



# ANNUAL REPORT 2012

**NIKKO**  
SINCE 1908



## WIND



## WATER



## EARTH



**NIKKO**  
SINCE 1908

## Business Units

陶磁器

POTTERY &  
PORCELAIN



住設環境機器

HOUSING &  
ENVIRONMENTAL  
EQUIPMENT



電子セラミック

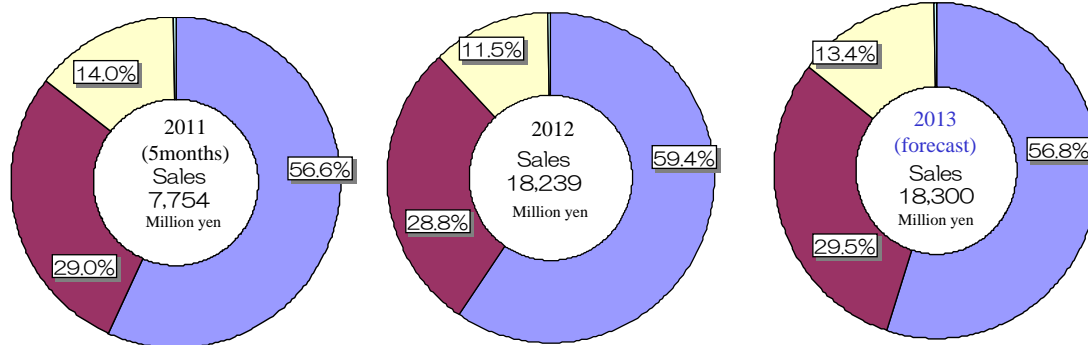
ELECTRO—  
CERAMICS



環境エネルギー  
機器

ENVIRONMENTAL  
ENERGY  
EQUIPMENT

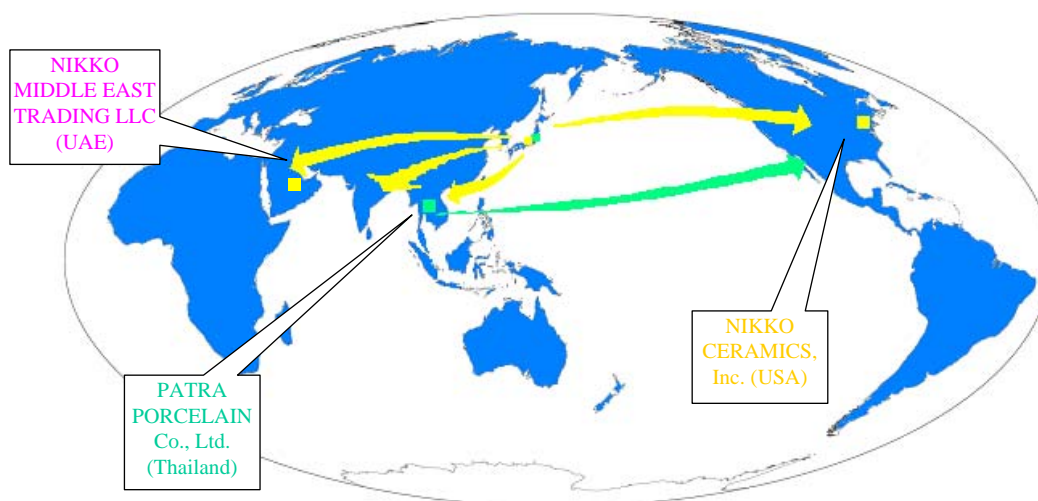
# Sales by Segment Information



| Business Segment                  | 2011 (5months)<br>million ¥<br>'10.11-<br>'11.3 | 2012<br>'11.4-<br>'12.3 | 2013 (forecast)<br>'12.4-<br>'13.3 |
|-----------------------------------|---|-------------------------|------------------------------------|
| Housing & Environmental Equipment | 4,390   | 10,835                  | 10,400                             |
| Tabletop                          | 2,247   | 5,245                   | 5,400                              |
| Electro-Ceramics                  | 1,085   | 2,096                   | 2,450                              |
| Others                            | 31  | 62                      | 60                                 |

(About 2011)  
Due to the change in fiscal year end to March 31, the figures for the full year are for 5-month period from November 1, 2010 to March 31, 2011.

# NETWORK



- ...Product Activities
- ...Sales Activities

### Overseas Customers

USA, Korea, China, South-East Asia (Taiwan, Singapore, Vietnam etc.), India, UAE

[Contents](#)

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|   |      |
|---|------|
| Financial Highlights .....  | 3    |
| Consolidated Balance Sheets .....   | 4    |
| Consolidated Statement of Income and Consolidated Statement of Comprehensive Income ..... | 6    |
| Consolidated Statement of Shareholders' Equity .....                                      | 7    |
| Consolidated Statement of Cash Flows .....  | 8    |
| Notes to the Consolidated Financial Statements .....                                      | 9-22 |
| Board of Directors and Statutory Auditors .....   | 23   |
| Corporate Data .....  | 23   |

## Financial Highlights

NIKKO COMPANY  
Consolidated Data



| Consolidated Data                  | Millions of yen |            |            |                 | Thousands of U. S. dollar |         |
|------------------------------------|-----------------|------------|------------|-----------------|---------------------------|---------|
|                                    | 2008            | 2009       | 2010       | (5 months) 2011 | 2012                      | 2012    |
| Net Sales                          | 21,267          | 17,063     | 17,961     | 7,754           | 18,239                    | 221,917 |
| Net Income                         | (2,628)         | (2,303)    | (1,022)    | (755)           | 226                       | 2,754   |
| Total Assets                       | 18,046          | 13,828     | 13,939     | 13,288          | 13,173                    | 160,278 |
| Shareholders' Equity               | 7,586           | 5,258      | 4,143      | 3,381           | 3,623                     | 44,084  |
| Shareholders' Equity Ratio (%)     | 42.0            | 38.0       | 29.7       | 25.4            | 27.5                      |         |
| Return on Shareholders' Equity (%) | (29.5)          | (35.9)     | (21.7)     | (20.1)          | 6.5                       |         |
| Number of Shares                   | 19,572,000      | 19,572,000 | 19,572,000 | 19,572,000      | 19,572,000                |         |
| Per Share of Common Stock          | Yen             |            |            |                 | U. S. dollar              |         |
| Net Income                         | (139.46)        | (122.84)   | (54.54)    | (40.31)         | 12.09                     | 0.147   |
| Shareholders' Equity               | 403.55          | 280.59     | 221.13     | 180.49          | 193.41                    | 2.353   |
| Cash Dividends                     | 1.00            | —          | —          | —               | —                         | —       |

Notes: ¥82.19 = U.S.\$1.00; See Notes to the Consolidated Financial Statements.

The Company has changed its fiscal year-end from October 31 to March 31 resulting in an irregular five-month period for fiscal 2011.

