Financial Section

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2012, 2011, 2010, 2009, 2008 and 2007

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data) (Note 1)
	2012	2011	2010	2009	2008	2007	2012
For the year:							
Net sales	¥ 473,069	¥ 497,452	¥455,287	¥488,638	¥626,929	¥628,805	$5,769,134
Operating income	24,495	43,471	38,341	19,938	60,493	55,750	298,720
Net income	16,427	18,943	23,509	2,740	31,438	32,766	200,329
Cash dividends	7,497	7,497	6,664	6,665	6,636	5,806	91,427
Capital expenditures	37,347	30,432	20,984	35,972	37,383	37,661	455,451
Depreciation and amortization	28,240	28,985	31,666	34,560	32,866	28,077	344,390
Research and development expenses	25,680	26,382	25,402	27,617	28,166	27,835	313,171
At year-end:							
Total assets	¥ 440,981	¥ 432,184	¥426,586	¥391,350	¥458,741	¥470,864	$5,377,817
Total liabilities	153,742	141,873	143,984	127,762	183,771	202,508	1,874,902
Interest-bearing liabilities (Note 2)	40,856	27,151	24,557	30,806	37,210	39,312	498,244
Total net assets (Stockholders' equity)	287,239	290,311	282,602	263,588	274,970	268,356	3,502,915
Per share data:							
Net income (basic)	¥ 78.88	¥ 90.96	¥ 112.88	¥ 13.15	¥ 151.60	¥ 158.02	$ 0.96
Net income (diluted)	—	—	—	13.15	151.57	157.95	—
Cash dividends	36.00	36.00	32.00	32.00	32.00	28.00	0.44
Net assets	1,359.33	1,320.30	1,289.11	1,203.92	1,251.66	1,175.49	16.58
Value indicators:							
Operating margin (%)	5.2	8.7	8.4	4.1	9.6	8.9	
Return on sales (%)	3.5	3.8	5.2	0.6	5.0	5.2	
Return on equity (ROE) (%)	5.9	7.0	9.1	1.1	12.5	14.3	
Return on assets (ROA) (%)	3.8	4.4	5.7	0.6	6.8	7.2	
Net worth ratio (Stockholders' equity ratio) (%)	64.2	63.6	62.9	64.1	56.6	51.8	
Debt/Equity ratio (DER) (times)	0.1	0.1	0.1	0.1	0.1	0.2	
Inventory turnover (times)	11.7	13.2	12.7	12.4	13.7	13.6	
Number of employees	16,713	15,930	15,267	15,289	15,303	17,502	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥82=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 30, 2012.
2. Interest-bearing liabilities include trade notes discounted.

For the Year Ended March 31, 2012

RESULTS OF OPERATIONS

An Overview of Economic Trends and Results

In fiscal 2011, the fiscal year ended March 31, 2012, difficult socio-political and economic conditions both in Japan and overseas placed considerable downward pressure on operating results.

The global economy effectively stalled throughout the fiscal year under review. Despite a pickup in both personal and capital investment activity in the U.S. prompting a modest upward trend, stagnant conditions were mainly the result of financial issues in Greece, which triggered a debt crisis that has spread to most European countries.

In addition, newly emerging countries including China and India, which are expected to drive the global economy forward, witnessed a slowing down in their growth rates owing to weak exports reflecting the aforementioned slump in European economic activity. Taking these factors into consideration, the global economy lacked overall strength.

On the domestic front, corporate-sector production activity steadily recovered from the considerable impacts of the Great East Japan Earthquake. Despite this positive turnaround, the Japanese economy again stalled due mainly to sharp appreciation in the value of the yen and a slowdown in the pace of export activity from the second half. In overall terms, the future became shrouded in a cloud of uncertainty.

Under these circumstances, the Hitachi Chemical Group worked diligently to bring about a swift restoration of certain facilities damaged by the earthquake disaster in Japan and the floods in Thailand. Every effort was made to rebuild bases in Japan and to strengthen overseas manufacturing bases with the aim of ensuring stable product supply.

As the Hitachi Chemical Group moves forward in securing the restoration and reconstruction of its operations following the earthquake and other disasters, considerable emphasis will be placed on establishing a new growth trajectory. To this end , the Group will strengthen existing businesses that offer the potential for further growth and ensure production volumes commensurate with an appropriate level of profits. In addition to the ongoing development of high-value-added products and efforts to expand overseas businesses, the Hitachi Chemical Group is implementing organizational reforms in an effort to promote increased management efficiency on a consolidated basis and the reduction of fixed and operating costs.

In specific terms, and reflecting the results of its endeavors, Hitachi Chemical implemented a tender offer to acquire shares of Shin-Kobe Electric Machinery Co., Ltd. in December 2011. The company was then included in Hitachi Chemical's scope of consolidation as a wholly owned subsidiary. Moreover, through the acquisition of shares in November 2011, Mica-Ava (Far East) Industrial Limited and Mica-AVA (Guangzhou) Material Company Ltd., companies that manufacture copper-clad laminated for printed wiring boards, were included in the Company's scope of consolidation as subsidiaries.

By implementing each of the aforementioned initiatives, the Hitachi Chemical Group channeled its energies toward both stabilizing and expanding its business. Despite these endeavors, the Group's performance was significantly affected by a variety of factors including a slowdown in the rates of growth in each of the semiconductor and LCD-related markets as well as a series of natural disasters. As a result, net sales, operating income and net income for the fiscal year ended March 31, 2012 fell below the levels recorded in the fiscal year ended March 31, 2011.

Net Sales

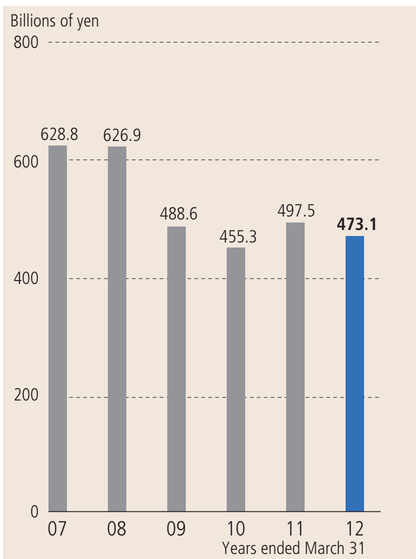
For the fiscal year under review, Hitachi Chemical recorded consolidated net sales of ¥473,069 million. This was ¥24,383 million, or 4.9%, lower than the previous fiscal year and reflected such factors as the decline in production by automobile manufacturers following the earthquake disaster of March 2011, sluggish conditions in the markets for semiconductors and LCD, and appreciation in the value of the yen.

Turning to results by individual business segment, sales of Functional Materials contracted ¥11,573 million, or 4.6%, year on year to ¥240,411 million. On a positive note, results were buoyed by an increase in sales of carbon anode materials for lithium ion batteries on the back of continued keen interest in environmentally friendly automobiles and the continued surge in smart phones and tablet PCs. Moreover, sales of FINESET (optical clear adhesive film) for use in tough panels represented mainly by smartphones and tablet PCs increased and provided a beneficial effect.

Despite these favorable trends, particularly during the first half of the fiscal year under review, the overall downturn in segment results was largely attributable to the drop in products including epoxy molding compounds used in the back-end processes of semiconductor manufacturing as well as die bonding materials reflecting the sluggish semiconductor market. In the LCD fields, weak demand for LCD TVs and PCs pushed down sales of anisotropic conductive films and adhesive films.

In the Advanced Components and Systems segment, sales totaled ¥232,658 million. This was ¥12,810 million, or 5.2%, lower than the previous fiscal year. In the fiscal year under review, sales of interior and exterior plastic molded products as well as powder metal products declined compared with the previous fiscal year. This mirrored the drop in the operating rate of automobile manufacturers resulting from the earthquake in Japan and the flooding in Thailand. Sales of friction materials contracted year on year due to the suspension of production at a local Thai manufacturing site. Efforts to progressively shift production to alternative sites were also insufficient to offset the suspension of operations in the precautionary zone established as a result of incidents at the Fukushima Dai-ichi Nuclear Power Station. Capacitors also performed poorly due in part to the reduction in subsidies for photovoltaic solar

Net Sales



system in Europe. As a measure of continued demand growth for environmentally friendly automobiles equipped with such features as idling-stop systems, sales of batteries improved.

Overseas sales amounted to ¥200,714 million, representing a year-on-year decrease of ¥15,386 million, or 7.1%. The drop in sales was most prominent in Asia. Overseas sales accounted for 42.4% of total net sales. This was a 1.0 percentage point decline compared with the previous fiscal year.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales decreased ¥4,231 million, or 1.1%, compared with the previous fiscal year to ¥368,983 million largely reflecting the downturn in net sales as well as the sharp increase in raw material costs. Despite efforts to reduce costs, the cost of sales ratio to total net sales climbed 3.0 percentage points from 75.0% in fiscal to 2010 to 78.0%.

Selling, general and administrative (SG&A) expenses totaled ¥79,591 million, ¥1,176 million, or 1.5%, lower than the previous fiscal year. SG&A expenses as a ratio to total net sales rose 0.6 of a percentage point year on year to 16.8%.

Operating Income

Taking into account the aforementioned factors, operating income fell ¥18,976 million, or 43.7%, compared with the previous fiscal year to ¥24,495 million. This also largely reflected the impacts of fluctuations in foreign currency exchange rates and most notably appreciation in the value of the yen as well as the sharp rise in raw material costs. In similar fashion, the operating income margin deteriorated 3.5 percentage points from 8.7% in fiscal 2010 to 5.2%

In the Functional Materials segment, operating income declined ¥11,071 million, or 35.6%, year on year to ¥20,004 million. The operating income margin in this segment decreased 4.0 percentage points to 8.3%. In the Advanced Components and Systems segment, operating income contracted ¥7,876 million, or 63.6%, to ¥4,511 million. The operating income margin in this segment was 1.9%, down 3.1 percentage points.

