New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements for the Years Ended March 31, 2011 and 2010, and Independent Auditors' Report

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
New Japan Radio Co., Ltd.:

We have audited the accompanying consolidated balance sheets of New Japan Radio Co., Ltd. (the "Company") and consolidated subsidiaries (together, the "Companies") as of March 31, 2011 and 2010, and the related consolidated statements of operations for the years then ended, the consolidated statement of comprehensive income for the year ended March 31, 2011, and the related consolidated statements of changes in equity, and cash flows for the years then ended, all expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of New Japan Radio Co., Ltd. and consolidated subsidiaries as of March 31, 2011 and 2010, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

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

June 15, 2011

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2011 and 2010

ASSETS	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 4,541	¥ 2,705	$ 54,617
Notes and accounts receivable:			
Trade notes (Note 15)	999	1,034	12,014
Trade accounts (Notes 5 and 15)	10,206	10,559	122,742
Unconsolidated subsidiaries	4		45
Other	303	352	3,642
Allowance for doubtful accounts	(1)		(14)
Inventories (Notes 4 and 5)	13,837	13,590	166,405
Deferred tax assets (Note 7)	41	36	490
Other current assets	175	264	2,110
Total current assets	30,105	28,540	362,051
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land	225	227	2,707
Buildings and structures	25,764	25,545	309,848
Machinery and equipment	62,810	61,800	755,380
Furniture and fixtures	11,871	11,611	142,770
Lease assets	87	73	1,047
Construction in progress	371	238	4,467
Total	101,128	99,494	1,216,219
Accumulated depreciation	(90,695)	(89,265)	(1,090,735)
Net property, plant and equipment	10,433	10,229	125,484
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3, 5 and 15)	297	1,645	3,572
Investments in unconsolidated subsidiaries	13		162
Intangibles	290	409	3,482
Deposits	357	591	4,294
Deferred tax assets (Note 7)	41	32	490
Other assets	107	114	1,293
Allowance for doubtful accounts	(112)	(121)	(1,353)
Total investments and other assets	993	2,670	11,940
TOTAL	¥ 41,531	¥ 41,439	$ 499,475

LIABILITIES AND EQUITY	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars (Note 1) 2011
CURRENT LIABILITIES:			
Short-term bank loans (Notes 5 and 15)	¥ 808	¥ 1,212	$ 9,717
Current portion of long-term debt (Notes 5, 14 and 15)	1,518	1,502	18,253
Notes and accounts payable:			
Trade accounts (Note 15)	4,917	5,012	59,128
Construction and other	1,635	561	19,668
Income taxes payable	210	146	2,526
Accrued expenses	3,017	2,362	36,284
Deferred tax liabilities (Note 7)	53	43	642
Other current liabilities	265	415	3,189
Total current liabilities	12,423	11,253	149,407
LONG-TERM LIABILITIES:			
Long-term debt (Notes 5, 14 and 15)	9,323	10,324	112,119
Liability for retirement benefits (Note 6)	7,658	7,917	92,096
Provision for environmental measures	21	21	252
Asset retirement obligations (Note 17)	58		694
Deferred tax liabilities (Note 7)	79	139	952
Other long-term liabilities	389	460	4,686
Total long-term liabilities	17,528	18,861	210,799
CONTINGENT LIABILITIES (Note 14)			
EQUITY (Note 8):			
Common stock—authorized, 138,000,000 shares; issued, 39,131,000 shares in 2011 and 2010	5,220	5,220	62,779
Additional paid-in capital	5,224	5,224	62,825
Retained earnings	1,950	1,456	23,456
Treasury stock—at cost, 6,781 shares in 2011 and 6,505 shares in 2010	(3)	(3)	(42)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	85	194	1,019
Deferred loss on derivatives under hedge accounting	(1)	(1)	(7)
Foreign currency translation adjustments	(895)	(765)	(10,761)
Total equity	11,580	11,325	139,269
TOTAL	¥ 41,531	¥ 41,439	$ 499,475

See notes to consolidated financial statements.

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
NET SALES	¥ 45,613	¥ 40,288	$ 548,565
COST OF SALES (Note 9)	37,269	35,552	448,219
Gross profit	8,344	4,736	100,346
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Note 9)	7,583	7,491	91,192
Operating income (loss)	761	(2,755)	9,154
OTHER INCOME (EXPENSES):			
Interest and dividend income	35	35	418
Interest expense	(272)	(239)	(3,276)
Foreign exchange losses	(120)	(45)	(1,447)
Loss on sales and disposals of property, plant and equipment	(28)	(26)	(334)
Gain on sales of waste	113	63	1,359
Gain on sales of investment securities	771		9,274
Employment adjustment subsidy	242	129	2,905
Commission for syndicate loan	(46)	(235)	(549)
Business structure improvement expenses (Note 10)	(565)	(376)	(6,792)
Provision for environmental measures		(21)	
Loss on adoption of accounting standard for asset retirement obligations	(34)		(411)
Losses from a natural disaster (Note 11)	(139)		(1,676)
Other—net (Note 12)	18	48	224
Other expenses—net	(25)	(667)	(305)
INCOME (LOSS) BEFORE INCOME TAXES AND MINORITY INTERESTS	736	(3,422)	8,849
INCOME TAXES (Note 7):			
Current	234	110	2,804
Deferred	8	6,479	94
Total income taxes	242	6,589	2,898
NET INCOME BEFORE MINORITY INTERESTS	494		5,951
NET INCOME (LOSS)	¥ 494	¥ (10,011)	$ 5,951

(Continued)

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations
Years Ended March 31, 2011 and 2010

	Yen		U.S. Dollars
	2011	2010	2011
PER SHARE OF COMMON STOCK—Basic net income (loss) (Notes 2.s and 20)	¥ 12.65	¥ (255.88)	$ 0.15

See notes to consolidated financial statements.