## Consolidated Balance Sheets

NIKKO COMPANY  
March 31, 2012 and 2011

| ASSETS                                     | Millions of yen |                | Thousands of<br>U. S. dollar |
|--|-----------------|----------------|------------------------------|
|  | 2012            | 2011           | 2012                         |
| Current Assets:                            |                 |                |                              |
| Cash and deposits                          | ¥1,131          | ¥1,468         | \$13,761                     |
| Notes and accounts receivable:             |                 |                |                              |
| Trade                                      | 3,153           | 3,002          | 38,365                       |
| Subsidiaries and affiliates                | 49              | 92             | 600                          |
| Other                                      | 0               | 0              | 6                            |
| Allowance for doubtful accounts            | (117)           | (158)          | (1,428)                      |
| Inventories                                | 3,603           | 3,388          | 43,847                       |
| Deferred tax assets                        | 1               | 2              | 12                           |
| Prepaid expenses and other current assets  | 148             | 96             | 1,809                        |
| <b>Total current assets</b>                | <b>7,970</b>    | <b>7,893</b>   | <b>96,975</b>                |
| Investments and Other Assets:              |                 |                |                              |
| Investment securities                      | 494             | 476            | 6,017                        |
| Stocks of affiliates                       | 101             | 66             | 1,231                        |
| Other                                      | 539             | 525            | 6,561                        |
| Allowance for doubtful accounts            | (394)           | (388)          | (4,799)                      |
| <b>Total investments and other assets</b>  | <b>740</b>      | <b>679</b>     | <b>9,012</b>                 |
| Property, plant and equipment, at cost:    |                 |                |                              |
| Land                                       | 1,261           | 1,261          | 15,343                       |
| Buildings and structures                   | 6,783           | 6,750          | 82,534                       |
| Machinery, equipment and vehicles          | 5,474           | 5,407          | 66,611                       |
| Tools, furniture and fixtures              | 1,276           | 1,249          | 15,527                       |
| Construction in progress                   | 9               | 11             | 120                          |
| Lease Assets                               | 234             | 230            | 2,854                        |
| Accumulated depreciation                   | (10,822)        | (10,516)       | (131,671)                    |
| <b>Total property, plant and equipment</b> | <b>4,218</b>    | <b>4,395</b>   | <b>51,320</b>                |
| Intangible Assets:                         |                 |                |                              |
| Lease Assets                               | 152             | 211            | 1,849                        |
| Other                                      | 92              | 108            | 1,119                        |
| <b>Total intangible assets and other</b>   | <b>244</b>      | <b>319</b>     | <b>2,969</b>                 |
| <b>Total Assets</b>                        | <b>¥13,173</b>  | <b>¥13,288</b> | <b>\$160,278</b>             |

See Notes to the Consolidated Financial Statements.

## Consolidated Balance Sheets

NIKKO COMPANY  
March 31, 2012 and 2011

| LIABILITIES AND SHAREHOLDERS' EQUITY                  | Millions of yen |                | Thousands of<br>U. S. dollar |
|---|-----------------|----------------|------------------------------|
|   | 2012            | 2011           | 2012                         |
| Current liabilities:                                  |                 |                |                              |
| Notes and accounts payable:                           |                 |                |                              |
| Trade   | ¥3,090          | ¥3,142         | \$37,600                     |
| Subsidiaries and affiliates                           | 279             | 222            | 3,402                        |
| Other   | 31              | 39             | 389                          |
| Short-term loans payable                              | 1,199           | 793            | 14,600                       |
| Current portion of long-term loans payable            | 328             | 162            | 3,992                        |
| Lease obligations                                     | 94              | 127            | 1,153                        |
| Construction notes payable                            | 18              | 23             | 223                          |
| Accrued expenses                                      | 127             | 179            | 1,545                        |
| Income taxes payable                                  | 53              | 30             | 656                          |
| Provision for bonuses                                 | 85              | 373            | 1,041                        |
| Provision for product warranties                      | 128             | 103            | 1,557                        |
| Other   | 976             | 1,014          | 11,885                       |
| <b>Total current liabilities</b>                      | <b>6,414</b>    | <b>6,212</b>   | <b>78,048</b>                |
| Noncurrent liabilities:                               |                 |                |                              |
| Long-term loans payable                               | 1,441           | 1,720          | 17,543                       |
| Lease obligations                                     | 180             | 293            | 2,197                        |
| Provision for directors' retirement benefits          | 104             | 99             | 1,274                        |
| Provision for retirement benefits                     | 1,229           | 1,414          | 14,958                       |
| Other   | 178             | 166            | 2,171                        |
| <b>Total noncurrent liabilities</b>                   | <b>3,135</b>    | <b>3,694</b>   | <b>38,145</b>                |
| <b>Total Liabilities</b>                              | <b>9,549</b>    | <b>9,907</b>   | <b>116,193</b>               |
| Shareholders' Equity:                                 |                 |                |                              |
| Authorized-60,000,000 shares;                         |                 |                |                              |
| Issued-19,572,000 shares in 2012                      |                 |                |                              |
| and 19,572,000 shares in 2011                         | 3,200           | 3,200          | 38,934                       |
| Capital surplus                                       | 1,321           | 2,066          | 16,075                       |
| Retained earnings                                     | (259)           | (1,231)        | (3,154)                      |
| Treasury stocks                                       | (334)           | (334)          | (4,075)                      |
| 838,142 shares in 2012 and 835,419 shares in 2011     |                 |                |                              |
| Valuation difference on available-for-sale securities | (173)           | (191)          | (2,107)                      |
| Foreign currency translation adjustment               | (130)           | (128)          | (1,587)                      |
| <b>Total shareholders' equity</b>                     | <b>3,623</b>    | <b>3,381</b>   | <b>44,084</b>                |
| <b>Total Liabilities</b>                              |                 |                |                              |
| <b>and Shareholders' Equity</b>                       | <b>¥13,173</b>  | <b>¥13,288</b> | <b>\$160,278</b>             |

See Notes to the Consolidated Financial Statements.

## Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

NIKKO COMPANY

For the year ended March 31, 2012 and the five months ended March 31, 2011

### Consolidated Statement of Income

|  | Millions of yen |        | Thousands of<br>U. S. dollar |
|--|-----------------|--------|------------------------------|
|  | 2012            | 2011   | 2012                         |
| Net Sales  | ¥18,239         | ¥7,754 | \$221,917                    |
| Cost of Sales  | 12,977          | 5,665  | 157,901                      |
| Gross profit   | 5,261           | 2,088  | 64,016                       |
| Selling, General and Administrative Expenses                 | 5,228           | 2,497  | 63,617                       |
| Operating income (loss)                                      | 32              | (408)  | 399                          |
| Other (Income) Expenses:                                     |                 |        |                              |
| Interest expenses  | 52              | 22     | 637                          |
| Interest and dividend income                                 | (1)             | (0)    | (13)                         |
| (Gain) on sale or loss on disposal of noncurrent assets, net | 8               | 2      | 100                          |
| Other, net   | (296)           | 311    | (3,604)                      |
| Income before taxes (loss)                                   | 269             | (744)  | 3,278                        |
| Income taxes-current   | 41              | 17     | 508                          |
| Income taxes-deferred  | 1               | (6)    | 15                           |
| Income taxes   | 43              | 10     | 523                          |
| Income (loss) before minority interests                      | 226             | (755)  | 2,754                        |
| Net income (loss)  | ¥226            | ¥(755) | \$2,754                      |

|                                    | Yen    |          | U. S. dollar |
|------------------------------------|--------|----------|--------------|
|                                    | 2012   | 2011     | 2012         |
| Amounts Per Share of Common Stock: |        |          |              |
| Net Income (loss)                  | ¥12.09 | ¥(40.31) | \$0.147      |
| Cash dividends                     | —      | —        | —            |

### Consolidated Statement of Comprehensive Income

|   | Millions of yen |       | Thousands of<br>U. S. dollar |
|---|-----------------|-------|------------------------------|
|   | 2012            | 2011  | 2012                         |
| Income(loss) before minority interests                    | 226             | (755) | 2,754                        |
| Other comprehensive income                                |                 |       |                              |
| Valuation difference on available-for-sale securities     | 17              | (10)  | 218                          |
| Foreign currency translation adjustment                   | (2)             | 3     | (27)                         |
| Other comprehensive income                                | 15              | (6)   | 191                          |
| Comprehensive income                                      | 242             | (761) | 2,945                        |
| Comprehensive income attributable to owners of the parent | 242             | (761) | 2,945                        |
| Comprehensive income attributable to minority interests   | —               | —     | —                            |

See Notes to the Consolidated Financial Statements.