Other Income (Expenses)

In the fiscal year under review, net other income amounted to ¥5,577 million, a positive turnaround of ¥14,031 million from net other expenses of ¥8,454 million in fiscal 2010.

Other expenses were again wide ranging and included losses attributable to the Great East Japan Earthquake and floods in Thailand. Buffeted by incidents at the Fukushima Dai-ichi Nuclear Power Station, the Company was forced to suspend operations in the Namie area, which was designated a precautionary zone. On a consolidated basis, the Group accordingly recorded losses owing to the relocation of the facilities of Namie Hitachi Chemical Co., Ltd. and Namie Japan Brake Co., Ltd. as well as losses attributable to fixed costs for the period that operations were suspended owing to the earthquake disaster including incidents at the Fukushima Dai-ichi Nuclear Power Station as well as the floods in Thailand.

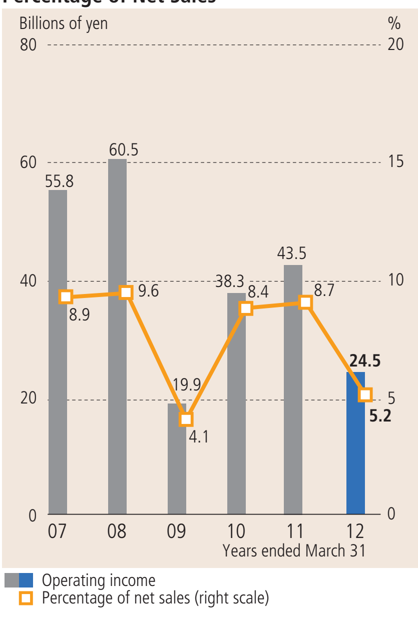
Boosting other income even further, the Company received insurance payments in connection with the assets damaged as a result of the earthquake disaster. In addition, Hitachi Chemical received compensation for lost profits attributable to incidents at the Fukushima Dai-ichi Nuclear Power Station from the Tokyo Electric Power Company, Incorporated.

Net Income

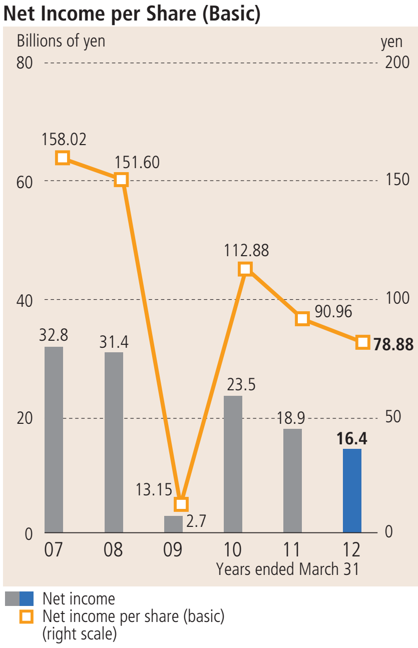
Mirroring the downturn in revenues and earnings, income taxes declined ¥2,217 million, or 15.9%, compared with the previous fiscal year to ¥11,769 million. Minority interest in income also contracted ¥212 million year on year to ¥1,876 million.

Accounting for all of the aforementioned factors, net income for the fiscal year under review amounted to ¥16,427 million, down ¥2,516 million, or 13.3%, compared with the previous fiscal year. As a ratio of net sales, this represented a decline of 0.3 of a percentage point to 3.5%. Return on equity (ROE) also contracted 1.1 percentage points to 5.9% while return on assets (ROA) decreased 0.6 of a percentage point to 3.8%. Net income per share (basic) fell from ¥90.96 in the previous fiscal year to ¥78.88 in the fiscal year under review.

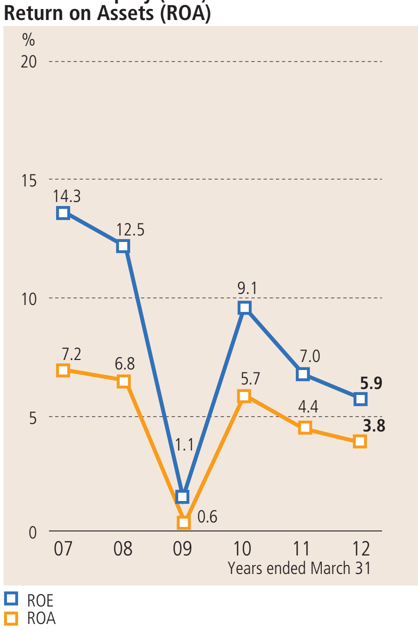
Operating Income / Percentage of Net Sales



Net Income / Net Income per Share (Basic)



Return on Equity (ROE) / Return on Assets (ROA)



FINANCIAL CONDITION

Cash Flows

Cash and cash equivalents as of March 31, 2012 stood at ¥76,318 million. This was ¥20,457 million lower than the end of the previous fiscal year.

Net cash provided by operating activities contracted ¥1,943 million year on year to ¥42,072 million. This contraction was mainly attributable to the decline in income before income taxes and minority interests.

Net cash used in investing activities amounted to ¥67,202 million, up ¥31,454 million year on year. This largely reflected purchases of subsidiaries' and affiliated companies' stock and investments in securities.

Net cash provided by financing activities was ¥4,611 million in fiscal 2011 compared with net cash used in financing activities of ¥6,823 million in the previous fiscal year. Major cash inflow was proceeds from issuance of debentures.

Cash Flows
Years ended March 31, Billions of yen

	2012	2011	2010
Cash flows from operating activities	¥ 42.1	¥ 44.0	¥ 56.5
Cash flows from investing activities	△67.2	△35.7	△20.0
Cash flows from financing activities	4.6	△6.8	△12.6
Cash and cash equivalents at end of year	76.3	96.8	97.6

Assets, Liabilities, and Net Assets

Assets

Total assets stood at ¥440,981 million as of March 31, 2012, an increase of ¥8,797 million compared with the previous fiscal year-end. While current assets contracted ¥21,651 million year on year due mainly to the drop in deposits to related companies, total fixed assets climbed ¥30,448 million largely reflecting increases in property, plant and equipment as well as intangible assets.

Liabilities

Total liabilities amounted to ¥153,742 million, up ¥11,869 million compared with the end of the previous fiscal year. The principal movement was total fixed liabilities, which rose ¥11,098 million, and primarily was the result of the issuance of debentures.

Net Assets

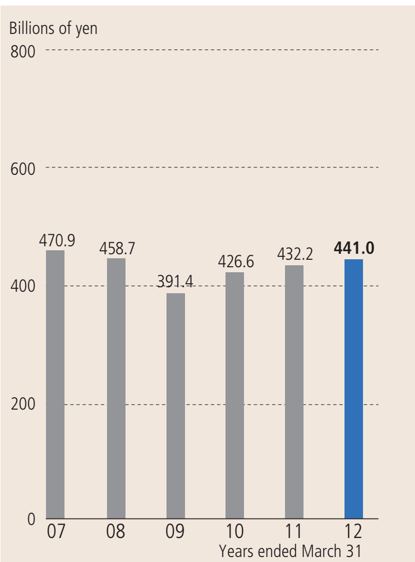
Net assets came to ¥287,239 million, a decrease of ¥3,072 million year on year. This largely reflected the drop in minority interests of ¥11,196 million, following the acquisition of additional subsidiary company shares, which offset the upswing in retained earnings of ¥8,903 million.

Capital Expenditure, Research and Development Expenses

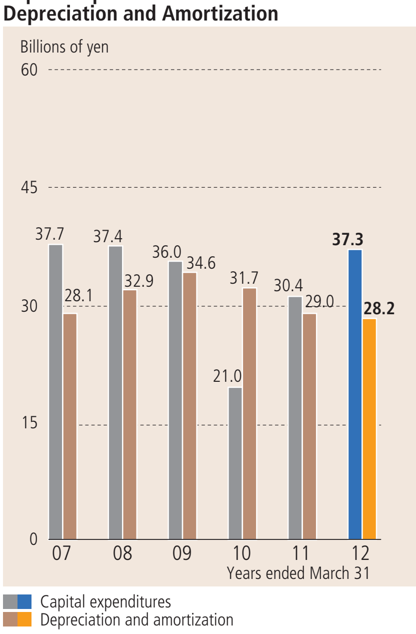
In addition to operating activities, capital expenditure totaled ¥37,347 million, an increase of ¥6,915 million compared with the previous fiscal year. This largely reflected the Company's aggressive approach toward overseas investment in order to capture robust overseas demand mainly in developing countries. Overseas capital expenditures in fiscal 2011 amounted to 39% of the Company's total capital expenditures. This was a significant increase from the 25% in the previous fiscal year.

R&D expenses in the fiscal year under review were ¥25,680 million, a decrease of ¥702 million, or 2.7%, compared with the previous fiscal year. This represented 5.4% of total net sales, up 0.1 of a percentage point year on year.