(Concluded)

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2011

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
	2011	2011
NET INCOME BEFORE MINORITY INTERESTS	¥ 494	$ 5,951
OTHER COMPREHENSIVE LOSS (Note 13):		
Unrealized loss on available-for-sale securities	(109)	(1,317)
Deferred gain on derivatives under hedge accounting		5
Foreign currency translation adjustments	(130)	(1,564)
Total other comprehensive loss	(239)	(2,876)
COMPREHENSIVE INCOME (Note 13)	¥ 255	$ 3,075
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO—		
Owners of the parent (Note 13)	¥ 255	$ 3,075

See notes to consolidated financial statements.

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2011 and 2010

	Thousands	Millions of Yen							
						Accumulated Other Comprehensive Income			
	Issued Number of Shares of Common Stock	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock—At Cost	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Equity
BALANCE, APRIL 1, 2009	39,131	¥ 5,220	¥ 5,224	¥ 11,545	¥ (3)	¥ 98		¥ (767)	¥ 21,317
Net loss				(10,011)					(10,011)
Cash dividends, ¥2 per share				(78)					(78)
Net increase in unrealized gain on available-for-sale securities						96			96
Deferred loss on derivatives under hedge accounting							¥ (1)		(1)
Net increase in foreign currency translation adjustments								2	2
Increase in treasury stock (1,192 shares)									
BALANCE, MARCH 31, 2010	39,131	5,220	5,224	1,456	(3)	194	(1)	(765)	11,325
Net income				494					494
Net decrease in unrealized gain on available-for-sale securities						(109)			(109)
Deferred gain on derivatives under hedge accounting									
Net decrease in foreign currency translation adjustments								(130)	(130)
Increase in treasury stock (276 shares)									
BALANCE, MARCH 31, 2011	39,131	¥ 5,220	¥ 5,224	¥ 1,950	¥ (3)	¥ 85	¥ (1)	¥ (895)	¥ 11,580

	Thousands of U.S. Dollars (Note 1)							
					Accumulated Other Comprehensive Income			
	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock—At Cost	Unrealized Gain on Available-for-Sale Securities	Deferred Loss on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Total Equity
BALANCE, MARCH 31, 2010	$ 62,779	$ 62,825	$ 17,505	$ (41)	$ 2,336	$ (12)	$ (9,197)	$ 136,195
Net income			5,951					5,951
Net decrease in unrealized gain on available-for-sale securities					(1,317)			(1,317)
Deferred gain on derivatives under hedge accounting						5		5
Net decrease in foreign currency translation adjustments							(1,564)	(1,564)
Increase in treasury stock (276 shares)				(1)				(1)
BALANCE, MARCH 31, 2011	$ 62,779	$ 62,825	$ 23,456	$ (42)	$ 1,019	$ (7)	$ (10,761)	$ 139,269

See notes to consolidated financial statements.

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
OPERATING ACTIVITIES:			
Income (loss) before income taxes and minority interests	¥ 736	¥ (3,422)	$ 8,849
Adjustments for:			
Income taxes paid	(152)	(52)	(1,829)
Depreciation and amortization	3,296	3,476	39,640
Loss on sales and disposals of property, plant and equipment	28	26	334
Loss on adoption of accounting standard for asset retirement obligations	34		411
Gain on sales of investment securities	(771)		(9,274)
Changes in assets and liabilities:			
Increase in allowance for doubtful accounts	2	6	23
Decrease in liability for retirement benefits	(259)	(661)	(3,118)
Increase in provision for environmental measures		21	
Decrease in interest payable	(2)	(13)	(28)
Increase (decrease) in commission for syndicate loan payable	46	(16)	550
Decrease (increase) in notes and accounts receivable	256	(2,588)	3,087
(Increase) decrease in inventories	(327)	2,133	(3,937)
Increase in notes and accounts payable	37	1,300	453
Other—net	621	(304)	7,476
Total adjustments	2,809	3,328	33,788
Net cash provided by (used in) operating activities	3,545	(94)	42,637
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,331)	(465)	(28,038)
Proceeds from sales of property, plant and equipment	4	2	45
Purchases of investment securities	(15)	(1)	(177)
Proceeds from sales of investment securities	1,935		23,271
Other—net	149	(68)	1,798
Net cash used in investing activities	(258)	(532)	(3,101)
FORWARD	¥ 3,287	¥ (626)	$ 39,536

(Continued)

New Japan Radio Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2011 and 2010

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2011	2010	2011
FORWARD	¥ 3,287	¥ (626)	$ 39,536
FINANCING ACTIVITIES:			
Net change in short-term bank loans	(407)	(11,935)	(4,895)
Proceeds from long-term debt	500	10,300	6,013
Repayments of long-term debt	(1,490)	(255)	(17,916)
Repurchase of treasury stock			(1)
Cash dividends paid		(79)	(2)
Other—net	(14)	(17)	(166)
Net cash used in financing activities	(1,411)	(1,986)	(16,967)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(40)	(1)	(482)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,836	(2,613)	22,087
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,705	5,318	32,530
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 4,541	¥ 2,705	$ 54,617

See notes to consolidated financial statements.

(Concluded)

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

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

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the year ended March 31, 2010 is disclosed in Note 13. In addition, "net income before minority interests" is disclosed in the consolidated statement of operations from the year ended March 31, 2011.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2010 consolidated financial statements to conform to the classifications used in 2011.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which New Japan Radio Co., Ltd. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥83.15 to U.S.$1, the approximate rate of exchange at March 31, 2011. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements as of March 31, 2011 include the accounts of the Company and its nine significant (nine in 2010) subsidiaries (together, the "Companies").

