¥ —** | **¥ 102** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | (1) | (2) | (3) | Corporate and eliminations | Total |
| Impairment loss.............................. | **$ —** | **$ 1,241** | **$ —** | **$ —** | **$ 1,241** |

Amortization and unamortized balances of goodwill by reportable segment

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | (1) | (2) | (3) | Corporate and eliminations | Total |
| Amortization................................... | **¥ —** | **¥ 47** | **¥ —** | **¥ —** | **¥ 47** |
| Unamortized balances..................... | **¥ —** | **¥ 86** | **¥ —** | **¥ —** | **¥ 86** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | (1) | (2) | (3) | Corporate and eliminations | Total |
| Amortization................................... | **$ —** | **$ 580** | **$ —** | **$ —** | **$ 580** |
| Unamortized balances..................... | **$ —** | **$ 1,048** | **$ —** | **$ —** | **$ 1,048** |

## 15. Subsequent events

The following appropriations of unappropriated retained earnings were approved at the meeting of shareholders of the Company held on June 27, 2012.

| Cash dividends | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| ¥8 per share (applicable to the six-month period ended March 31, 2012) | ¥ 340 | $ 4,148 |

Independent Auditors' Report

To The Board of Directors of Neturen Co., Ltd.

We have audited the accompanying consolidated financial statements of Neturen Co., Ltd. and its subsidiaries, which comprise the consolidated balance sheet as of March 31, 2012, the consolidated statements of income and comprehensive income, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

*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 generally accepted accounting principles 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.

*Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audit 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 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, 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, 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 present fairly, in all material respects, the consolidated financial position of Neturen Co., Ltd. and its subsidiaries as of March 31, 2012, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

*Convenience translations*

The accompanying consolidated financial statements as of and for the year ended March 31, 2012 have been translated into United States dollars solely for the convenience of the reader. We have audited the translation and, in our opinion, the consolidated financial statements expressed in Japanese yen have been translated into dollars on the basis set forth in Note2 of the notes to consolidated financial statements.

Inoue Auditing Co., Inc.

Inoue Auditing Co.,Inc.

Tokyo, Japan

June 27, 2012

# CORPORATE DATA

**Head Office:**
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Tel:03-3443-5441
Fax:03-3449-3969
http://www.k-neturen.co.jp/

**Date of Establishment:**
May, 1946

**Paid-in Capital:**
¥6,418 million

**Common Stock:**
Authorized: 150,000,000 shares
Issued: 44,713,930 shares
Number of shareholders: 4,214

**Number of Employees:**
1,231(Consolidated)

(As of March 31, 2012)

**Directors and Corporate Auditors:**

**President (Representative Director)**
Tetsukazu Fukuhara

**Senior Managing Director**
Kazuhiro Kawasaki

**Managing Director**
Shigeru Mizoguchi    Yasuyuki Nakao

**Director**
Shinjiroh Motoki    Junichi Gohya    Katsumi Ohmiya
Tomokatsu Yasukawa    Makoto Saitoh

**Standing Corporate Auditor**
Megumi Numata

**Corporate Auditor**
Yoshitoshi Urabe    Hiroshi Yoshimine

(As of June 27, 2012)