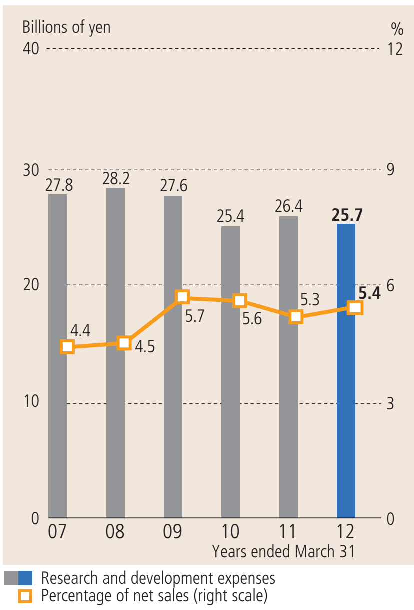
Total Assets



Capital Expenditures/ Depreciation and Amortization



Research and Development Expenses / Percentage of Net Sales



BASIC POLICY ON THE APPROPRIATION OF EARNINGS DIVIDENDS FOR THE CURRENT FISCAL YEAR

Hitachi Chemical takes into consideration wide-ranging factors including its operating environment, performance, future business prospects, and payout ratio in allocating earnings to shareholders and maintaining internal capital reserves. The Company utilizes internal capital reserves to develop high-value added products, promote the activation of existing businesses and to effectively build on its robust financial platform.

Turning to cash dividends for the fiscal year ended March 31, 2012, Hitachi Chemical paid a period-end cash dividend of ¥18 per share. Coupled with the interim cash dividend of ¥18 per share, this resulted in an annual cash dividend to ¥36 per share, unchanged from the previous fiscal year. Looking ahead, to fiscal 2012, the fiscal year ending March 31, 2013, Hitachi Chemical plans to pay an annual cash dividend of ¥36 per share, comprising an interim cash dividend of ¥18 per share and a period-end cash dividend of ¥18 per share.

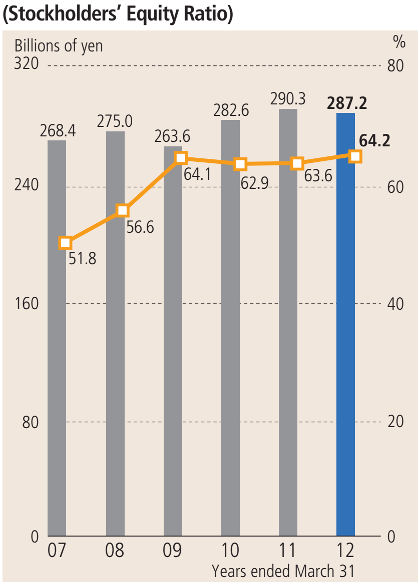
OUTLOOK AND FORECASTS FOR THE FISCAL YEAR ENDING MARCH 31, 2013

Looking ahead, the U.S. economy offers limited comfort with its recovery lacking in overall strength. There are also concerns that the persistent debt crisis in Europe will continue to have a negative impact on the economies of emerging countries. On the domestic front, the Japanese economy is expected to remain precarious, marked by the sluggish increase in exports, rising crude oil prices, electric power shortages, and resultant decline in corporate-sector earnings.

Against this backdrop and a future economic environment that remains shrouded in uncertainty, the Hitachi Chemical Group will implement measures that preempt any future change, expand its business scale in global markets and improve earnings capabilities with the aim of building a strong operating platform that is capable of taking the next leap forward.

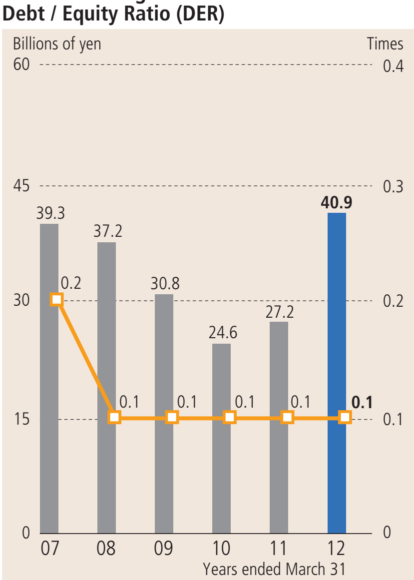
Moving forward, the Company is projecting net sales of ¥510,000 million in the fiscal year ending March 31 2013, an increase of 7.8% year on year. From a profit perspective, operating income is forecast to rise 47.0% to ¥36,000 million with net income climbing 30.9% compared with the fiscal year under review to ¥21,500 million.

Total Net Assets (Stockholders' Equity) / Net Worth Ratio (Stockholders' Equity Ratio)



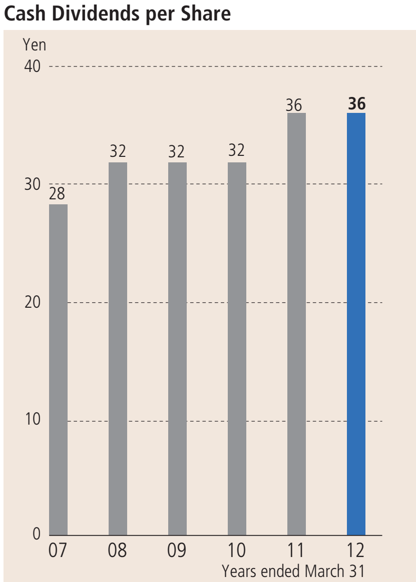
Total net assets (Stockholders' equity)
Net worth ratio (Stockholders' equity ratio) (right scale)

Interest-bearing Liabilities/ Debt / Equity Ratio (DER)



Interest-bearing liabilities
Dept / Equity ratio (DER) (right scale)

Cash Dividends per Share



BUSINESS AND OTHER RISKS

Hitachi Chemical operates globally in a diverse range of fields, using sophisticated, specialized technologies. For this reason, a variety of factors may materially impact Group operations. These major business and other risks are described below. Statements concerning the future represent the judgment of Hitachi Chemical as of March 31, 2012.

(1) Exchange Rate Fluctuations

Hitachi Chemical holds assets and liabilities from overseas operations that are affected by fluctuations in foreign exchange rates. Due to product exports and raw material imports usually denominated in U.S. dollars, and at times in other local currencies, exchange rate fluctuations may exert a material impact on the performance of the Group. The appreciation of the yen against the U.S. dollar and other currencies may exert a material impact on earnings by weakening the competitiveness of products exported to overseas markets. The Group pursues measures to attenuate the risk from exchange rate fluctuations, but cannot guarantee that exchange rate fluctuations will not affect performance.

(2) Major Raw Material Price Fluctuations

Many of Hitachi Chemical's products use petrochemical products as raw materials. The purchase prices of petrochemical products are susceptible to fluctuations in crude oil prices. In addition, fluctuations in the markets for other raw materials and export regulations in producing countries may increase procurement costs or make it difficult to procure the necessary quantities. These factors may exert a material impact on Group performance.

(3) Acquisitions, Joint Ventures, and Strategic Alliances

Hitachi Chemical may acquire outside companies, establish joint ventures, and implement strategic alliances in order to develop new technologies and products, and raise competitiveness. These complex initiatives involve integration of businesses, technologies, products, and personnel that requires time and expense. Failure to implement these initiatives as planned may exert a material impact on Group operations. The success of these business alliances is determined in part by factors beyond the Group's control including alliance partner decisions and capabilities, and market trends. Implementation of these initiatives may cause the Group to incur acquisition-related expenses including expenses for integration and restructuring of acquired businesses. In addition, the Group cannot guarantee that it will succeed in integrating acquired businesses or that its initiatives will achieve all or part of initial objectives.

(4) Potential Risks in Overseas Activities

Hitachi Chemical produces and sells products in Japan, countries in Asia, the United States, and in other regions. Exposure to political and social risks in these overseas markets may exert a material impact on the financial position and performance of the Group.

(5) Public Regulations

Hitachi Chemical's business activities are subject to various regulations in the countries in which it operates. The regulations include legal obligations related to foreign investment, trade, competition, intellectual properties, taxes, exchange rates, the environment, and recycling. Significant changes to these regulations could restrict operations, increase costs, and exert a material impact on Group performance.

(6) Financial Risk

Hitachi Chemical holds equities and other marketable securities. A decrease in the value of these marketable securities may exert a material impact on the financial position and performance of the Group. In addition, long-term procurement of funds from capital markets exposes the Group to risk associated with interest rate fluctuations and credit.

(7) Retirement Benefit Obligations

Hitachi Chemical bears considerable retirement benefit expense obligations that are computed using actuarial calculations. These appraisals involve important assumptions about conditions for estimating the fair value of pension assets including mortality rates, decrement rates, retirement rates, salary changes, discount rates, and expected rates of return on pension assets. In making these assumptions, the Group must take into account numerous factors including personnel conditions, current market conditions, and future interest rate trends. Although the Group makes reasonable assumptions about conditions based on key factors, it cannot guarantee that projections will agree with actual results. Lower discount rates lead to an increase in actuarial retirement benefit obligations. An increase or decrease in retirement benefit obligations may influence the actuarial difference amortized over the period of employment. Accordingly, changes in conditions may exert a material impact on the financial position and performance of the Group.

(8) Relationship with the Parent Company

As of March 31, 2012, Hitachi, Ltd., the parent company of Hitachi Chemical Co., Ltd., holds 51.2 percent of the Company's total number of shares issued and 51.4 percent of the total number of shares with voting rights (exclusive of indirect shareholdings). Hitachi, Ltd. oversees numerous associated companies, and engages in a wide variety of operations covering the manufacture, sale, and service of products in five groups: Information & Telecommunication Systems, Infrastructure Systems, Power Systems, Construction Machinery and High Functional Materials & Components. Hitachi Chemical Co., Ltd. is part of the Hitachi Group's High Functional Materials & Components, and two of its seven Directors serve concurrently as Director or Executive Officer of Hitachi, Ltd. (as of June 21, 2012). The close relations between Hitachi Chemical Co., Ltd. and its parent company in areas including technical and personnel cooperation and product supply may lead to situations in which Hitachi Group developments exert a material impact on the management strategy and other policies of Hitachi Chemical.