## Consolidated Statement of Changes in Equity

NIKKO COMPANY

For the year ended March 31, 2012 and the five months ended March 31, 2011

|                                | Number of<br>shares of<br>common stock<br>(thousands) | Millions of yen  |                    |                      |                   |                                  |
|--------------------------------|---|------------------|--------------------|----------------------|-------------------|----------------------------------|
|                                |   | Capital<br>stock | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Balance, October 31, 2010      | 19,572  | ¥3,200           | ¥3,045             | ¥(1,454)             | ¥(334)            | ¥4,456                           |
| Deficit disposition            | —   | —                | (978)              | 978                  | —                 | —                                |
| Net income (loss) for the year | —   | —                | —                  | (755)                | —                 | (755)                            |
| Purchase of treasury stock     | —   | —                | —                  | —                    | (0)               | (0)                              |
| Other                          | —   | —                | —                  | —                    | —                 | —                                |
| Balance, March 31, 2011        | 19,572  | ¥3,200           | ¥2,066             | (1,231)              | ¥(334)            | ¥3,701                           |
| Deficit disposition            | —   | —                | (745)              | 745                  | —                 | —                                |
| Net income (loss) for the year | —   | —                | —                  | 226                  | —                 | 226                              |
| Purchase of treasury stock     | —   | —                | —                  | —                    | (0)               | (0)                              |
| Other                          | —   | —                | —                  | —                    | —                 | —                                |
| Balance, March 31, 2012        | 19,572  | ¥3,200           | ¥1,321             | ¥(259)               | ¥(334)            | ¥3,927                           |

|                                | Millions of yen  |   |   |                     |
|--------------------------------|--|---|---|---------------------|
|                                | Valuation<br>difference on<br>available-<br>for-sale<br>securities | Foreign<br>Currency<br>Translation<br>Adjustments | Total valuation<br>and translation<br>adjustments | Total<br>net assets |
| Balance, October 31, 2010      | ¥(180)   | ¥(132)  | ¥(313)  | ¥4,143              |
| Deficit disposition            | —  | —   | —   | —                   |
| Net income (loss) for the year | —  | —   | —   | (755)               |
| Purchase of treasury stock     | —  | —   | —   | (0)                 |
| Other                          | (10)   | 3   | (6)   | (6)                 |
| Balance, March 31, 2011        | ¥(191)   | ¥(128)  | ¥(319)  | ¥3,381              |
| Deficit disposition            | —  | —   | —   | —                   |
| Net income (loss) for the year | —  | —   | —   | 226                 |
| Purchase of treasury stock     | —  | —   | —   | (0)                 |
| Other                          | 17   | (2)   | 15  | 15                  |
| Balance, March 31, 2012        | ¥(173)   | ¥(130)  | ¥(303)  | ¥3,623              |

|                                | Thousands of dollars |                    |                      |                   |                                  |
|--------------------------------|----------------------|--------------------|----------------------|-------------------|----------------------------------|
|                                | Capital<br>stock     | Capital<br>surplus | Retained<br>earnings | Treasury<br>stock | Total<br>shareholders'<br>equity |
| Balance, March 31, 2011        | \$38,934             | \$25,144           | \$(14,978)           | \$(4,069)         | \$45,030                         |
| Deficit disposition            | —                    | (9,069)            | 9,069                | —                 | —                                |
| Net income (loss) for the year | —                    | —                  | 2,754                | —                 | 2,754                            |
| Purchase of treasury stock     | —                    | —                  | —                    | (5)               | (5)                              |
| Other                          | —                    | —                  | —                    | —                 | —                                |
| Balance, March 31, 2012        | \$38,934             | \$16,075           | \$(3,154)            | \$(4,075)         | \$47,779                         |

|                                | Thousands of dollars   |   |   |                     |
|--------------------------------|--|---|---|---------------------|
|                                | Valuation<br>difference on<br>available-<br>for-sale<br>securities | Foreign<br>Currency<br>Translation<br>Adjustments | Total valuation<br>and translation<br>adjustments | Total<br>net assets |
| Balance, March 31, 2011        | \$(2,326)  | \$(1,559)   | \$(3,885)   | \$41,144            |
| Deficit disposition            | —  | —   | —   | —                   |
| Net income (loss) for the year | —  | —   | —   | 2,754               |
| Purchase of treasury stock     | —  | —   | —   | (5)                 |
| Other                          | 218  | (27)  | 191   | 191                 |
| Balance, March 31, 2012        | \$(2,107)  | \$(1,587)   | \$(3,694)   | 44,084              |

See Notes to the Consolidated Financial Statements.

## Consolidated Statement of Cash Flows

NIKKO COMPANY

For the year ended March 31, 2012 and the five months ended March 31, 2011

|   | Millions of yen |        | Thousands of |
|---|-----------------|--------|--------------|
|   | 2012            | 2011   | U. S. dollar |
|   |                 |        | 2012         |
| Net cash provided by (used in) operating activities                                     |                 |        |              |
| Income (Loss) before income taxes and minority interests                                | ¥269            | ¥(744) | \$3,278      |
| Depreciation and amortization   | 557             | 244    | 6,788        |
| Impairment loss   | 41              | —      | 510          |
| Loss on adjustment for changes of Accounting Standard for asset retirement obligations  | —               | 43     | —            |
| Loss on liquidation of subsidiaries and affiliates                                      | —               | 7      | —            |
| Business structure improvement expenses   | 11              | 344    | 142          |
| Increase (decrease) in allowance for doubtful accounts                                  | (35)            | (8)    | (430)        |
| Increase (decrease) in provision for bonuses  | (287)           | 169    | (3,497)      |
| Increase (decrease) in provision for retirement benefits                                | (185)           | 46     | (2,256)      |
| Increase (decrease) in provision for product warranties                                 | 25              | 17     | 304          |
| Interest and dividends income   | (10)            | (3)    | (122)        |
| Interest expenses   | 52              | 22     | 637          |
| Loss (gain) on sales of property, plant and equipment                                   | (0)             | (0)    | (10)         |
| Loss on retirement of noncurrent assets   | 9               | 2      | 111          |
| Decrease (increase) in notes and accounts receivable-trade                              | (142)           | 279    | (1,737)      |
| Decrease (increase) in claims provable in bankruptcy, claims provable in rehabilitation | (15)            | (102)  | (191)        |
| Decrease (increase) in inventories  | (217)           | 43     | (2,644)      |
| Increase (decrease) in notes and accounts payable-trade                                 | 7               | (140)  | 94           |
| Other, net  | (159)           | (114)  | (1,943)      |
| Subtotal  | (79)            | 107    | (963)        |
| Interest and dividends income received  | 10              | 3      | 122          |
| Interest expenses paid  | (52)            | (22)   | (637)        |
| Income taxes paid   | (14)            | (42)   | (181)        |
| Net cash provided by (used in) operating activities                                     | ¥(136)          | ¥45    | \$(1,660)    |
| Net cash provided by (used in) investment activities                                    |                 |        |              |
| Payments into time deposits   | (106)           | (106)  | (1,297)      |
| Proceeds from withdrawal of time deposits   | 80              | 106    | 980          |
| Purchase of property, plant and equipment   | (307)           | (200)  | (3,744)      |
| Proceeds from sales of property, plant and equipment                                    | 4               | 0      | 53           |
| Purchase of stocks of subsidiaries and affiliates                                       | (50)            | —      | (608)        |
| Proceeds from sales of stocks of subsidiaries and affiliates                            | 15              | —      | 191          |
| Payments for investments in capital of subsidiaries and affiliates                      | —               | (30)   | —            |
| Other, net  | (10)            | (7)    | (122)        |
| Net cash provided by (used in) investment activities                                    | ¥(373)          | ¥(237) | \$(4,546)    |
| Net cash provided by (used in) financing activities                                     |                 |        |              |
| Net increase (decrease) in short-term loans payable                                     | 406             | 346    | 4,944        |
| Proceeds from long-term loans payable   | 50              | —      | 608          |
| Payments into long-term loans payable   | (162)           | (68)   | (1,971)      |
| Repayments of lease obligations   | (145)           | (52)   | (1,771)      |
| Purchase of treasury stock  | (0)             | (0)    | (5)          |
| Other, net  | —               | (0)    | —            |
| Net cash provided by (used in) financing activities                                     | ¥148            | ¥225   | \$1,804      |
| Effect of exchange rate change on cash and cash equivalents                             | (1)             | 3      | (20)         |
| Net increase (decrease) in cash and cash equivalents                                    | (363)           | 36     | (4)          |
| Cash and cash equivalents at beginning of period  | 1,287           | 1,251  | 15,670       |
| Cash and cash equivalents at end of period  | ¥924            | ¥1,287 | \$11,247     |