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

Investments in two unconsolidated subsidiaries (zero in 2010) are accounted for on the cost basis. The effect on the consolidated financial statements of not applying the equity method is immaterial.

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

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

c. ***Cash and Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

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

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

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income as a separate component of equity.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

f. ***Marketable and Investment Securities***—All marketable securities the Companies own are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. The cost of securities sold is determined based on the moving-average method.

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

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

g. ***Inventories***—Merchandise and finished goods are stated at the lower of cost, determined by the moving-average method, or net selling value. Raw materials and supplies are stated at the lower of cost, determined by the average method, or net selling value. Work in process is stated at the lower of cost, determined by the average method or using the specific identification method, or net selling value.

h. ***Property, Plant and Equipment***—Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Companies is computed by the declining-balance method at rates based upon the usage of the assets over the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998, and lease assets of the Company and its domestic subsidiaries.

Estimated useful lives are as follows:

Buildings and structures	2 to 60 years
Machinery and equipment	2 to 17 years
Furniture and fixtures	2 to 20 years

The useful lives for lease assets are the terms of the respective leases.

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

j. ***Intangibles***—Intangibles are carried at cost less accumulated amortization, which is calculated by the straight-line method principally over 3 to 10 years.

k. ***Retirement Benefits***—Since April 1, 2007, the Company has a cash balance pension plan covering employees with 20 years or more of service or employees retiring over the age of 55 with 15 years or more of service.

The Companies account for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

l. ***Asset Retirement Obligations***—In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful lives of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

The Companies applied this accounting standard effective April 1, 2010. The effect of this change was to decrease operating income by ¥4 million ($45 thousand) and income before taxes and minority interest by ¥38 million ($456 thousand). The Companies recorded asset retirement obligations of ¥58 million ($694 thousand) as of March 31, 2011.

m. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Companies' past credit loss experience and an evaluation of potential losses in the receivables outstanding.

n. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued in the year to which such bonuses are attributable.

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

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

The Companies file a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

q. Leases—In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

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

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

All other leases are accounted for as operating leases.

r. ***Derivative Financial Instruments***—The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. Derivative transactions entered into by the Companies have been made in accordance with internal policies which regulate the authorization and credit limit amount. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value and gains or losses on derivative transactions are recognized in the statements of operations or (2) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until maturity of the hedged transactions.

The following summarizes derivative financial instruments used by the Company and its foreign subsidiaries for hedging purposes and the corresponding items hedged:

Hedging Instruments	Hedged Items
Foreign currency forward contracts	Forecasted transactions
Interest rate swaps	Long-term debt

The foreign currency forward contracts employed to hedge foreign exchange exposures to export sales are measured at fair value and the unrealized gains/losses are recognized in income. The foreign exchange forward contracts applied to forecasted transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

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

s. ***Per Share Information***—Basic net income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits. The average number of common shares used in the computation was 39,124,256 shares and 39,125,236 shares for 2011 and 2010, respectively.

Diluted net income per share reflects the potential dilution that could occur if securities were exercised into common stock. Diluted net income per share of common stock assumes full exercise of outstanding warrants.

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

t. ***Provision for Environmental Measures***—Provision for environmental measures is provided at an estimate of the amount required to dispose PCB (polychlorinated biphenyl) waste under the law concerning special measures for PCB waste.

u. ***New Accounting Pronouncements***

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

(1) *Changes in accounting policies*

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

(2) *Changes in presentation*

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

(3) *Changes in accounting estimates*

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

(4) *Corrections of prior period errors*

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

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

3. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Non-current:			
Marketable equity securities	¥ 290	¥ 1,638	$ 3,487
Trust fund investments and other	7	7	85
Total	¥ 297	¥ 1,645	$ 3,572

The cost and aggregate fair values of marketable and investment securities at March 31, 2011 and 2010 were as follows:

	Millions of Yen			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	¥ 144	¥ 150	¥ 4	¥ 290
Total	¥ 144	¥ 150	¥ 4	¥ 290

	Millions of Yen			
	2010			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	¥ 1,312	¥ 329	¥ 3	¥ 1,638
Total	¥ 1,312	¥ 329	¥ 3	¥ 1,638

	Thousands of U.S. Dollars			
	2011			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale—Equity securities	$ 1,733	$ 1,799	$ 45	$ 3,487
Total	$ 1,733	$ 1,799	$ 45	$ 3,487

Proceeds from the sale of available-for-sale equity securities for the year ended March 31, 2011 were ¥1,935 million ($23,271 thousand). Gross realized gain on this sale, computed on the moving average cost basis, was ¥771 million ($9,274 thousand) for the year ended March 31, 2011.

There are no available-for-sale equity securities which were sold during the year ended March 31, 2010.

The impairment losses on available-for-sale equity securities for the years ended March 31, 2011 and 2010 were ¥5 million ($60 thousand) and ¥3 million, respectively.

4. INVENTORIES

Inventories at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Merchandise	¥ 56	¥ 53	$ 677
Finished goods	4,138	3,981	49,764
Work in process	7,095	7,315	85,327
Raw materials	1,476	1,269	17,750
Supplies	1,072	972	12,887
Total	¥ 13,837	¥ 13,590	$ 166,405

5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2011 and 2010 consisted of notes to banks. The weighted average interest rates applicable to the short-term bank loans as of March 31, 2011 and 2010 were 1.57% and 1.46%, respectively.

Long-term debt at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loans from banks and other financial institutions, due serially to 2016 with interest rates ranging from 1.74% to 5.97% (2011) and from 1.12% to 5.97% (2010):			
Collateralized*	¥ 9,997	¥ 11,405	$ 120,228
Unsecured	802	386	9,643
Obligations under finance leases	42	35	501
Total	10,841	11,826	130,372
Less current portion	(1,518)	(1,502)	(18,253)
Long-term debt, less current portion	¥ 9,323	¥ 10,324	$ 112,119

* Includes long-term debt under term-loan contracts of ¥9,000 million ($108,238 thousand) and ¥10,000 million at March 31, 2011 and 2010, respectively.