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

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2012	2011	2012
Current assets:			
Cash and deposits (Notes 3 and 21)	¥ 37,703	¥ 39,984	$ 459,793
Deposits to related companies (Notes 3, 21 and 25)	38,698	56,911	471,927
Trade receivables (Note 3):			
Notes	10,150	11,576	123,781
Accounts	96,976	95,363	1,182,634
	107,126	106,939	1,306,415
Short-term investments in securities (Notes 3 and 4)	1,897	5,691	23,134
Inventories (Note 5)	42,519	38,583	518,524
Other current assets (Note 6)	22,195	24,601	270,671
Less allowance for doubtful receivables	△1,639	△2,559	△19,988
Total current assets	248,499	270,150	3,030,476
Property, plant and equipment, at cost (Note 7):	544,784	525,067	6,643,707
Less accumulated depreciation	△413,489	△404,554	△5,042,549
Net property, plant and equipment (Note 8)	131,295	120,513	1,601,158
Intangible assets			
Goodwill	24,683	1,629	301,012
Other intangible assets	5,022	4,930	61,244
Total intangible assets	29,705	6,559	362,256
Investments and other assets:			
Investments in affiliated companies under the equity method	6,427	5,544	78,378
Investments in securities (Notes 3 and 4)	7,746	11,731	94,463
Other assets (Notes 6 and 9)	18,008	18,501	219,610
Less allowance for doubtful accounts	△699	△814	△8,524
Total investments and other assets	31,482	34,962	383,927
	¥440,981	¥432,184	$5,377,817

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2012	Millions of yen 2011	Thousands of U.S. dollars (Note 2) 2012
Current liabilities:			
Short-term debt (Notes 3 and 8)	¥ 15,931	¥ 12,895	$ 194,280
Trade payables (Note 3):			
Notes	63	58	768
Accounts	50,304	52,683	613,464
	50,367	52,741	614,232
Accrued expenses	19,080	20,622	232,683
Accrued income taxes	5,204	6,525	63,463
Provision for loss on disaster	12	2,461	146
Other current liabilities	18,820	13,399	229,513
Total current liabilities	109,414	108,643	1,334,317
Long-term debt (Notes 3 and 8)	24,739	14,031	301,695
Retirement and severance benefits (Note 9)	16,544	16,044	201,756
Other liabilities (Notes 6 and 10)	3,045	3,155	37,134
Total liabilities	153,742	141,873	1,874,902
Commitments and contingencies (Note 14)			
Net Assets:			
Stockholders' equity			
Common stock (Note 12) Authorized-800,000,000 shares; Issued-208,364,913 shares in 2012 and 208,364,913 shares in 2011 (Note 11)	15,454	15,454	188,463
Capital surplus (Note 12)	36,113	36,113	440,402
Retained earnings (Note 12)	248,325	239,422	3,028,354
Treasury stock, at cost, 115,612 shares in 2012 and 113,682 shares in 2011(Note 13)	△191	△188	△2,329
Total stockholders' equity	299,701	290,801	3,654,890
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	732	1,553	8,927
Deferred gains or losses on hedges	△166	△41	△2,024
Foreign currency translation adjustments	△17,188	△17,358	△209,610
Total accumulated other comprehensive income	△16,622	△15,846	△202,707
Minority Interests	4,160	15,356	50,732
Total net assets	287,239	290,311	3,502,915
	¥440,981	¥432,184	$5,377,817

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2011
(Consolidated Statements of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Net sales	¥473,069	¥497,452	$5,769,134
Cost of sales (Note 15)	△368,983	△373,214	△4,499,793
Gross profit	104,086	124,238	1,269,341
Selling, general and administrative expenses (Note 15)	△79,591	△80,767	△970,621
Operating income	24,495	43,471	298,720
Other income (expenses):			
Interest income	321	301	3,915
Dividends income	286	231	3,488
Equity in earnings (losses) of affiliated companies	1,288	1,396	15,707
Foreign exchange losses	△211	△1,118	△2,573
Interest expenses	△761	△613	△9,280
Loss on disposal of property, plant and equipment	△869	△1,092	△10,598
Product warranty expenses	△312	△402	△3,805
Net gain on sale of investments in securities	1,666	204	20,317
Royalty income	1,348	1,395	16,439
Net gain on sale of property, plant and equipment	340	293	4,146
Amortization of negative goodwill	—	645	—
Business structure improvement expenses	△862	—	△10,512
Impairment losses on fixed assets (Note 16)	△599	△1,840	△7,305
Gain (loss) on step acquisitions (Note 24)	△191	392	△2,329
Reversal of allowance for doubtful accounts	135	2,317	1,646
Loss on adjustment for changes of accounting standard for asset retirement obligation	—	△620	—
Loss on disaster (Note 17)	△2,099	△10,274	△25,598
Insurance income	3,142	278	38,317
Compensation income (Note 18)	2,553	—	31,134
Other, net	402	53	4,903
	5,577	△8,454	68,012
Income before income taxes and minority interests	30,072	35,017	366,732
Income taxes (Note 6)	△11,769	△13,986	△143,525
Income before minority interests	18,303	21,031	223,207
Minority interests in income	△1,876	△2,088	△22,878
Net income	¥ 16,427	¥ 18,943	$ 200,329

	Yen		U.S. dollars (Note 2)
	2012	2011	2012
Basic net income per share (Note 20)	¥78.88	¥90.96	$0.96
Diluted net income per share (Note 20)	—	—	—

See accompanying notes to consolidated financial statements.

(Consolidated Statements of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Income before minority interests	¥18,303	¥21,031	$223,207
Other comprehensive income:			
Valuation difference on available-for-sale securities	△770	△443	△9,390
Deferred gains or losses on hedges	△185	△25	△2,256
Foreign currency translation adjustments	241	△4,736	2,939
Share of other comprehensive income of associates accounted for using equity method	△100	△116	△1,220
	△814	△5,320	△9,927
Comprehensive income (Note 19)	17,489	15,711	213,280
Comprehensive income attributable to owners of the parent	15,650	13,774	190,854
Comprehensive income attributable to minority interests	¥ 1,839	¥ 1,937	$ 22,426

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Common stock (Note 11):			
Balance at beginning of year	¥ 15,454	¥ 15,454	$ 188,463
Balance at end of year	15,454	15,454	188,463
Capital surplus:			
Balance at beginning of year	36,113	36,113	440,402
Gain (loss) on sale of treasury stock	0	0	—
Balance at end of year	36,113	36,113	440,402
Retained earnings:			
Balance at beginning of year	239,422	227,754	2,919,780
Net income	16,427	18,943	200,329
Cash dividends (Note 12)	△7,497	△7,289	△91,427
Gain (loss) on sale of treasury stock	0	—	—
Other	△27	14	△328
Balance at end of year	248,325	239,422	3,028,354
Treasury stock (Note 13):			
Balance at beginning of year	△188	△181	△2,293
Purchase of treasury stock	△3	△8	△36
Sale of treasury stock	0	1	0
Balance at end of year	△191	△188	△2,329
Valuation difference on available-for-sale securities:			
Balance at beginning of year	1,553	1,985	18,939
Net change during the year	△821	△432	△10,012
Balance at end of year	732	1,553	8,927
Deferred gains or losses on hedges:			
Balance at beginning of year	△41	△20	△500
Net change during the year	△125	△21	△1,524
Balance at end of year	△166	△41	△2,024
Foreign currency translation adjustments:			
Balance at beginning of year	△17,358	△12,642	△211,683
Net change during the year	170	△4,716	2,073
Balance at end of year	△17,188	△17,358	△209,610
Minority interests:			
Balance at beginning of year	15,356	14,139	187,268
Net change during the year	△11,196	1,217	△136,536
Balance at end of year	4,160	15,356	50,732
Total net assets	¥287,239	¥290,311	$3,502,915

See accompanying notes to consolidated financial statements.