See Notes to the Consolidated Financial Statements.

## Notes to the Consolidated Financial Statements

NIKKO COMPANY

### 1. Basis of Presenting Consolidated Financial Statements

#### (1) Accounting Principles and Presentation

The accompanying consolidated financial statements have been prepared from the accounts maintained by Nikko Company (the "Company") and its consolidated subsidiaries in accordance with the provisions set forth in the Japanese Commercial Code and other countries' regulations and in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Accounting Standards.

Certain items presented in the consolidated financial statements filed with the Ministry of Finance (the "MOF") in Japan have been reclassified for the convenience of readers outside Japan.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Amounts in U.S. dollars are included solely for the convenience of readers outside Japan. The rate of ¥82.19=U.S.\$1 the approximate rate of exchange at March 31, 2012, has been used in translation. The inclusion of such amounts is not intended to imply that Japanese yen have been or could be readily converted, realized or settled in U.S. dollars at the rate or any other rate.

#### (2) Scope of Consolidation

The Company had 3 subsidiaries as at March 31, 2012. The consolidated financial statements include the accounts of the Company and 3 of its subsidiaries. The consolidated subsidiaries are listed below:

|                        | As at March 31, 2012   |                              |
|------------------------|--|------------------------------|
|                        | Equity ownership percentage,<br>including indirect ownership | Capital stock<br>(thousands) |
| Nikko Ceramics, Inc.   | 100.00 %   | \$1,250                      |
| Nikko Hanbai Co., Ltd. | 94.85 %  | ¥470,000                     |
| Nikko ME Co., Ltd.     | 100.00 %   | ¥30,000                      |

#### (3) Consolidation and Elimination

For the purposes of preparing the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

The cost of investments in the common stock of consolidated subsidiaries is eliminated with the underlying equity in net assets of such subsidiaries. The material difference between the cost of an investment and the amount of underlying equity in net assets of such subsidiary is deferred and amortized over a reasonable period within 5 years on a straight-line basis.

#### (4) Investments in Non-consolidated Subsidiaries and Affiliates

At March 31, 2012, the Company had 3 non-consolidated subsidiaries and 2 affiliates. They have not been accounted for by the equity method for the following reasons: insignificant amount of net income and retained earnings. The investments in affiliates are stated at cost.

## 2. Summary of Significant Accounting Policies

### (1) Valuation of Securities

The accounting standard for financial instruments requires that securities be classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair market value with any changes in unrealized gain or loss, net of the applicable income taxes, included directly in shareholders' equity. Non-marketable securities classified as other securities are carried at cost. The cost of securities sold is determined by the moving average method.

### (2) Inventories

At the Company and its domestic consolidated subsidiaries, finished goods, semi-finished products and work in process are stated at cost, cost being determined by the period-average method, merchandise, raw materials and supplies are valued at cost being determined by the moving average (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins), costs on uncompleted construction contracts are stated at cost, cost being determined by the specific identification method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins) Merchandise of overseas consolidated subsidiary is stated at the lower cost method determined by the first-in first-out method.

### (3) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment except for buildings of the Company is computed on the declining-balance method and depreciation of buildings is computed on the straight-line method, at rates based on the estimated useful lives of the assets. Depreciation of property, plant and equipment of the domestic consolidated subsidiary is computed on the declining-balance method and buildings (except for structures attached to the buildings) acquired on and after April 1, 1998 have been depreciated by the straight-line method. The estimated useful lives are based on the prescribed by the Japanese income tax laws. The overseas consolidated subsidiary has computed by the straight-line method. Normal repairs and maintenance, including minor renewals and improvements, are charged to income as incurred.

### (4) Lease Assets

Depreciation of lease assets is calculated using the straight-line method with the respective lease terms as the useful lives. The residual value is zero unless there is a residual value guarantee, in which case the amount of the guarantee is the residual value. For finance lease transactions where there is no transfer of ownership beginning prior to the fiscal year when these standards are first applied, the Company uses an accounting method that is based on the method used for ordinary lease transactions.

### (5) Foreign Currency Translation

Foreign currency amounts except for those covered by forward exchange contracts are translated into Japanese yen on the basis of the rates of exchange in effect at the balance sheet date for monetary current assets and current liabilities, and at historical rates for other assets and liabilities unless they have accrued significant exchange losses. Foreign currency amounts covered by forward exchange contracts are translated into Japanese yen at the relevant contract rates. Historical rates are used for translation of income and expenses.

### (6) Recognition of Income Taxes

The Companies adopted deferred tax accounting, whereby tax effects on temporary differences are adequately reflected and recognized as additions to or deductions from "Income Taxes" in the accompanying Consolidated Statements of Income.

### (7) Translation of Foreign Currency Financial Statements (Accounts of Overseas Subsidiaries and Affiliates)

Financial statements of foreign subsidiary is translated into Japanese yen at the current exchange rates as of the balance sheet date for all balance sheet accounts except for shareholders' equity accounts, which is translated at the historical exchange rate. The annual average rate is used for revenue and expense accounts.

#### (8) Amortization

The amortization of intangible assets of the Company and the domestic consolidated subsidiary are computed by the straight-line method, at rates based on the prescribed by the Japanese income tax laws.

Expenditures related to computer software intended for internal use are amortized over the useful life of the respective assets (5 years).

The overseas consolidated subsidiary has computed by the straight-line method.

#### (9) Allowance for Doubtful Accounts

Allowance for doubtful accounts is calculated based on the aggregate amount of estimated credit losses for doubtful receivables plus an amount for receivables other than doubtful receivables calculated using historical write-off experience from certain prior periods.

#### (10) Reserve for guarantee for after-care of products

As warranty expenses for certain products sold by the Company are subsequently realized, a provision for product warranty has been recorded in order to reflect the results of their operations more accurately.

#### (11) Derivatives

Derivatives are valued at fair value if hedging accounting is not appropriate or where there is no hedging designation, and the gains or losses on derivatives are recognized in the current earnings.

#### (12) Cash Equivalents

Cash Equivalents are short-term investments that are readily convertible into cash and that are exposed to in significant risk of changes in value. Cash equivalents include time deposits and investment trusts that represent short-term investments, all of which mature or become due within three months of the date of acquisition.

#### (13) Shareholders' Equity

The amount of retained earnings available for dividends under the Commercial Code of Japan is based on the amount stated in the statutory financial statements of the Company. Dividends are approved by the shareholders at a meeting held subsequent to the fiscal year to which the dividend is applicable. In addition, a semi-annual interim dividend payment may be made by resolution of the Board of Directors subject to certain limitations imposed by the Commercial Code.