Annual maturities of long-term debt, excluding obligations under finance leases (see Note 14) at March 31, 2011 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 1,504	$ 18,089
2013	8,547	102,791
2014	465	5,589
2015	173	2,079
2016 and thereafter	110	1,323
Total	¥ 10,799	$ 129,871

The carrying amounts of assets pledged collateral for short-term bank loans and long-term debt at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Trade accounts*[2]	¥ 3,852	¥ 4,494	$ 46,327
Finished goods*[2]	2,969	2,929	35,706
Work in process*[2]	5,473	5,887	65,818
Raw materials and supplies*[2]	1,489	1,322	17,906
Buildings*[1]	3,371	3,732	40,541
Land*[1]	140	140	1,686
Marketable and investment securities*[3]	282	1,630	3,392
Total	¥ 17,576	¥ 20,134	$ 211,376

2011

*[1] The Company took out a mortgage on the above building and land for ¥950 million ($11,425 thousand) long-term debt, and joint revolving mortgage which has maximum amount of ¥6,650 million ($79,976 thousand) for ¥9,000 million ($108,238 thousand) long-term debt.

*[2] The Company took out a revolving mortgage on above current assets "Trade accounts, Finished goods, Work in process, Raw materials and supplies" for ¥9,000 million ($108,238 thousand) long-term debt.

*[3] The Company created a revolving pledge on above marketable and investment securities for ¥9,047 million ($108,803 thousand) long-term debt.

2010

*[1] The Company took out a mortgage on the above building and land for ¥1,290 million long-term debt, and joint revolving mortgage which has maximum amount of ¥6,650 million for ¥10,000 million long-term debt and ¥400 million short-term loans.

*[2] The Company took out a revolving mortgage on above current assets "Trade accounts, Finished goods, Work in process, Raw materials and supplies" for ¥10,000 million long-term debt.

*[3] The Company created a revolving pledge on above marketable and investment securities for ¥10,115 million long-term debt and ¥400 million short-term loans.

In order to flexibly source funds for its operations, the Company entered into a term-loan contract for ¥10,000 million and a loan commitment contract with six banks (a lead bank being Mizuho Corporate Bank Ltd.) by the syndication method on September 25, 2009.

These contracts have certain debt covenants consisting of the following:

(1) At the end of each fiscal year, the total amount of equity excluding deferred tax assets and foreign currency translation adjustments shown in each balance sheet of the Companies must equal or exceed 70% of the total amount of equity at the end of March 31, 2009.

(2) Operating income in the consolidated statement of operations must not be negative for two consecutive fiscal years on or after March 31, 2010.

In addition, the parent company (Nisshinbo Holdings Inc.) must keep a designated ratio of the stock holdings.

Utilizations of the lines of credit under the loan commitment contract as of March 31, 2011 and 2010 are summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Total lines of credit	¥ 3,000	¥ 5,000	$ 36,079
Utilized			
Unutilized	¥ 3,000	¥ 5,000	$ 36,079

6. RETIREMENT BENEFITS

The Company and its domestic subsidiaries maintain pension plans for their employees. The plans provide for lump-sum payments to terminated employees who have two years or more of continuous service.

Since April 1, 2007, the Company had a cash balance pension plan covering employees with 20 years or more of service or employees retiring over the age of 55 with 15 years or more of service.

Certain foreign subsidiaries have a contributory funded pension plan covering only employees who have one year or more of continuous service.

Retirement allowances for employees are determined on the basis of length of service and current basic salary at the time of termination. If the termination is involuntary, the employee is usually entitled to greater payments than in the case of voluntary termination.

The liability for employees' retirement benefits at March 31, 2011 and 2010 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Projected benefit obligation	¥ 16,002	¥ 15,592	$ 192,449
Fair value of plan assets	(6,816)	(6,045)	(81,970)
Unrecognized actuarial loss	(1,528)	(1,630)	(18,383)
Net liability	¥ 7,658	¥ 7,917	$ 92,096

The components of net periodic benefit costs are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Service cost	¥ 802	¥ 844	$ 9,648
Interest cost	312	310	3,748
Expected return on plan assets	(174)	(136)	(2,094)
Recognized actuarial loss	192	226	2,314
Net periodic benefit costs	¥ 1,132	¥ 1,244*	$ 13,616

* The Company and its subsidiaries paid ¥230 million as a premium on retirement benefits and recorded it as business structure improvement expense in other expense for the year ended March 31, 2010.

Assumptions used for the years ended March 31, 2011 and 2010 are set forth as follows:

	2011	2010
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.9%	2.8%
Recognition period of actuarial gain/loss	15 years	15 years
Amortization period of prior service cost	1 year	1 year

7. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.4% for the years ended March 31, 2011 and 2010.