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2012	2011	2012
Cash flows from operating activities (Note 21):			
Net income	¥16,427	¥18,943	$200,329
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	28,240	28,985	344,390
Amortization of (negative) goodwill	808	△329	9,854
Deferred income taxes	3,383	575	41,256
Net loss on retirement and sale of property, plant and equipment	626	799	7,634
Minority interests in income	1,876	2,088	22,878
Net gain on sale of investments in securities	△1,664	△204	△20,293
Equity in earnings (losses) of affiliated companies	△1,288	△1,396	△15,707
Impairment losses on fixed assets (Note 21)	599	6,555	7,305
Decrease (Increase) in trade receivables	1,023	△4,912	12,476
Decrease (Increase) in inventories	△2,971	△1,951	△36,232
Decrease (Increase) in accounts receivable other	△166	△1,752	△2,024
Increase (decrease) in trade payables	△2,324	1,320	△28,341
Increase (decrease) in accrued expenses	△2,118	△1,420	△25,829
Increase (decrease) in accrued income taxes	△1,286	△4,709	△15,683
Increase (decrease) in accounts payable other	976	△290	11,902
Increase (decrease) in provision for loss on disaster	△2,449	2,461	△29,866
Increase (decrease) in retirement and severance benefits	500	492	6,098
Other	1,880	△1,240	22,926
Net cash provided by operating activities	42,072	44,015	513,073
Cash flows from investing activities:			
Purchases of short-term investment in securities	△500	△3,499	△6,098
Proceeds from redemption of short-term investment in securities	5,700	499	69,512
Purchases of property, plant and equipment	△33,546	△27,511	△409,098
Proceeds from sale of property, plant and equipment	1,921	479	23,427
Purchases of subsidiaries' and affiliated companies' stock and investments in securities	△38,301	△3,152	△467,085
Purchases of investments in subsidiaries resulting in change in scope of consolidation	△4,944	△1,596	△60,293
Proceeds from sale of subsidiaries' and affiliated companies' stock and investments in securities	4,083	281	49,793
Purchases of trust beneficiary right	—	△5,770	—
Proceeds from redemption of trust beneficiary right	—	6,769	—
Payments of loans receivable	△38	△2,166	△463
Collection of loans receivable	819	135	9,988
Other	△2,396	△217	△29,220
Net cash used in investing activities	△67,202	△35,748	△819,537
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	2,911	△2,323	35,500
Proceeds from long-term debt	1,606	3,226	19,585
Payments of long-term debt	△1,856	△54	△22,634
Proceeds from issuance of debentures	10,000	—	121,951
Redemption of bonds payable	—	—	—
Dividends paid to stockholders	△7,497	△7,289	△91,427
Dividends paid to minority stockholders of consolidated subsidiaries	△497	△287	△6,061
Other	△56	△96	△682
Net cash used in financing activities	4,611	△6,823	56,232
Effect of exchange rate changes on cash and cash equivalents	△67	△2,386	△817
Net increase (decrease) in cash and cash equivalents	△20,586	△942	△251,049
Cash and cash equivalents at beginning of year	96,775	97,603	1,180,183
Increase (decrease) in cash and cash equivalents resulting from change in fiscal year-end of consolidated subsidiaries	129	114	1,573
Cash and cash equivalents at end of year (Notes 21)	¥76,318	¥96,775	$930,707

See accompanying notes to consolidated financial statements.

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2012 and 2011

1. Basis of Presentaiton and Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements of Hitachi Chemical Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements (the "MOF" report) prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its effectively controlled subsidiaries, whether directly or indirectly controlled. All significant intercompany accounts and transactions have been eliminated in consolidation.

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in consolidated net income. The investments in affiliated companies which do not materially affect earnings and equity are stated at cost.

Goodwill, based on the fair value, acquired by the Company is being amortized on a straight-line basis over their estimated useful period by each individual investment in subsidiaries, not exceeding twenty years or, if the amount is not material, charged immediately to earnings.

(c) Cash and Cash Equivalents

For the purpose of the consolidated statements of cash flows, the Company and its consolidated companies consider all highly liquid investments with insignificant risk of change in value, which have maturities of generally three months or less when purchased, to be cash equivalents.

(d) Allowance for Doubtful Receivables

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. When considered necessary, specific reserves are made based on the assessment of individual receivables.

(e) Investments in Securities

Securities are to be classified into one of the following two categories and accounted for as follows:

• Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.

• Securities other than held-to-maturity securities are classified as other securities. Unrealized holding gains and losses of other securities with fair values are reported as a net amount in a separate component of net assets until realized. Other securities without fair values are carried at cost.

In computing realized gain or loss, cost of other securities is principally determined by the moving-average method.

(f) Inventories

Inventories are mainly stated at cost determined by the moving-average method. When their costs exceed the net realized value, inventories are written down to the net realized value.

(g) Property, Plant and Equipment (Except for lease assets)

Property, plant and equipment are stated at cost and depreciated over the estimated useful lives of the respective assets by the declining-balance method, except for certain buildings of the Company and domestic consolidated subsidiaries, placed in service after April 1, 1998, which are depreciated by the straight-line method.

(h) Intangible Assets (Except for lease assets)

Intangible assets are amortized mainly on a straight-line basis. Cost incurred for computer software for internal use is capitalized and amortized on a straight-line basis over its estimated useful life.

(i) Leases

Lease assets are depreciated over the lease term by the straight-line method with no residual value.

(j) Impairment of Fixed Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings. The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business location and business division as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(k) Provision for loss on disaster

Provision for loss on disaster is provided for the estimated cost of restoration, removal and other of the assets damaged by the Great East Japan Earthquake.

(l) Retirement and Severance Benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and fair value of the pension assets.

Prior service benefits and costs are recognized as income or expense on a straight-line basis over certain years, principally 10 years, not exceeding the expected average remaining service periods of the employees active at the date of the amendment. Actuarial gains and losses are recognized as income or expense on a straight-line basis from the next year of incurrence over certain years, principally 10 years, not exceeding the expected average remaining service periods of the employees participating in the plans.

(m) Derivative Financial Instruments

In principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions, that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as net unrealized gains or losses on hedge transactions, component of net assets, until gain or loss relating to the hedge object is recognized.

(n) Foreign Currency Translations

Foreign currency transactions are translated into yen on the basis of the exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to earnings as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the exchange rates in effect at the balance sheet date; stockholders' equity accounts are translated at historical rates; income and expenses are translated at an average of the exchange rates in effect during the year; and a comprehensive adjustment resulting from the translation of assets, liabilities and stockholders' equity is included in minority interests and foreign currency translation adjustments as a separate component of net assets.

(o) Income Taxes

Deferred income taxes are accounted for under the asset and liability method, and deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be recovered or settled.

(p) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(q)Net Income per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

(r) Reclassifications

Certain reclassifications have been made to the prior years' consolidated financial statements in order to conform to the current year presentations.

(s) Additional Information

Effective April 1, 2011, the Company adopted the "Accounting Standard for Accounting Changes and Error Corrections (Accounting Standards Board of Japan (ASBJ), Statement No.24 issued on December 4, 2009)" and the "Guidance on Accounting Standard for Accounting Changes and Error Corrections (ASBJ Guidance No.24 issued on December 4, 2009)".

2. Basis of Financial Statement Translation

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥82=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2012. This translation should not be construed as a representation that any amounts shown could be converted into U.S. dollars.

3. Financial Instruments

In principle, funds are managed through short-term deposits and are procured through debentures and bank loans. Additionally, derivative financial instruments are used in order to manage its exposure to fluctuate in foreign currency exchange rates, interest rates, and commodity prices.

Trade notes and accounts receivables is subject to the credit risk of customers. In order to minimize this risk, the Company and its subsidiaries periodically monitor the financial condition of customers in accordance with the credit management standards and claims management standards. The Company and its subsidiaries also work to fully grasp the financial condition of customers and manage the settlement terms and balances of each customer.

Short-term investments and investments in securities primarily consist of bonds and stock of the associates. In principle, only bonds that are highly safe are held, therefore, credit risk is minimal. Stock, on the other hand, is subject to risks related to the fluctuation of market value. In order to manage these risks, the Company and its subsidiaries periodically reconfirm the market value of the stocks held and the financial condition of associates, and revaluate the holding of such stock while also taking into consideration the relationships with these associates.

The following table provides the carrying amount, the fair value and the difference between these two items of major financial instruments as of March 31, 2012 and 2011:

	Millions of yen					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
	2012			2011		
Assets:						
Cash and deposits	¥ 37,703	¥ 37,703	¥ —	¥ 39,984	¥ 39,984	¥ —
Deposits to related companies	38,698	38,698	—	56,911	56,911	—-
Trade notes and accounts receivables (Note a)	107,126			106,939		
Less allowance for doubtful receivables (Note b)	△1,595			△2,336		
	105,531	105,510	△21	104,603	104,570	△33
Short-term investments and investments in securities						
Held-to-maturity securities	101	99	△2	102	98	△4
Other securities	7,407	7,407	—	13,798	13,798	—
Total Assets	¥189,440	¥189,417	¥△23	¥215,398	¥215,361	¥△37
Liabilities:						
Trade notes and accounts payables (Note c)	¥ 50,367	¥ 50,367	¥ —	¥ 52,741	¥ 52,741	¥ —
Short-term debt	15,931	15,931	—	12,895	12,895	—
Long-term debt						
Debentures	20,000	20,668	668	10,000	10,470	470
Long-term loans payable	4,739	4,810	71	4,031	4,064	33
Total Liabilities	¥ 91,037	¥ 91,776	¥ 739	¥ 79,667	¥ 80,170	¥ 503
Derivative financial instrument transactions (Note d):						
For which hedge accounting is not applied	△553	△553	¥ —	¥ △66	¥ △66	¥ —
For which hedge accounting is applied	△362	△362	—	△68	△68	—
Total Derivatives	¥ △915	¥ △915	¥ —	¥ △134	¥ △134	¥ —

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
	2012		
Assets:			
Cash and deposits	$ 459,793	$ 459,793	$ —
Deposits to related companies	471,927	471,927	—
Trade notes and accounts receivables (Note a)	1,306,415		
Less allowance for doubtful receivables (Note b)	△19,452		
	1,286,963	1,286,707	△256
Short-term investments and investments in securities			
Held-to-maturity securities	1,232	1,208	△24
Other securities	90,329	90,329	—
Total Assets	$2,310,244	$2,309,964	$△280
Liabilities:			
Trade notes and accounts payables (Note c)	$ 614,232	$ 614,232	$ —
Short-term debt	194,280	194,280	—
Long-term debt			
Debentures	243,902	252,048	8,146
Long-term loans payable	57,793	58,659	866
Total Liabilities	$1,110,207	$1,119,219	$ 9,012
Derivative financial instrument transactions (Note d):			
For which hedge accounting is not applied	$ △6,744	$ △6,744	$ —
For which hedge accounting is applied	△4,415	△4,415	—
Total Derivatives	$ △11,159	$ △11,159	$ —

Note: a. The hedged foreign currency receivables recorded using forward foreign exchange contract rate is included. The amounts as of March 31, 2012 and 2011 included are ¥676 million ($8,244 thousand) and ¥666 million, respectively.