#### (14) Research and Development Costs

Expenses relating to research and development activities are charged to income as incurred. Such research and development expenses were included in cost of goods sold and selling, general and administrative expenses in the accompanying consolidated statements of income and amounted to ¥190million (\$2,318 thousand) and ¥122million (\$1,470 thousand) for the years ended March 31, 2012 and March 31, 2011, respectively.

#### ( Additional Information )

Application of accounting standard for accounting changes and error corrections

After the beginning of the fiscal year under review, the Company made accounting changes and/or corrections of past errors. For this reason, it has applied Accounting Standard for Accounting Changes and Error Corrections (ASBJ Statement No. 24, December 4, 2009) and Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No. 24, December 4, 2009).

### 3. Short-term and Long-term Bank Loans

Short-term loans and Long-term loans are consisted mainly of borrowing from banks.

The composition of Short and Long-term loans maturing and Lease obligations due within one year as of March 31, 2012 and March 31, 2011 are as follows:

|   | Millions of yen |      | Thousands of<br>U.S. dollars |
|---|-----------------|------|------------------------------|
|   | 2012            | 2011 | 2012                         |
| Short-term loans payable (0.94%)                      | ¥1,199          | ¥793 | \$14,600                     |
| Current portion of long-term loans payable<br>(2.18%) | 328             | 162  | 3,992                        |
| Lease obligations                                     | 94              | 127  | 1,153                        |

Percentages show the annual weighted average interest rate at March 31, 2012

Long-term loans and Lease obligations at March 31, 2012 and March 31, 2011 are as follows:

|                                 | Millions of yen |        | Thousands of<br>U.S. dollars |
|---------------------------------|-----------------|--------|------------------------------|
|                                 | 2012            | 2011   | 2012                         |
| Long-term loans payable (2.23%) | ¥1,441          | ¥1,720 | \$17,543                     |
| Lease obligations               | 180             | 293    | 2,197                        |

Percentage shows the annual weighted average interest rate at March 31, 2012

The aggregate annual maturities of the non-current portion of long-term loans and lease obligations at March 31, 2012 are as follows:

|                     | Millions of yen |                      | Thousands of<br>U.S. dollars |                      |
|---------------------|-----------------|----------------------|------------------------------|----------------------|
|                     | long-term loans | Lease<br>obligations | long-term loans              | Lease<br>obligations |
| 2014                | ¥361            | ¥91                  | \$4,393                      | \$1,118              |
| 2015                | 335             | 51                   | 4,077                        | 622                  |
| 2016                | 269             | 23                   | 3,274                        | 281                  |
| 2017                | 262             | 14                   | 3,189                        | 174                  |
| 2018 and thereafter | 214             | -                    | 2,607                        | -                    |

### 4. Pledged Assets

The carrying amounts of assets pledged as collateral at March 31, 2012 and 2011.

|                                | Millions of yen |        | Thousands of<br>U.S. dollars |
|--------------------------------|-----------------|--------|------------------------------|
|                                | 2012            | 2011   | 2012                         |
| Land                           | ¥947            | ¥947   | \$11,530                     |
| Buildings and structures       | 1,225           | 1,284  | 14,914                       |
| Investment securities          | 344             | 328    | 4,189                        |
| Merchandise and finished goods | 552             | 472    | 6,724                        |
| Total                          | ¥3,070          | ¥3,032 | \$37,358                     |

The above pledged assets were classified by type of liabilities to which they relate as follows:

|   | Millions of yen |        | Thousands of<br>U.S. dollars |
|---|-----------------|--------|------------------------------|
|   | 2012            | 2011   | 2012                         |
| Long-term loans payable<br>(include current portion of long-term loans payable) | ¥1,770          | ¥1,882 | \$21,535                     |
| Short-term loans payable  | 680             | 300    | 8,273                        |
| Notes receivable discounted   | 160             | 330    | 1,946                        |
| Total   | ¥2,610          | ¥2,512 | \$31,755                     |

## 5. Contingent Liabilities

Contingent liabilities at March 31, 2012 and 2011 are as follows:

|  | Millions of yen |      | Thousands of<br>U.S. dollars |
|--|-----------------|------|------------------------------|
|  | 2012            | 2011 | 2012                         |
| Guarantee of indebtedness of affiliate   | ¥26             | ¥26  | \$318                        |
| Guarantees of indebtedness of employees  | 2               | 5    | 33                           |
| Guarantees of the lease liabilities of the company<br>(Transport duties trust) | 15              | 21   | 186                          |

## 6. Retirement Plans and Severance Indemnities

- (1) The Company and its domestic consolidated subsidiaries have a defined contribution pension plan and lump-sum severance indemnity plan. They may grant additional benefits in case where certain requirements are met when employees retire.  
Furthermore, the company changed its retirement benefit plan as of June 1, 2011 from qualified pension plan to defined contribution pension plan and lump-sum severance indemnity plans.
- (2) Detail on the reserve for retirement benefits as of March 31, 2011 and October 31, 2010 are analyzed as follows:

|   | Millions of yen |          | Thousands of<br>U.S. dollar |
|---|-----------------|----------|-----------------------------|
|   | 2012            | 2011     | 2012                        |
| Retirement benefit obligation at end of year                    | ¥(1,443)        | ¥(3,040) | \$(17,562)                  |
| Plan assets   | —               | 1,177    | —                           |
| Unfunded retirement benefit obligation                          | (1,443)         | (1,863)  | (17,562)                    |
| Unrecognized net retirement benefit obligation<br>at transition | 109             | 302      | 1,332                       |
| Unrecognized actuarial loss                                     | 104             | 146      | 1,270                       |
| Unrecognized prior service cost                                 | —               | —        | —                           |
| Net amount recognized on the balance sheet                      | (1,229)         | (1,414)  | (14,958)                    |
| Prepaid pension expenses  | —               | —        | —                           |
| Accrued retirement benefits                                     | (1,229)         | (1,414)  | (14,958)                    |

Note: Certain domestic consolidated subsidiaries calculate retirement benefit obligation by the simplified method permitted under the accounting standards generally accepted in Japan.

- (3) Components of retirement benefit expenses for the year ended March 31, 2012 and March 31, 2011 are as follows:

|   | Millions of yen |      | Thousands of<br>U.S. dollar |
|---|-----------------|------|-----------------------------|
|   | 2012            | 2011 | 2012                        |
| Service cost                                    | ¥90             | ¥70  | \$1,098                     |
| Interest cost                                   | 31              | 24   | 381                         |
| Expected return on plan assets                  | (3)             | (9)  | (47)                        |
| Amortization of transition of transfers         | 36              | 27   | 443                         |
| Amortization of actuarial gains and losses      | 19              | 16   | 233                         |
| Premium paid into the defined-contribution plan | 116             | 3    | 1,420                       |
| Other   | 2               | 0    | 30                          |
| Retirement benefit expenses (Total)             | 292             | 133  | 3,561                       |
| Gain/ loss on transfers between pension plans   | (283)           | (14) | (3,453)                     |
| Total   | 8               | 119  | 107                         |

Note: In certain domestic consolidated subsidiaries, except premium paid into the defined-contribution plan and Amortization of transition obligation, retirement expenses under the simplified method are included in service cost.