The tax effects of significant temporary differences and loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2011 and 2010, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Current			
Deferred tax assets:			
Inventories	¥ 337	¥ 165	$ 4,057
Accrued bonuses	412	292	4,954
Accrued enterprise tax	50	29	604
Others	121	78	1,452
Valuation allowance	(879)	(528)	(10,577)
Total	¥ 41	¥ 36	$ 490
Deferred tax liabilities—Inventories	¥ 53	¥ 43	$ 642
Total	¥ 53	¥ 43	$ 642

	Millions of Yen 2011	Millions of Yen 2010	Thousands of U.S. Dollars 2011
Non-current			
Deferred tax assets:			
Liability for retirement benefits	¥ 3,136	¥ 3,221	$ 37,718
Tax loss carryforwards	4,197	4,448	50,468
Others	168	194	2,019
Valuation allowance	(7,452)	(7,823)	(89,621)
Total	49	40	584
Offset with deferred tax liabilities	(8)	(8)	(94)
Net deferred tax assets	¥ 41	¥ 32	$ 490
Deferred tax liabilities:			
Undistributed earnings of subsidiaries	¥ 17	¥ 14	$ 205
Unrealized gain on available-for-sale securities	61	132	735
Others	9	1	106
Total	87	147	1,046
Offset with deferred tax assets	(8)	(8)	(94)
Net deferred tax liabilities	¥ 79	¥ 139	$ 952

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of operations for the years ended March 31, 2011 and 2010, is as follows:

	2011	2010
Normal effective statutory tax rate	40.4 %	40.4 %
Taxation on per capita basis	2.3	(0.5)
Expenses not deductible for income tax purposes	(4.3)	1.1
Lower income tax rates applicable to income in certain foreign countries	(0.9)	(0.1)
Valuation allowance	(0.3)	(233.9)
Others—net	(4.4)	0.4
Actual effective tax rate	32.8 %	(192.6) %

At March 31, 2011, the Companies had tax loss carryforwards aggregating approximately ¥9,993 million ($120,185 thousand) which are available to be offset against taxable income of the Companies in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2012	¥ 49	$ 589
2013	122	1,461
2014	149	1,800
2015	163	1,962
2016 and thereafter	9,510	114,373
Total	¥ 9,993	$ 120,185

8. EQUITY

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

a. *Dividends*

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

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

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

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

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

c. *Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

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

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

9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥4,811 million ($57,861 thousand) and ¥4,273 million for the years ended March 31, 2011 and 2010, respectively.

10. BUSINESS STRUCTURE IMPROVEMENT EXPENSES

Under all aspects of general management, the Companies promoted rationalization and efficiency, and reviewed inventories mainly in the semiconductors segment. As the result, the Companies accounted for disposal costs of inventories as business structure improvement expenses for the year ended March 31, 2011.

For the year ended March 31, 2010, business structure improvement expenses included a premium on retirement benefits amounting to ¥376 million resulting from early retirement of sub-employees at the Company and certain of its consolidated subsidiaries.

11. LOSSES FROM A NATURAL DISASTER

Losses from a natural disaster for the year ended March 31, 2011 represent losses from the Great East Japan Earthquake consisting of the following:

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Expenses to restore the damaged assets to original state	¥ 19	$ 228
Fixed cost during the suspension of operations	120	1,442
Others		6
Total	¥ 139	$ 1,676

12. OTHER INCOME (EXPENSES)—OTHER—NET

Other income (expenses)—other—net consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Loss on damages	¥ (23)	¥ (32)	$ (273)
Gain on damages	54	34	655
Gain on sales of property, plant and equipment	1	1	17
Other—net	(14)	45	(175)
Total	¥ 18	¥ 48	$ 224

13. COMPREHENSIVE INCOME

Total comprehensive income for the year ended March 31, 2010 comprises the following:

	Millions of Yen
	2010
Total comprehensive loss attributable to—Owners of the parent	¥ (9,914)
Total comprehensive loss	¥ (9,914)

Other comprehensive income for the year ended March 31, 2010 consists of the following:

	Millions of Yen
	2010
Other comprehensive income:	
Unrealized gain on available-for-sale securities	¥ 96
Deferred loss on derivatives under hedge accounting	(1)
Foreign currency translation adjustments	2
Total other comprehensive income	¥ 97

14. LEASES

The Company and domestic subsidiaries have several lease agreements relating to office space, computer equipment and circuit equipment. Total lease payments under finance lease agreements that do not transfer ownership of the leased property to the Company and domestic subsidiaries were ¥61 million ($731 thousand) and ¥95 million for the years ended March 31, 2011 and 2010, respectively.

Obligations under finance leases accounted for as long-term debt and future minimum payments under noncancelable operating leases at March 31, 2011 and 2010 were as follows:

	Millions of Yen				Thousands of U.S. Dollars	
	2011		2010		2011	
	Finance Leases	Operating Leases	Finance Leases	Operating Leases	Finance Leases	Operating Leases
Due within one year	¥ 14	¥ 132	¥ 12	¥ 137	$ 164	$ 1,584
Due after one year	28	717	23	717	337	8,629
Total	¥ 42	¥ 849	¥ 35	¥ 854	$ 501	$ 10,213

ASBJ Statement No. 13, "Accounting Standard for Lease Transactions" requires that all finance lease transactions be capitalized to recognize lease assets and lease obligations in the balance sheet. However, ASBJ Statement No. 13 permits leases that do not transfer ownership of the leased property to the lessee and whose lease inception was before March 31, 2008 to continue to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the notes to the financial statements. The Companies applied ASBJ Statement No. 13 effective April 1, 2008 and continued to account for such leases as operating lease transactions. Pro forma information of leased property whose lease inception was before March 31, 2008 on an "as if capitalized" basis was as follows:

	Millions of Yen				Thousands of U.S. Dollars			
	2011				2011			
	Machinery and Equipment	Furniture and Fixtures	Other	Total	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥4	¥ 113	¥ 143	¥ 260	$ 52	$ 1,356	$ 1,719	$ 3,127
Accumulated depreciation	3	95	135	233	36	1,143	1,628	2,807
Net leased property	¥1	¥ 18	¥ 8	¥ 27	$ 16	$ 213	$ 91	$ 320

	Millions of Yen			
	2010			
	Machinery and Equipment	Furniture and Fixtures	Other	Total
Acquisition cost	¥ 23	¥ 147	¥ 166	¥ 336
Accumulated depreciation	20	105	127	252
Net leased property	¥ 3	¥ 42	¥ 39	¥ 84

Obligations under finance leases as of March 31, 2011 and 2010 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Due within one year	¥ 25	¥ 59	$ 304
Due after one year	3	28	32
Total	¥ 28	¥ 87	$ 336

The imputed interest expense portion, which is computed using the interest method, is excluded from the above obligations under finance leases.