Note: b. These amounts are general provision for doubtful receivables and specific reserves for individual receivables associated with trade notes and accounts receivables.

Note: c. The hedged foreign currency payables recorded using forward foreign exchange contract rate is included. The amounts as of March 31, 2012 and 2011 included are ¥40 million ($488 thousand) and ¥57 million, respectively.

Note: d. These represent net assets or liabilities arising from derivative transactions. The figures in parentheses indicate net liabilities.

The method of calculating the fair value of financial instruments is as follows:

Cash and deposits, deposits to related companies

As these items are settled in the short term, the fair value of these items approximates the book value, therefore, the book value is used.

Trade notes and accounts receivables

The fair value of items settled in the short term approximates the book value, therefore, the book value is used. The fair value of installment receivables is determined by discounting the amount of receivables by a rate that reflects the credit risk.

Short-term investments and investments in securities

The fair value of equity securities is the quoted market prices on the stock exchange. The fair value of bonds is the value provided by the counterparty financial institution.

Trade notes and accounts payables, short-term debt

As these items are settled in the short term, the fair value of these items approximates the book value, therefore, the book value is used.

Debentures

The fair value of debentures issued by the Company is the value provided by the counterparty financial institution.

Long-term loans payable

Loans with floating interest rates reflect market interest rates over the short term, and the Company's credit standing has not changed significantly after the loan was made. The fair value approximates the book value, therefore, the book value is used. The fair value of fixed-rate loans is determined by discounting the total amount of principal and interest by the assumed rate on new borrowings of the same type.

Derivative financial instrument transactions

The fair value of derivative financial instrument transactions is the value provided by the counterparty financial institution.

The previous table does not include non-marketable securities because no quoted market price is available and it is extremely difficult in estimating fair value. The carrying amount of non-marketable securities at March 31, 2012 and 2011 totaled ¥2,135 million ($26,037 thousand) and ¥3,522 million, respectively.

Redemption schedules of receivables and securities with a maturity date are as follows:

	Millions of yen							
	Within one year	After one year through five years	After five years through ten years	After ten years	Within one year	After one year through five years	After five years through ten years	After ten years
	2012				2011			
Deposits	¥ 37,356	¥ —	¥ —	¥ —	¥ 39,953	¥ —	¥ —	¥ —
Deposits to related companies	38,698	—	—	—	56,911	—	—	—
Trade notes and accounts receivables	105,395	136	—	—	104,407	196	—	—
Short-term investments and investments in securities								
Held-to-maturity securities								
Debentures:	—	100	—	—	—	100	—	—
Other securities								
Debt securities:	1,900	800	—	1,000	5,700	700	—	1,000
	¥183,349	¥1,036	¥ —	¥1,000	¥206,971	¥996	¥ —	¥1,000

	Thousands of U.S. dollars			
	Within one year	After one year through five years	After five years through ten years	After ten years
	2012			
Deposits	$ 455,561	$ —	$ —	$ —
Deposits to related companies	471,927	—	—	—
Trade notes and accounts receivables	1,285,305	1,658	—	—
Short-term investments and investments in securities				
Held-to-maturity securities				
Debentures:	—	1,220	—	—
Other securities				
Debt securities:	23,170	9,756	—	12,195
	$2,235,963	$12,634	$ —	$12,195

4. Short-term Investments and Investments in Securities

Held-to-maturity securities

	Millions of yen					
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
	2012			2011		
Held-to-maturity securities with gross unrealized holding gains:						
Government bonds, municipal bonds and other	¥ —	¥—	¥ —	¥ —	¥—	¥ —
Debentures	—	—	—	—	—	—
Other bonds	—	—	—	—	—	—
	—	—	—	—	—	—
Held-to-maturity securities with gross unrealized holding losses:						
Government bonds, municipal bonds and other	—	—	—	—	—	—
Debentures	101	99	△2	102	98	△4
Other bonds	—	—	—	—	—	—
	101	99	△2	102	98	△4
	¥101	¥99	¥△2	¥102	¥98	¥△4

	Thousands of U.S. dollars		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
	2012		
Held-to-maturity securities with gross unrealized holding gains:			
Government bonds, municipal bonds and other	$ —	$ —	$ —
Debentures	—	—	—
Other bonds	—	—	—
	—	—	—
Held-to-maturity securities with gross unrealized holding losses:			
Government bonds, municipal bonds and other	—	—	—
Debentures	1,232	1,208	△24
Other bonds	—	—	—
	1,232	1,208	△24
	$1,232	$1,208	$△24

Other securities

	Millions of yen					
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
	2012			2011		
Other securities with gross unrealized holding gains:						
Equity securities	¥3,371	¥1,844	¥1,527	¥ 6,112	¥ 2,990	¥3,122
Debt securities	—	—	—	—	—	—
Other securities	—	—	—	—	—	—
	3,371	1,844	1,527	6,112	2,990	3,122
Other securities with gross unrealized holding losses:						
Equity securities	238	264	△26	198	231	△33
Debt securities	3,638	3,700	△62	7,281	7,400	△119
Other securities	160	160	—	207	207	—
	4,036	4,124	△88	7,686	7,838	△152
	¥7,407	¥5,968	¥1,439	¥13,798	¥10,828	¥2,970

	Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
	2012		
Other securities with gross unrealized holding gains:			
Equity securities	$ 41,110	$ 22,488	$ 18,622
Debt securities	—	—	—
Other securities	—	—	—
	41,110	22,488	18,622
Other securities with gross unrealized holding losses:			
Equity securities	2,902	3,219	△317
Debt securities	44,366	45,122	△756
Other securities	1,951	1,951	—
	49,219	50,292	△1,073
	$ 90,329	$ 72,780	$ 17,549

Other securities sold

	Millions of yen					
	Proceeds from sale	Toral amount of gain on sale	Toral amount of loss on sale	Proceeds from sale	Toral amount of gain on sale	Toral amount of loss on sale
	2012			2011		
Equity securities	¥4,087	¥1,682	¥△16	¥284	¥207	¥△3
	¥4,087	¥1,682	¥△16	¥284	¥207	¥△3

	Thousands of U.S. dollars		
	Proceeds from sale	Toral amount of gain on sale	Toral amount of loss on sale
	2012		
Equity securities	$49,841	$20,512	$△195
	$49,841	$20,512	$△195

5. Inventories

Inventories as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished and semi-finished goods	¥19,160	¥16,782	$233,658
Work in process	10,387	9,651	126,671
Raw materials	12,972	12,150	158,195
	¥42,519	¥38,583	$518,524

6. Income Taxes

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2012 and 2011 consist of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Current tax expense	¥ 8,386	¥13,411	$102,269
Deferred tax expense (benefit)	3,383	575	41,256
	¥11,769	¥13,986	$143,525

The Company and its domestic subsidiaries are subject to a number of taxes based on income.

The aggregated statutory tax rate for domestic companies was approximately 40.4% for the years ended March 31, 2012 and 2011.

Reconciliations between the statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are omitted, as the discrepancies are immaterial.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2012 and 2011 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Retirement and severance benefits	¥ 7,960	¥ 8,762	$ 97,073
Accrued bonus	3,317	3,855	40,451
Accrued business tax	473	669	5,768
Allowance for doubtful receivables	636	1,082	7,756
Other	15,550	17,991	189,635
Total gross deferred tax assets	27,936	32,359	340,683
Valuation allowance	△11,479	△12,082	△139,988
Total deferred tax assets	16,457	20,277	200,695
Deferred tax liabilities:			
Tax purpose reserves regulated by Japanese Tax Law	△40	△37	△488
Valuation difference on available-for-sale securities	△507	△1,142	△6,183
Prepaid pension benefit cost	△1,396	△1,372	△17,024
Other	△370	△806	△4,512
Total deferred tax liabilities	△2,313	△3,357	△28,207
Net deferred tax assets	¥14,144	¥16,920	$172,488

Net deferred tax assets as of March 31, 2012 and 2011 are reflected in the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Other current assets	¥ 7,096	¥ 8,904	$ 86,537
Other assets	7,280	8,126	88,780
Other liabilities	△232	△110	△2,829
Net deferred tax assets	¥14,144	¥16,920	$172,488

Revisions to the amounts of deferred tax assets and liabilities attributable to changes in corporate and other tax rates

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) were promulgated on December 2, 2011 and the staged reduction of the national corporate tax rate and a special reconstruction corporate tax will apply to corporate taxes effective fiscal years beginning on or after April 1, 2012.

As a result, the effective corporate tax rate used to measure the Company's deferred tax assets and liabilities was changed from 40.4% to 37.8% for the temporary differences expected to be utilized in fiscal years beginning April 1, 2012 to April 1, 2014 and from 40.4% to 35.4% for temporary differences expected to be utilized from fiscal years beginning April 1, 2015. The effect of the announced reduction of the effective corporate tax rate was to decrease deferred tax assets, net by ¥1,133 million ($13,817 thousand) and increase deferred income taxes by ¥1,193 million ($14,549 thousand) .

7. Property, Plant and Equipment

Property, plant and equipment, at cost as of March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Land	¥ 18,334	¥ 18,173	$ 223,585
Buildings and structures	132,709	126,942	1,618,402
Machinery and equipment	383,227	375,613	4,673,500
Lease assets	172	148	2,098
Construction in progress	10,342	4,191	126,122
	¥544,784	¥525,067	$6,643,707

8. Short-term and Long-term Debt

Long-term debt as of March 31, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Debentures:			
8th series, due 2016, interest 2.17%	¥10,000	¥10,000	$121,951
9th series, due 2022, interest 1.19%	10,000	—	121,951
Loans, principally from banks and insurance companies:			
Maturing 2013–2018, interest 2.5% (average)	4,739	4,031	57,793
	¥24,739	¥14,031	$301,695

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

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥3,144	$38,342
2015	1,119	13,646
2016	408	4,976
2017	46	561
2018	22	268
	¥4,739	$57,793

9. Liability for Retirement and Severance Benefits

Defined Benefit Plans

The Company and its subsidiaries have a number of contributory and non-contributory pension plans to provide retirement and severance benefits to substantially all the employees.