- (4) Assumptions used for calculation of retirement benefits for the year ended March 31, 2012 and March 31, 2011 are as follows:

|   | 2012   | 2011                 |
|---|--|----------------------|
|   | Method of attributing the project benefits to periods of service | Straight-line method |
| Discount rate   | 2.0 %  | 2.0 %                |
| Expected return on plan assets                                | 2.0 %  | 2.0 %                |
| Amortization period of unrecognized actuarial gains or losses | 13 years   |                      |
| Amortization period of net transition obligation              | 15 years   |                      |



## 7. Income Taxes

1. Deferred tax assets and liabilities (both current and non-current) consisted of the following elements:

|   | Millions of yen |         | Thousands<br>of<br>U.S. dollar |
|---|-----------------|---------|--------------------------------|
|   | 2012            | 2011    | 2012                           |
| Deferred tax assets:                            |                 |         |                                |
| Provision for bonuses not deductible until paid | ¥32             | ¥146    | \$397                          |
| Provision for product warranties                | 48              | 41      | 595                            |
| Allowance for doubtful accounts                 | 114             | 161     | 1,388                          |
| Loss on valuation of inventories                | 287             | 319     | 3,497                          |
| Loss on disposal of inventories                 | 40              | 42      | 492                            |
| Impairment loss on fixed assets                 | 30              | 44      | 371                            |
| Provision for retirement benefits               | 433             | 571     | 5,279                          |
| Provision for directors' retirement benefits    | 35              | 39      | 437                            |
| Business structure improvement expenses         | 39              | 139     | 485                            |
| Tax loss carried forward                        | 2,506           | 2,653   | 30,493                         |
| Other   | 101             | 112     | 1,240                          |
| Subtotal  | 3,672           | 4,270   | 44,679                         |
| Allowance for valuation                         | (3,671)         | (4,267) | (44,666)                       |
| Total deferred tax assets                       | ¥1              | ¥2      | \$12                           |
| Deferred tax liabilities:                       |                 |         |                                |
| Total deferred tax liabilities                  | —               | —       | —                              |
| Net deferred tax assets                         | ¥1              | ¥2      | \$12                           |

2. A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statements of income is as follows:

|   | 2012    | 2011 |
|---|---------|------|
| Normal effective statutory tax rate                         | 40.4%   | —    |
| (Adjustments)   |         | —    |
| Taxation on per capita basis                                | 13.5%   | —    |
| Entertainment expenses, etc. permanently non-tax deductible | 5.2%    | —    |
| Unrecognized deferred tax on unrealized gain                | 4.6%    | —    |
| Valuation allowance   | (46.8%) | —    |
| Other   | (0.9%)  | —    |
| Actual effective tax rate                                   | 16.0%   | —    |

Following the promulgation on December 2, 2011 of the “Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating 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), Japanese corporation tax rates will be reduced and the special reconstruction corporation tax, a surtax for reconstruction funding after the Great East Japan Earthquake, will be imposed for the fiscal years beginning on or after April 12012. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.4% to 38.3% for temporary differences which are expected to reverse during the period from the fiscal year beginning on April 1, 2012 to the fiscal year beginning on April 1, 2014. Similarly, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 40.4% to 35.4% for temporary differences which are expected to reverse from the fiscal year beginning on or after April 1, 2015. This change does not have a material effect.

## 8. Accounting for Leases

The Company and certain subsidiaries lease mainly machinery and equipment as lessee. As disclosed in Note 2 (4), finance leases that do not transfer ownership of the leased assets to the lessee which commenced prior to November 1, 2008 and have been accounted for with the accounting treatment similar to that used for operating leases continue to be accounted for with the accounting treatment similar to that used for operating leases, with disclosure of certain “as if capitalized” information, and are not capitalized.

|                          | Millions of yen |      | Thousands of<br>U.S. dollars |
|--------------------------|-----------------|------|------------------------------|
|                          | 2012            | 2011 | 2012                         |
| Acquisition cost         |                 |      |                              |
| Machinery and equipment  | ¥434            | ¥509 | \$5,288                      |
| Other assets             | 31              | 54   | 387                          |
|                          | ¥466            | ¥563 | \$5,675                      |
| Accumulated depreciation |                 |      |                              |
| Machinery and equipment  | ¥210            | ¥224 | \$2,556                      |
| Other assets             | 25              | 37   | 307                          |
|                          | ¥235            | ¥262 | \$2,864                      |
| Fair loss                |                 |      |                              |
| Machinery and equipment  | 38              | ¥2   | 466                          |
| Other assets             | —               | —    | —                            |
|                          | ¥38             | ¥2   | \$466                        |
| Net book value           |                 |      |                              |
| Machinery and equipment  | ¥186            | ¥281 | \$2,264                      |
| Other assets             | 6               | 16   | 79                           |
|                          | ¥192            | ¥298 | \$2,344                      |

Obligations under finance leases as of March 31, 2012 and March 31, 2011 are as follows:

|  | Millions of yen |      | Thousands of<br>U.S. dollars |
|--|-----------------|------|------------------------------|
|  | 2012            | 2011 | 2012                         |
| Due within one year                              | ¥59             | ¥77  | \$722                        |
| Due after one year                               | 148             | 237  | 1,808                        |
|  | ¥207            | ¥315 | \$2,530                      |
| Allowance for impairment loss on leased property | ¥32             | ¥2   | \$396                        |

Depreciation expenses and interest expenses under finance leases as of 2012 and 2011, are as follows:

|                             | Millions of yen |      | Thousands of<br>U.S. dollars |
|-----------------------------|-----------------|------|------------------------------|
|                             | 2012            | 2011 | 2012                         |
| Lease expenses for the year | ¥77             | ¥36  | \$944                        |
| Depreciation expense        | 70              | 34   | 854                          |
| Interest expenses           | 10              | 6    | 131                          |
| Impairment loss             | 38              | 2    | 466                          |

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

The minimum rental commitments under non-cancellable operating leases at March 31, 2012 and March 31, 2011 are as follows:

|                     | Millions of yen |      | Thousands of<br>U.S. dollars |
|---------------------|-----------------|------|------------------------------|
|                     | 2012            | 2011 | 2011                         |
| Due within one year | ¥11             | ¥11  | \$136                        |
| Due after one year  | 0               | 12   | 11                           |
|                     | ¥12             | ¥23  | \$147                        |

## 9. Financial Instruments

### Fair Value of Financial Instruments

Fair value and variance with carrying value presented on the balance sheets as of March 31, 2012 are as follows. Fair values that are not readily determinable are not included in the following table. (See \*2 for additional information.).

|                                     | Millions of yen           |            |          |
|-------------------------------------|---------------------------|------------|----------|
|                                     | 2012                      |            |          |
|                                     | Carrying value            | Fair value | Variance |
| (1) Cash and time deposits          | ¥1,131                    | ¥1,131     | ¥ —      |
| (2) Notes and accounts receivable   | 3,203                     | 3,203      | —        |
| (3) Investments in securities       |                           |            |          |
| Held-to-maturity securities         | 50                        | 37         | (12)     |
| Available-for-sale securities       | 395                       | 395        | —        |
| Assets Total                        | 4,780                     | 4,767      | (12)     |
| (4) Notes and accounts payable      | 3,370                     | 3,370      | —        |
| (5) Short-term bank borrowings      | 1,199                     | 1,199      | —        |
| (6) Long-term borrowings from banks | 1,770                     | 1,812      | 42       |
| (7) Lease obligations               | 275                       | 270        | (4)      |
| (8) Income tax payable              | 53                        | 53         | —        |
| Liabilities Total                   | 6,669                     | 6,707      | 38       |
|                                     | Thousands of U.S. dollars |            |          |
|                                     | 2012                      |            |          |
|                                     | Carrying value            | Fair value | Variance |
| (1) Cash and time deposits          | \$13,761                  | \$13,761   | \$ —     |
| (2) Notes and accounts receivable   | 38,972                    | 38,972     | —        |
| (3) Investments in securities       |                           |            |          |
| Held-to-maturity securities         | 608                       | 458        | (150)    |
| Available-for-sale securities       | 4,817                     | 4,817      | —        |
| Assets Total                        | 58,159                    | 58,009     | (150)    |
| (4) Notes and accounts payable      | 41,003                    | 41,003     | —        |
| (5) Short-term bank borrowings      | 14,600                    | 14,600     | —        |
| (6) Long-term borrowings from banks | 21,535                    | 22,054     | 519      |
| (7) Lease obligations               | 3,350                     | 3,295      | (54)     |
| (8) Income tax payable              | 656                       | 656        | —        |
| Liabilities Total                   | 81,146                    | 81,610     | 464      |
|                                     | Millions of yen           |            |          |
|                                     | 2011                      |            |          |
|                                     | Carrying value            | Fair value | Variance |
| (1) Cash and time deposits          | ¥1,468                    | ¥1,468     | ¥ —      |
| (2) Notes and accounts receivable   | 3,060                     | 3,060      | —        |
| (3) Investments in securities       |                           |            |          |
| Held-to-maturity securities         | 50                        | 36         | (13)     |
| Available-for-sale securities       | 377                       | 377        | —        |
| Assets Total                        | 4,956                     | 4,943      | (13)     |
| (4) Notes and accounts payable      | 3,364                     | 3,364      | —        |
| (5) Short-term bank borrowings      | 793                       | 793        | —        |
| (6) Long-term borrowings from banks | 1,882                     | 1,916      | 34       |
| (7) Lease obligations               | 420                       | 411        | (9)      |
| (8) Income tax payable              | 30                        | 30         | —        |
| Liabilities Total                   | 6,492                     | 6,516      | 24       |