Depreciation expense and interest expense under finance leases for the years ended March 31, 2011 and 2010, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Depreciation expense	¥ 58	¥ 90	$ 690
Interest expense	1	3	16
Total	¥ 59	¥ 93	$ 706

Depreciation expense and interest expense, which are not reflected in the accompanying consolidated statements of operations, are computed by the straight-line method and the interest method, respectively.

15. FINANCIAL INSTRUMENTS

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Companies applied the revised accounting standard and the guidance effective March 31, 2010.

(1) *Group Policy for Financial Instruments*

The Company and its subsidiaries raise capital for its operations and capital investment by borrowing from major international financial institutions. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

(a) Receivables such as trade notes and trade accounts are exposed to customer credit risk. Receivables in foreign currencies are exposed to the risk of fluctuation in foreign currency exchange rates.

(b) Marketable and investment securities, mainly equity instruments of customers and suppliers of the Companies, are exposed to the risk of market price fluctuations.

(c) Payment terms of payables, such as trade accounts, are less than one year. Such payables are exposed to liquidity risk. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency.

(d) Short-term debt is used for its operations. Long-term debt is used for capital investment and its ongoing operations. Maturities of bank loans are less than four years and eleven months after the balance sheet date. Such bank loans are exposed to liquidity risk, and a part of such bank loans are exposed to risk of changes in variable interest rates.

(e) Derivatives mainly include forward foreign currency contracts and interest-rate swaps, which are used to manage exposures to changes in foreign currency exchange rates of receivables and forecasted transactions. Derivatives are exposed to the credit risk from default of contract.

Please see Note 16 for more detail about derivatives.

(3) *Risk Management for Financial Instruments*

(*a*) *Credit risk management*

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Companies manage the credit risk from receivables on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers and reviewing their credit condition regularly.

The Company enters into forward foreign currency contracts to the extent of actual demand, and utilizes derivatives by major international financial institutions to mitigate risk default. Subsidiaries have no derivative transactions.

(*b*) *Market risk management*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged by using forward foreign currency contracts to the extent necessary to actual demand.

Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of bank loans.

Marketable and investment securities are managed by monitoring market values and the financial position of issuers on a regular basis and reviewing their equity holding condition in consideration of the relationship with the customers and suppliers.

(*c*) *Liquidity risk management*

Liquidity risk comprises the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by the adequate financial planning by the corporate treasury department and a loan commitment contract by the syndication method. Subsidiaries manage their liquidity risks by the adequate financial planning.

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

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. Please see Note 16 for the detail of the fair value of derivatives.

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

	Millions of Yen		
	2011		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 4,541	¥ 4,541	
Notes and accounts receivable*[1]	11,204	11,204	
Investment securities	290	290	
Total	¥ 16,035	¥ 16,035	
Notes and accounts payable*[2]	¥ 4,917	¥ 4,917	
Short-term bank loans	808	808	
Long-term debt*[3]	10,799	10,832	¥ (33)
Total	¥ 16,524	¥ 16,557	¥ (33)
Derivatives*[4]	¥ (26)	¥ (26)	

	Millions of Yen		
	2010		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	¥ 2,705	¥ 2,705	
Notes and accounts receivable*[1]	11,593	11,593	
Investment securities	1,638	1,638	
Total	¥ 15,936	¥ 15,936	
Notes and accounts payable*[2]	¥ 5,012	¥ 5,012	
Short-term bank loans	1,212	1,212	
Long-term debt*[3]	11,791	11,823	¥ (32)
Total	¥ 18,015	¥ 18,047	¥ (32)
Derivatives*[4]	¥ (59)	¥ (59)	

	Thousands of U.S. Dollars		
	2011		
	Carrying Amount	Fair Value	Unrealized Gain/Loss
Cash and cash equivalents	$ 54,617	$ 54,617	
Notes and accounts receivable*[1]	134,742	134,742	
Investment securities	3,488	3,488	
Total	$ 192,847	$ 192,847	
Notes and accounts payable*[2]	$ 59,128	$ 59,128	
Short-term bank loans	9,717	9,717	
Long-term debt*[3]	129,871	130,264	$ (393)
Total	$ 198,716	$ 199,109	$ (393)
Derivatives*[4]	$ (310)	$ (310)	

*[1] Include trade notes and trade accounts, and exclude unconsolidated subsidiaries and other receivables.

*[2] Include trade accounts, and exclude construction and other payables.

*[3] Include current portion of long-term debt and exclude obligation under finance leases.

*[4] Net receivables and payables derived from derivative transactions are presented. Values in parenthesis show net liabilities.

Asset

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Notes and Accounts Receivable

The carrying values of notes and accounts receivable approximate fair value because of their short maturities. In addition, the fair value and the carrying value are presented after deducting the allowance for doubtful receivables.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for equity instruments. Information on the fair value of the investment securities by classification is included in Note 3.

Liabilities

Notes and Accounts Payables and Short-Term Bank Loans

The carrying values of notes and accounts payable and short-term bank loans approximate fair value because of their short maturities.

Long-Term Debt

The fair value of long-term debt is determined by discounting cash flows related to the debt at the corporate borrowing rates that would presumably apply if similar borrowing were newly made.

Regarding the floating-rate long-term debt, the Company enters into interest rate swap as a means of managing its interest rate exposure. The fair value of this debt is determined by discounting the cash flows including principal and interest related to the debt at the corporate borrowing rates that would presumably apply if similar borrowing were newly made.

Derivatives

Information on the fair value of derivatives is included in Note 16.