Principal pension plans are unfunded defined benefit pension plans.

Under the plans, employees are entitled to lump-sum payments based on the current rate of pay and the length of service upon retirement or termination of employment for reasons other than dismissal for cause. The liability under these plans is partially funded by contributions to pension fund trusts.

Funded status of the Company's and subsidiaries' plans as of March 31, 2012 and 2011 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Projected benefit obligations	¥△90,577	¥△87,857	$△1,104,598
Plan assets at fair value	68,675	68,105	837,500
Funded status	△21,902	△19,752	△267,098
Unrecognized actuarial loss	9,473	7,811	115,525
Unrecognized prior service benefit	△368	△686	△4,488
Net amount recognized in the consolidated balance sheets	¥△12,797	¥△12,627	$ △156,061
Amounts recognized in the consolidated balance sheets consist of:			
Prepaid pension benefit cost (other assets)	¥ 3,747	¥ 3,417	$ 45,695
Retirement and severance benefits	△16,544	△16,044	△201,756
	¥△12,797	¥△12,627	$△156,061

Net periodic benefit costs for the funded benefit pension plans and the unfunded lump-sum payment plans for the years ended March 31, 2012 and 2011 consisted of the following components:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost, net of employees' contributions	¥2,848	¥2,796	$34,732
Interest cost	2,239	2,239	27,305
Expected return on plan assets	△1,167	△1,302	△14,232
Amortization of unrecognized actuarial loss	1,885	2,329	22,988
Amortization of unrecognized prior service benefit	△257	△264	△3,134
Net periodic benefit cost	¥5,548	¥5,798	$67,659

Note: Besides retirement and severance benefits under the defined benefit pension plans above, premium retirement benefits of ¥213 million ($2,598 thousand) and ¥371 million were charged to earnings during the years ended March 31, 2012 and 2011, respectively.

Actuarial assumptions used in the accounting for the Company's and subsidiaries' plans are principally as follows:

	2012	2011
Discount rate	1.5〜2.8%	1.5〜2.8%
Expected return rate on plan assets	2.0%	2.0%

Defined Contribution Plans

The amount of cost recognized for the Company's and those subsidiaries' contribution to the plans for the years ended March 31, 2012 and 2011 was ¥968 million ($11,805 thousand) and ¥895 million, respectively.

10. Asset Retirement Obligations

The Company has recorded asset retirement obligations pertaining to the legal obligation to eliminate asbestos and other harmful substances present in property, plant and equipment upon their retirement and to the obligation to return offices and other leased facilities to their original condition (restitution obligations) as stated in their lease contracts.

Methods of calculating the amounts for asset retirement obligations in the year ended March 31, 2012 and 2011 are as follows:

	Estimated period of use	Discount rate	Estimated period of use	Discount rate
	2012		2011	
Obligations to eliminate asbestos, etc.	5–35 years	0.5–2.3%	5–35 years	1.4–2.3%
Restitution obligations	8–60 years	1.0–2.4%	8–60 years	1.0–2.4%

Changes in applicable asset retirement obligations in the year ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Balance at beginning of year	¥938	¥855	$11,439
Increase due to acquisition of property, plant and equipment	4	80	49
Adjustment due to passage of time	13	14	158
Decrease due to fulfillment of obligations	△12	△11	△146
Balance at end of year	¥943	¥938	$11,500

11. Common Stock

Issued shares, changes in shares and the amount of common stock for the years ended March 31, 2012 and 2011 are summarized as follows:

		Millions of yen	Thousands of U.S. dollars
	Issued shares	Amount	Amount
Balances as of April 1, 2010	208,364,913	¥15,454	
Balances as of March 31, 2011	208,364,913	15,454	$188,463
Balances as of March 31, 2012	208,364,913	¥15,454	$188,463

12. Net Assets and Cash Dividends

The Company's common stock has no par value in accordance with the Japanese Corporate Law (JCL). Under JCL, at least 50% of the amount actually paid in or provided in consideration for newly issued stocks is designated as stated common stock and proceeds in excess of the amount designated as stated common stock are recorded as capital surplus.

The JCL requires an amount equal to at least 10% of distributions of retained earnings to be appropriated as legal reserve, which are included in capital surplus and retained earnings, until legal reserve equals 25% of stated common stock. In addition, common stock, capital surplus and retained earnings, including legal reserves, can generally be transferred to each other upon resolution of the shareholders' meeting.

Cash dividends during the years ended March 31, 2012 and 2011 in the consolidated statements of changes in net assets, represent dividends resolved during those years. The consolidated financial statements do not include any provision for the dividends of ¥18 ($0.22) per share totaling ¥3,748 million ($45,707 thousand), which were subsequently resolved by the Board of Directors in respect of the year ended March 31,2012.

For the year ended March 31, 2012
Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S.dollars)	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on May 26, 2011	Common stock	3,749	45,720	18	220	March 31, 2011	June 8, 2011
Meeting of the Board of Directors on October 25, 2011	Common stock	3,749	45,720	18	220	September 30, 2011	November 29, 2011

Dividends with the cut-off date in the year ended March 31, 2012 and the effective date in the year ending March 31,2013

Resolution	Type of shares	Total dividends (millions of yen)	Total dividends (thousands of U.S.dollars)	Source of dividends	Dividends per share (yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on May 28, 2012	Common stock	3,748	45,707	Retained earnings	18	220	March 31, 2012	May 29, 2012

For the year ended March 31, 2011
Dividends paid

Resolution	Type of shares	Total dividends (millions of yen)	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on May 28, 2010	Common stock	3,540	17	March 31, 2010	May 31, 2010
Meeting of the Board of Directors on October 29, 2010	Common stock	3,749	18	September 30, 2010	November 26, 2010

Dividends with the cut-off date in the year ended March 31, 2011 and the effective date in the year ending March 31,2012

Resolution	Type of shares	Total dividends (millions of yen)	Source of dividends	Dividends per share (yen)	Cut-off date	Effective date
Meeting of the Board of Directors on May 26, 2011	Common stock	3,749	Retained earnings	18	March 31, 2011	June 8, 2011

13. Treasury Stock

The Japanese Corporate Law (JCL) allows a company to acquire treasury stocks upon shareholders' approval to the extent that sufficient distributable funds are available. If the Board of Directors' authority is stated in the Articles of Incorporation, a company is allowed to purchase treasury stock not upon shareholders' approval but Board of Directors' approval. In this connection, purchase of treasury stock is allowed under the Company's Articles of Incorporation.

Pursuant to the provisions of the JCL, shareholders may request the Company to acquire their shares below a minimum trading lot (100 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCL also states that a shareholder holding shares less than a minimum trading lot is entitled to request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the Articles of Incorporation. In this connection, sale of treasury stock is allowed under the Company's Articles of Incorporation.

The changes in treasury stock for the years ended March 31, 2012 and 2011 are summarized as follows:

	Shares
Balances as of March 31, 2010	109,761
Purchase of treasury stock	4,331
Sale of treasury stock	△410
Balances as of March 31, 2011	113,682
Purchase of treasury stock	2,105
Sale of treasury stock	△175
Balances as of March 31, 2012	**115,612**

14. Commitments and Contingencies

Contingent liabilities for guarantees given in respect of bank loans of employees amounted to ¥144 million ($1,756 thousand) and ¥159 million at March 31, 2012 and 2011.

It is common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to transfer them by endorsement to suppliers in the settlement of accounts payable. The Company and its subsidiaries are contingently liable for trade notes endorsed, which amounted to ¥608 million ($7,415 thousand) and ¥723 million at March 31, 2012 and 2011, respectively.

15. Research and Development Expenses

Research and development expenses included in general and administrative expenses and gross production cost for the years ended March 31, 2012 and 2011 amounted to ¥25,680 million ($313,171 thousand) and ¥26,382 million, respectively.

16. Impairment Losses on Fixed Assets

For the year ended March 31, 2012, certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
Katori-gun, Chiba Prefecture	Idle	Machinery and equipment, and other
Chikusei-shi, Ibaraki Prefecture and other	Production facilities and other	Buildings, machinery and equipment, and other

Idle assets for which value declined due to some factors were devalued from the carrying amount to the recoverable amount by ¥346 million ($4,220 thousand), which was recorded as impairment losses on fixed assets. Production facilities and other assets for which value declined due to decreased profitability were devalued from the carrying amount to the recoverable amount by ¥253 million ($3,085 thousand), which was recorded as impairment losses on fixed assets.

The Company and its subsidiaries determine recoverable amount using either net selling price or value in use. Net selling price is based on the appraisal. Value in use is based on the present value of future cash flows. Discount rates are omitted due to the negative undiscounted future cash flows.

For the year ended March 31, 2011, the Company and certain foreign consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
Hitachi-shi, Ibaraki Prefecture and other	Idle	Land
Singapore and other	Production facilities and other	Buildings, machinery and equipment, and other

Idle assets for which value declined due to lower land prices and other factors were devalued from the carrying amount to the recoverable amount by ¥200 million, which was recorded as impairment losses on fixed assets. Production facilities and other assets for which value declined due to decreased profitability were devalued from the carrying amount to the recoverable amount by ¥1,640 million, which was recorded as impairment losses on fixed assets.