- (1) Cash and time deposits; (2) Notes and accounts receivable  
Carrying value is used for fair value for these short-term items because these amounts are approximately the same.
- (3) Investments in securities  
Market prices on exchanges are used to determine the fair value of equity securities. Prices quoted by financial institutions are used to determine the fair value of bonds.
- (4) Notes and accounts payable; (5) Short-term bank borrowings; (8) Income tax payable  
Carrying value approximates fair value for these short-term items.
- (6) Long-term borrowings from banks  
Fair value of long-term borrowing is the discounted value of total principal and interest using an assumed interest rate on equivalent new borrowings.
- (7) Lease obligations  
The fair value of lease obligations is the discounted present value of total principal and interest using an assumed interest rate on equivalent new lease transactions.

\*2: Fair values that are difficult to determine:

|   | Millions of yen |             | Thousands of        |
|---|-----------------|-------------|---------------------|
|   | <u>2012</u>     | <u>2011</u> | <u>U.S. dollars</u> |
| Unlisted shares                                       | ¥48             | ¥48         | \$591               |
| Shares of subsidiaries and affiliates                 | 101             | 36          | 1,231               |
| Investments in capital of subsidiaries and affiliates | —               | 30          | —                   |

Market prices do not exist for these items. These items are not included in (3) investments in securities, because their fair values are not readily determinable.

## 10. Investments

In accordance with the accounting standard for financial instruments, investment securities include equity securities, bonds and other, of which the aggregate cost, gross unrealized gains/losses and fair value pertaining to held-to-maturity securities and available-for-sale securities at March 31, 2012 and March 31, 2011 were as follows.

### (1) Held-to-maturity securities

| Securities with book values exceeding |            |            |
|---------------------------------------|------------|------------|
| Millions of yen                       |            |            |
| 2012                                  |            |            |
| Book value                            | Fair value | Difference |
| —                                     | —          | —          |

| Thousands of U.S. dollars |            |            |
|---------------------------|------------|------------|
| 2012                      |            |            |
| Book value                | Fair value | Difference |
| —                         | —          | —          |

| Held-to-maturity securities           |            |            |
|---------------------------------------|------------|------------|
| Securities with book values exceeding |            |            |
| Millions of yen                       |            |            |
| 2011                                  |            |            |
| Book value                            | Fair value | Difference |
| —                                     | —          | —          |

| Other securities |            |            |
|------------------|------------|------------|
| Millions of yen  |            |            |
| 2012             |            |            |
| Book value       | Fair value | Difference |
| ¥50              | ¥37        | ¥(12)      |

| Thousands of U.S. dollars |            |            |
|---------------------------|------------|------------|
| 2012                      |            |            |
| Book value                | Fair value | Difference |
| \$608                     | \$458      | \$(150)    |

| Other securities |            |            |
|------------------|------------|------------|
| Millions of yen  |            |            |
| 2011             |            |            |
| Book value       | Fair value | Difference |
| ¥50              | ¥36        | ¥(13)      |

### (2) Available-for-sale securities

| Securities with book values exceeding |                  |            |
|---------------------------------------|------------------|------------|
| Millions of yen                       |                  |            |
| 2012                                  |                  |            |
| Book value                            | Acquisition cost | Difference |
| ¥1                                    | ¥1               | ¥0         |

| Thousands of U.S. dollars |                  |            |
|---------------------------|------------------|------------|
| 2012                      |                  |            |
| Book value                | Acquisition cost | Difference |
| \$22                      | \$13             | \$8        |

| Available-for-sale securities         |                  |            |
|---------------------------------------|------------------|------------|
| Securities with book values exceeding |                  |            |
| Millions of yen                       |                  |            |
| 2011                                  |                  |            |
| Book value                            | Acquisition cost | Difference |
| ¥1                                    | ¥1               | ¥0         |

| Other securities |                  |            |
|------------------|------------------|------------|
| Millions of yen  |                  |            |
| 2012             |                  |            |
| Book value       | Acquisition cost | Difference |
| ¥394             | ¥568             | ¥(173)     |

| Thousands of U.S. dollars |                  |            |
|---------------------------|------------------|------------|
| 2012                      |                  |            |
| Book value                | Acquisition cost | Difference |
| \$4,795                   | \$6,911          | \$(2,116)  |

| Other securities |                  |            |
|------------------|------------------|------------|
| Millions of yen  |                  |            |
| 2011             |                  |            |
| Book value       | Acquisition cost | Difference |
| ¥376             | ¥567             | ¥(191)     |

## 11. Segment Information

### (1) Overview of reportable segments

Segments used for financial reporting are the Nikko Group's constituent units for which separate financial information is available and for which the Board of Directors performs periodic studies for the purposes of determining the allocation of resources and evaluating performance.

The Group has established business divisions that comprise of the company and its subsidiaries and affiliates, and each division conducts business in line with the comprehensive strategies they have devised for products, merchandise and services in both domestic and overseas markets.

Therefore, the Group consists of segments by products, merchandise and services on the basis of the business divisions, and the "Housing & Environmental equipment", "Tabletop" and "Electro-Ceramics" are three reportable segments.

|                                   |   |
|-----------------------------------|---|
| Housing & Environmental Equipment | Septic tanks, Bathroom units, Water treatment facilities, Wind turbine system |
| Tabletop                          | Fine bone china, Fine vitrified china, Fine porcelain, Oven ware              |
| Electro-Ceramics                  | Alumina substrates, LTCC substrates, Dielectric ceramics                      |

### (2) Information related to net sales and profit or loss for each reportable segment

|   | Millions of yen                   |          |                  |       |         |            | Amounts on the consolidated financial statements |
|---|-----------------------------------|----------|------------------|-------|---------|------------|--|
|   | 2012                              |          |                  |       |         |            |  |
|   | Housing & Environmental Equipment | Tabletop | Electro-Ceramics | Other | Total   | Adjustment |  |
| Net sales:  |                                   |          |                  |       |         |            |  |
| Sales to outside customers                                      | ¥10,835                           | ¥5,245   | ¥2,096           | ¥62   | ¥18,239 | —          | ¥18,239  |
| Intersegment sales or Transfers                                 | —                                 | —        | —                | —     | —       | —          | —  |
| Total   | ¥10,835                           | ¥5,245   | ¥2,096           | ¥62   | ¥18,239 | —          | ¥18,239  |
| Segment profit (loss) (Operating income(loss))                  | 638                               | 184      | (223)            | (15)  | 583     | (551)      | 32   |
| Segment assets  | 4,009                             | 4,465    | 2,391            | 8     | 10,874  | 2,299      | 13,173   |
| Other items:  |                                   |          |                  |       |         |            |  |
| Depreciation and Amortization                                   | ¥123                              | ¥167     | ¥209             | 1     | ¥501    | ¥56        | ¥557   |
| Increase in Property, plant and equipment and Intangible assets | 54                                | 89       | 167              | —     | 312     | 3          | 315  |
| Impairment loss   | —                                 | —        | 41               | —     | 41      | —          | 41   |

Notes: 1. The "Other" category indicated businesses not included in reporting segments, including sales of other products.