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

Investments in unconsolidated subsidiaries and investments in equity instruments that do not have a quoted—market price in an active market at March 31, 2011 and 2010 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Investments in unconsolidated subsidiaries	¥ 13		$ 162
Investments in equity instruments that do not have a quoted—market price in an active market	7	¥ 7	85

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

	Due in One Year or Less		
	Millions of Yen		Thousands of U.S. Dollars
	2011	2010	2011
Cash and cash equivalents	¥ 4,541	¥ 2,705	$ 54,617
Notes and accounts receivable	11,205	11,593	134,756
Total	¥ 15,746	¥ 14,298	$ 189,373

Please see Note 5 for annual maturities of long-term debt.

16. DERIVATIVES

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets denominated in foreign currencies and forecasted transactions. The Companies also enter into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated in financing activities. The Companies do not hold or issue derivatives for trading purposes.

Because the counterparties to these derivatives are limited to major international financial institutions, the Companies do not anticipate any losses arising from credit risk.

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

Derivative Transactions to Which Hedge Accounting Is Not Applied at March 31, 2011 and 2010

	Millions of Yen		
	2011		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	¥ 1,471	¥ (25)	¥ (25)

	Millions of Yen		
	2010		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	¥ 1,467	¥ (59)	¥ (59)

	Thousands of U.S. Dollars		
	2011		
	Contract Amount	Fair Value	Unrealized Gain/Loss
Foreign currency forward contracts—Selling U.S.$	$ 17,693	$ (303)	$ (303)

Derivative Transactions to Which Hedge Accounting Is Applied at March 31, 2011 and 2010

		Millions of Yen		
		2011		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts—Selling U.S.$	Receivables	¥ 830		¥ (1)
Interest rate swaps—fixed rate payment, floating rate receipt	Long-term debt	9,000	¥ 8,000	

		Millions of Yen		
		2010		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts—Selling U.S.$	Receivables	¥ 873		¥ (1)
Interest rate swaps—fixed rate payment, floating rate receipt	Long-term debt	10,000	¥ 9,000	

		Thousands of U.S. Dollars		
		2011		
	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts—Selling U.S.$	Receivables	$ 9,980		$ (7)
Interest rate swaps—fixed rate payment, floating rate receipt	Long-term debt	108,238	$ 96,212	

The above interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value but the differential paid or received under the swap agreements is recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps in Note 15 is included in that of hedged items.

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

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

17. ASSET RETIREMENT OBLIGATIONS

Asset retirement obligations are expenses for removing harmful materials (under the Ordinance on Prevention of Asbestos Hazards) used in buildings and expenses related to the obligation of restoration associated with real estate lease agreements for buildings.

Asset retirement obligations are calculated on the assumption of prospective useful lives of 3 years to 30 years and discount rates of 0.553% to 2.285%.

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

	Millions of Yen	Thousands of U.S. Dollars
	2011	2011
Balance at beginning of year	¥ 57	$ 687
Reconciliation associated with passage of time	1	7
Balance at end of year	¥ 58	$ 694

18. SEGMENT INFORMATION

For the Years Ended March 31, 2011 and 2010

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

The segment information for the year ended March 31, 2010 under the revised accounting standard is also disclosed hereunder as required.

(1) ***Segment Information***

(a) Description of reportable segments

The Companies' reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide how resources are allocated among the Companies. Therefore, the Companies consist of the industry "Microwave Tube and Rader Components," "Microwave Application Products" and "Semiconductors."

In industry "Microwave Tube and Rader Components" and "Microwave Application Products," each division is set up according to type of products. Each division manages business activities consistently, about R&D, design, manufacturing and sales of their products.

In industry "Semiconductors," headquarters and divisions are set up according to type of functions (R&D, design, manufacturing and sales). With playing each role, headquarters and divisions work as a unit under mutual cooperation.

"Microwave Tube and Rader Components" industry mainly manufactures microwave tube for government, public offices and manufacturers.

"Microwave Application Products" industry mainly manufactures components for satellite communications for telecommunications carriers.

"Semiconductors" industry mainly manufactures semiconductor devices for consumer products manufacturers.

(b) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

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

Segment profit (loss) is the operating income (loss).

(c) Information about sales, profit (loss), assets and other items is as follows:

	Millions of Yen					
	2011					
	Reportable Segment					
	Microwave Tube and Rader Components	Microwave Application Products	Semiconductors	Total	Reconciliations	Consolidated
Sales—Sales to external customers	¥ 3,672	¥ 2,599	¥ 39,342	¥ 45,613		¥ 45,613
Segment profit (loss)	665	75	3,853	4,593	¥ (3,832)	761
Segment assets	3,720	1,569	31,429	36,718	4,813	41,531
Other:						
Depreciation	151	100	2,945	3,196	100	3,296
Capital expenditure	38	36	3,316	3,390	30	3,420

	Millions of Yen					
	2010					
	Reportable Segment					
	Microwave Tube and Rader Components	Microwave Application Products	Semiconductors	Total	Reconciliations	Consolidated
Sales—Sales to external customers	¥ 3,163	¥ 2,539	¥ 34,586	¥ 40,288		¥ 40,288
Segment profit (loss)	364	(26)	811	1,149	¥ (3,904)	(2,755)
Segment assets	4,100	1,603	31,184	36,887	4,552	41,439
Other:						
Depreciation	168	117	3,079	3,364	111	3,475
Capital expenditure	22	39	730	791	15	806

	Thousands of U.S. Dollars					
	2011					
	Reportable Segment					
	Microwave Tube and Rader Components	Microwave Application Products	Semiconductors	Total	Reconciliations	Consolidated
Sales—Sales to external customers	$ 44,165	$ 31,260	$ 473,140	$ 548,565		$ 548,565
Segment profit (loss)	7,995	907	46,341	55,243	$ (46,089)	9,154
Segment assets	44,741	18,869	377,974	441,584	57,891	499,475
Other:						
Depreciation	1,816	1,197	35,424	38,437	1,201	39,638
Capital expenditure	458	432	39,877	40,767	361	41,128

Notes:
1. The reconciliations for the years ended March 31, 2011 and 2010, amounting to ¥3,832 million ($46,089 thousand) and ¥3,904 million, respectively, "Segment profit (loss)" for mainly consisted of administration expenses of the Companies.

2. The reconciliations for the years ended March 31, 2011 and 2010, amounting to ¥4,813 million ($57,891 thousand) and ¥4,552 million, respectively, "Segment assets" for consisted primarily of funds held by the Company for investing purposes (cash, time deposits, marketable securities and investment securities) and assets held for administration of the Companies.

3. The reconciliations for the years ended March 31, 2011 and 2010, amounting to ¥100 million ($1,201 thousand) and ¥111 million, respectively, "Depreciation" for mainly consisted of depreciation from assets held for administration of the Companies.

4. The reconciliations for the years ended March 31, 2011 and 2010, amounting to ¥30 million ($361 thousand) and ¥15 million, respectively, "Capital expenditure" for mainly consisted of capital expenditure for administration of the Companies.

(2) ***Related Information***

(*a*) *Information about geographical areas*

	Millions of Yen				
	2011				
	Japan	China	Other Asia	Other	Total
Sales	¥ 25,943	¥ 7,753	¥ 7,572	¥ 4,345	¥ 45,613

	Thousands of U.S. Dollars				
	2011				
	Japan	China	Other Asia	Other	Total
Sales	$ 311,999	$ 93,243	$ 91,072	$ 52,251	$ 548,565

Note: Other Asia includes sales in Asia except for Japan and China.

(*b*) *Information about major customers*

	Millions of Yen			
	2011			
	Sales			
Name of Customers	Microwave Tube and Rader Components	Microwave Application Products	Semiconductors	Total
Mitsubishi Electric Corporation	¥ 178	¥ 61	¥ 6,539	¥ 6,778

Name of Customers	Thousands of U.S. Dollars 2011 Sales Microwave Tube and Rader Components	Microwave Application Products	Semiconductors	Total
Mitsubishi Electric Corporation	$ 2,136	$ 740	$ 78,644	$ 81,520

For the Year Ended March 31, 2010

Information about industry segments, geographical segments and sales to foreign customers of the Companies for the year ended March 31, 2010, is as follows:

(1) ***Industry Segments***

Industry segment information is not shown since substantially all consolidated net sales, operating income and identifiable assets for 2010 were attributed to the primary business of the Companies, which is to manufacture and sell electronic devices such as electron tubes and semiconductor devices.

(2) ***Geographical Segments***

The segment information is grouped by geographic area based on the countries and areas where the Companies are located. The segments mainly consist of the following countries:

Asia —Thailand, Singapore and China
North America —United States of America

The geographical segments of the Companies for the year ended March 31, 2010, are summarized as follows:

	Millions of Yen 2010 Japan	Asia	North America	Eliminations or Corporate	Consolidated
Sales:					
To customers	¥ 34,696	¥ 4,450	¥1,142		¥ 40,288
Interarea transfers	4,979	5,564	3	¥ (10,546)	
Total	39,675	10,014	1,145	(10,546)	40,288
Operating expenses	38,385	10,056	1,166	(6,564)	43,043
Operating income (loss)	¥ 1,290	¥ (42)	¥ (21)	¥ (3,982)	¥ (2,755)
Total assets	¥ 36,355	¥ 3,621	¥ 285	¥ 1,178	¥ 41,439

Notes: 1. The unallocated operating expenses for the year ended March 31, 2010, amounting to ¥3,904 million, are included in "Eliminations or Corporate" column, which mainly consisted of administration expenses of the Companies.

2. The corporate assets at March 31, 2010, amounting to ¥4,553 million, are included in "Eliminations or Corporate" column, and consisted primarily of funds held by the Companies for investing purposes (cash, time deposits, marketable securities and investment securities) and assets held for administration of the Companies.

(3) *Sales to Foreign Customers*

Sales to foreign customers for the year ended March 31, 2010, amounted to ¥19,361 million, and accounted for 48.1% of consolidated net sales.

The segment information is grouped by geographic area based on the countries and regions where the Companies' customers are located. The segments mainly consist of the following countries and regions:

Asia	—China, Hong Kong, Republic of Korea, Singapore, Taiwan and Malaysia
North America	—United States of America
Europe	—United Kingdom, Germany, Italy and Holland
Other	—Israel and Mexico

	Millions of Yen				
	2010				
	Asia	North America	Europe	Other	Total
Sales	¥ 15,686	¥ 1,818	¥ 1,127	¥ 730	¥ 19,361

19. RELATED PARTY TRANSACTIONS

(1) *Parent Company*

Nisshinbo Holdings Inc.

(2) *Related Party Transactions*

Transactions with and balances due from and to related party for the year ended March 31, 2011 are not disclosed because they are immaterial.

20. NET INCOME PER SHARE

Reconciliation of the differences between basic and diluted net income per share ("EPS") for the years ended March 31, 2011 and 2010 is as follows:

	Millions of Yen	Thousands of Shares	Yen	U.S. Dollars
Year Ended March 31, 2011	Net Income (Loss)	Weighted-Average Shares	EPS	
Basic EPS—Net income available to common shareholders	¥ 494	39,124	¥ 12.65	$ 0.15
Year Ended March 31, 2010				
Basic EPS—Net loss available to common shareholders	¥ (10,011)	39,125	¥ (255.88)	

Diluted EPS is not disclosed because the Companies did not issue dilutive securities for the years ended March 31, 2011 and 2010.

* * * * * *