2. Below is a description of adjustments.

(1) Segment income adjustment of 551 million yen consists of expenses, such as general administrative expenses, and research and development costs that do not belong to the reportable segments.

(2) Segment assets adjustment of 2,299 million yen includes assets that do not belong to the reportable segments. The assets consists of mainly surplus funds (cash and cash equivalents), long-term investment funds (investment securities), and the assets associated with administrative department and research and development department.

(3) Increase in Property, plant and equipment and Intangible assets adjustment of 3 million yen consists of capital investments

| Thousands of U.S. dollars                                       |   |          |                      |       |           |            |  |
|---|---|----------|----------------------|-------|-----------|------------|--|
| 2012  |   |          |                      |       |           |            |  |
|   | Housing &<br>Environmental<br>Equipment | Tabletop | Electro-<br>Ceramics | Other | Total     | Adjustment | Amounts on<br>the<br>consolidated<br>financial<br>statements |
| Net sales:  |   |          |                      |       |           |            |  |
| Sales to outside customers                                      | \$131,828                               | \$63,824 | \$25,507             | \$757 | \$221,917 | —          | \$221,917  |
| Intersegment sales or Transfers                                 | —                                       | —        | —                    | —     | —         | —          | —  |
| Total   | \$131,828                               | \$63,824 | \$25,507             | \$757 | \$221,917 | —          | \$221,917  |
| Segment profit (loss)<br>(Operating income(loss))               |   |          |                      |       |           |            |  |
|   | 7,772                                   | 2,244    | (2,721)              | (191) | 7,104     | (6,705)    | (399)  |
| Segment assets  |   |          |                      |       |           |            |  |
|   | 48,778                                  | 54,332   | 29,096               | 97    | 132,305   | 27,972     | 160,278  |
| Other items:  |   |          |                      |       |           |            |  |
| Depreciation and Amortization                                   | \$1,496                                 | \$2,041  | \$2,544              | \$19  | \$6,101   | \$686      | \$6,788  |
| Increase in Property, plant and equipment and Intangible assets | 667                                     | 1,091    | 2,039                | —     | 3,798     | 43         | 3,842  |
| Impairment loss   | —                                       | —        | 510                  | —     | 510       | —          | 510  |

| Millions of yen   |   |          |                      |       |        |            |  |
|---|---|----------|----------------------|-------|--------|------------|--|
| 2011  |   |          |                      |       |        |            |  |
|   | Housing &<br>Environmental<br>Equipment | Tabletop | Electro-<br>Ceramics | Other | Total  | Adjustment | Amounts on<br>the<br>consolidated<br>financial<br>statements |
| Net sales:  |   |          |                      |       |        |            |  |
| Sales to outside customers                                      | ¥4,390                                  | ¥2,247   | ¥1,085               | ¥31   | ¥7,754 | —          | ¥7,754   |
| Intersegment sales or Transfers                                 | —                                       | —        | —                    | —     | —      | —          | —  |
| Total   | 4,390                                   | 2,247    | 1,085                | 31    | 7,754  | —          | 7,754  |
| Segment profit (loss)<br>(Operating income(loss))               |   |          |                      |       |        |            |  |
|   | (20)                                    | (79)     | (18)                 | (16)  | (135)  | (273)      | (408)  |
| Segment assets  |   |          |                      |       |        |            |  |
|   | 3,593                                   | 4,493    | 2,563                | 8     | 10,660 | 2,628      | 13,288   |
| Other items:  |   |          |                      |       |        |            |  |
| Depreciation and Amortization                                   | ¥70                                     | ¥72      | ¥76                  | ¥0    | ¥219   | ¥24        | ¥244   |
| Increase in Property, plant and equipment and Intangible assets | 8                                       | 17       | 40                   | —     | 67     | 0          | 67   |
| Impairment loss   | 111                                     | —        | —                    | —     | 111    | —          | 111  |

Notes: 1. The "Other" category indicated businesses not included in reporting segments, including sales of other products.  
2. Below is a description of adjustments.

(1) Segment income adjustment of 273 million yen consists of expenses, such as general administrative expenses, and research and development costs that do not belong to the reportable segments.

(2) Segment assets adjustment of 2,628 million yen includes assets that do not belong to the reportable segments. The assets consists of mainly surplus funds (cash and cash equivalents), long-term investment funds (investment securities), and the assets associated with administrative department and research and development department.

(3) Increase in Property, plant and equipment and Intangible assets adjustment of 0 million yen consists of capital investment s associated with administrative department and research and development department.

## 12. Amounts Per Share Common Stock

Net income per share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding during the respective years.



## Board of Directors and Statutory Auditors

NIKKO COMPANY  
(As of June 26th, 2012)

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### Chairman

Mitsuru Mitani

### Chief Executive Officer

Kazuto Futamata

### Board Director, Senior Executive Officer

Kazuo Miyanabe (Housing & Environmental Equipment Division, General Manager)

### Board Directors

Yasuhiro Kurauchi (Finance & Administration, General Manager)  
Akiko Mitani (Table Top Division, responsible for Marketing Team)  
Ryuji Iwata

### Executive Corporate Auditor

Shigekazu Kaneda

### Auditors

Shigeru Sawa  
Takao Anzai

### Managing Officers

Makoto Aoki (Electro-Ceramics Division, General Manager)  
Katsunori Takashita (Tabletop Division, General Manager)  
Isao Hase (Housing & Environmental Equipment Division, Deputy General Manager / General Manager of Sales Department )

## Corporate Data

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### Head Office

383 Ainoki-Machi, Hakusan-City,  
Ishikawa-Prefecture 924-8686 Japan  
Tel : 076-276-2121 /Facsimile : 076-276-3309

### Date of Establishment

May 11th, 1908

### Show Room

Head Office, Tokyo, Osaka, Nagoya, Fukuoka, New York  
Concept Shop "SAWA"  
Directly Managed Shop "TABLE WITH"  
Directly Managed Shop "LATABLE"

### Factories

Head Factory, Tsurugi Factory, Saitama Factory

### Subsidiaries and Affiliates

NIKKO CERAMICS, INC. (U.S.A.)  
Nikko Hanbai Co., Ltd. (Japan)  
Nikko ME Co., Ltd. (Japan)  
N&I ASIA PTE LTD. (Singapore)  
NIKKO MIDDLE EAST TRADING LLC (UAE)  
Nikko Care Co., Ltd. (Japan)  
Sai Co., Ltd. (Japan)

### Japanese Stock Exchange

Nagoya Stock Exchange

### Transfer Agent and Registrar

Sumitomo Mitsui Trust Bank, Limited  
5-33 Kitahama 4-chome, Chuo-ku, Osaka 541-0041  
Japan

### Annual General Meeting

The annual general meeting of shareholders  
is held in June each year in Ishikawa-Prefecture

### Auditors

AZSA & CO.

### URL

<http://www.nikko-company.co.jp/>