The Company and its subsidiaries determine recoverable amount using either net selling price or value in use. Net selling price is based on the appraisal. Value in use is based on the present value of the future cash flows with the discount rate of 12.54 %.

17. Loss on Disaster

For the year ended March 31, 2012

Loss on disaster due to the Great East Japan Earthquake occurred on March 11, 2011 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Factory relocation expenses	¥1,308	$15,951
Fixed cost on mothballing period and other	391	4,769
	¥1,699	$20,720

Loss on disaster due to the flood in Thailand is as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Loss on retirement of fixed assets	¥ 77	$ 939
Loss on valuation and retirement of inventories	267	3,256
Fixed cost on mothballing period	185	2,256
Insurance income	△512	△6,244
Cost of restoration, removal and other	383	4,671
	¥400	$4,878

For the year ended March 31, 2011
Loss on disaster due to the Great East Japan Earthquake occurred on March 11, 2011 is as follows:

	Millions of yen
	2011
Impairment losses on fixed assets	¥ 4,715
Loss on retirement of fixed assets	63
Loss on valuation and retirement of inventories	1,825
Fixed cost on mothballing period	1,844
Estimated amount of earthquake insurance reimbursement	△1,007
Cost of restoration, removal and other (including provision for loss on disaster)	2,834
	¥10,274

For the year ended March 31, 2011, the Company and certain domestic consolidated subsidiaries recognized impairment losses on fixed assets because these assets are located in the mandatory evacuation zone and cannot be operated in the meantime due to the accident of the Fukushima No.1 nuclear power plant as follows:

Location	Use	Type
Namie-cho, Fukushima Prefecture	Production facilities and other	Buildings, machinery and equipment, and other

18. Compensation income

This income is the compensation received from Tokyo Electric Power Company, for the lost income over the period from March 11 to August 31, 2011.

19.Reclassification adjustment and tax effect amounts relating to other comprehensive income

Reclassification adjustment and tax effect amounts relating to other comprehensive income for the year ended March 31, 2012 is as follows:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Valuation difference on avilable-for-sale securities:		
Amount arising during the year	¥△117	$△1,427
Reclassification adjustment	△1,289	△15,719
Amount before tax effect	△1.406	△17,146
Tax effect	636	7,756
Valuation difference on avilable-for-sale securities	△770	△9,390
Deferred gains or losses on hedges:		
Amount arising during the year	△1,530	△18,659
Reclassification adjustment	111	1,354
Asset acquisition cost adjustment	1,123	13,695
Amount before tax effect	△296	△3,610
Tax effect	111	1,354
Deferred gains or losses on hedges	△185	△2,256
Foreign currency translation adjustments:		
Amount arising during the year	249	3,037
Reclassification adjustment	△8	△98
Foreign currency translation adjustments	241	2,939
Share of other comprehensive income of associates accounted for using the equity method:		
Amount arising during the year	△100	△1,220
Total other comprehensive income	¥△814	$△9,927

20. Per Share Information

The reconciliation of the number of shares and the amounts used in the basic and diluted net income per share computations for the year ended March 31, 2012 and 2011are as follows:

	Thousands of shares	
	2012	2011
Weighted average number of shares on which basic net income per share is calculated	208,250	208,253
Effect of dilutive securities:		
Stock option, issued under the former Japanese Corporate law	—	—
Number of shares on which diluted net income per share is calculated	208,250	208,253

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Net income	¥16,427	¥18,943	$200,329
Net income not applicable to common stockholders	—	—	—
Net income on which basic net income per share is calculated	16,427	18,943	200,329
Effect of dilutive securities	—	—	—
Net income on which diluted net income per share is calculated	¥16,427	¥18,943	$200,329

	Yen		U.S. dollars
	2012	2011	2012
Net income per share:			
Basic	¥78.88	¥90.96	$0.96
Diluted	—	—	—

Net assets per share as of March 31, 2012 and 2011 are as follows:

	Yen		U.S. dollars
	2012	2011	2012
Basic	¥1,359.33	¥1,320.30	$16.58

21. Supplementary Cash Flow Information

Cash paid for interest and income taxes for the year ended March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash paid during the year for:			
Interest	¥720	¥590	$8,780
Income taxes	9,706	18,236	118,366

For the year ended March 31, 2011, impairment losses on fixed assets of ¥6,555 million includes impairment losses on fixed assets of ¥4,715 million in the loss on disaster.

The components of cash and cash equivalents as of March 31, 2012 and 2011 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥37,703	¥39,984	$459,793
Time deposits with over three months maturity	△83	△120	△1,013
Deposits to related companies	38,698	56,911	471,927
Cash and cash equivalents	¥76,318	¥96,775	$930,707

22. Financial Instruments and Derivative Financial Instruments

The Company and certain subsidiaries operate globally and are exposed to market risks arising from fluctuations in foreign currency exchange rates, interest rates and commodity prices. In order to manage those risks, the Company and certain subsidiaries enter into various contracts on derivative financial instruments, including forward exchange contracts, currency option contracts, currency swap contracts, interest rate option contracts, interest rate swap contracts and commodity swap contracts. Forward exchange contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods; foreign currency payables from the import of raw materials; and forecasted foreign currency sales and purchase transactions. Currency option contracts, interest rate option contracts and interest rate swap contracts are utilized to manage foreign currency risk and interest rate risk for debts. Commodity swap contracts are utilized to manage the commodity price fluctuation risk on purchased raw material (lead). The Company and its subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and its subsidiaries are exposed to potential credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are authentic financial institutions.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on these policies, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates, interest rates and commodity prices. The Company and its subsidiaries review periodically the effectiveness of all the hedge policies to take account of the cumulative cash flows and any changes in the market.

The fair values of the derivative financial instruments for which hedge accounting is not applied as of March 31, 2012 and 2011 are as follows:

	Millions of yen					
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
	2012			2011		
Currency option contracts:						
To sell foreign currencies	¥ 863	¥ △36	¥ △26	¥ 2,064	¥△19	¥ 8
To buy foreign currencies	551	1	△8	1,815	24	1
Forward exchange contracts:						
To sell foreign currencies	14,383	△566	△566	10,882	△89	△89
To buy foreign currencies	2,566	61	61	946	10	10
Currency swap contracts:						
To sell foreign currencies	600	△15	△15	—	—	—
To buy foreign currencies	1,297	1	1	697	7	7
	¥20,260	¥△554	¥△553	¥16,404	¥△67	¥△63

	Thousands of U.S. dollars		
	Notional amount	Estimated fair value	Unrealized gains (losses)
	2012		
Currency option contracts:			
To sell foreign currencies	$ 10,524	$ △439	$ △317
To buy foreign currencies	6,720	12	△98
Forward exchange contracts:			
To sell foreign currencies	175,402	△6,902	△6,902
To buy foreign currencies	31,293	744	744
Currency swap contracts:			
To sell foreign currencies	7,317	△183	△183
To buy foreign currencies	15,817	12	12
	$247,073	$△6,756	$△6,744

The fair values of derivative financial instruments were estimated on the basis of information obtained from counterparty financial institutions.

	Millions of yen					
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
	2012			2011		
Interest rate option contracts:						
To sell foreign currencies	¥—	¥—	¥—	¥400	¥△3	¥△3
	¥—	¥—	¥—	¥400	¥△3	¥△3

	Thousands of U.S. dollars		
	Notional amount	Estimated fair value	Unrealized gains (losses)
	2012		
Interest rate option contracts:			
To sell foreign currencies	$—	$—	$—
	$—	$—	$—

The fair values of derivative financial instruments were estimated on the basis of information obtained from counterparty financial institutions.

The fair values of the derivative financial instruments for which hedge accounting is applied as of March 31, 2012 and 2011 are as follows:

Processing method in principle

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2012		2011	
Currency option contracts:				
To sell foreign currencies	¥ —	¥ —	¥ 332	¥△12
To buy foreign currencies	—	—	166	6
Forward exchange contracts:				
To sell foreign currencies	3,207	△152	3,505	△65
	¥3,207	¥△152	¥4,003	¥△71

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2012	
Currency option contracts:		
To sell foreign currencies	$ —	$ —
To buy foreign currencies	—	—
Forward exchange contracts:		
To sell foreign currencies	39,110	△1,854
	$39,110	$△1,854

Assigning method of foreign forward exchange contracts

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2012		2011	
Forward exchange contracts:				
To sell foreign currencies	¥676	¥ —	¥666	¥—
To buy foreign currencies	40	—	57	—
	¥716	¥ —	¥723	¥—

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2012	
Forward exchange contracts:		
To sell foreign currencies	$8,244	$—
To buy foreign currencies	488	—
	$8,732	$—

The fair values of derivative financial instruments were estimated on the basis of information obtained from counterparty financial institutions.

Forward exchange contracts treated by the assigning method are handled together with accounts receivable and accounts payable. Therefore, their fair value is included within the fair value of accounts receivable and accounts payable.

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2012		2011	
Commodity swap contracts:				
Variable receipt and fixed payment	¥5,208	¥△210	¥—	¥—
	¥5,208	¥△210	¥—	¥—

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2012	
Commodity swap contracts:		
Variable receipt and fixed payment	$63,512	$△2,561
	$63,512	$△2,561

The fair values of derivative financial instruments were estimated on the basis of information obtained from counterparty financial institutions.

23. Leases

Lessee

Finance leases (without transfer of legal title) that commenced on or before March 31, 2008 are accounted for as operating leases.

Future minimum lease payments under non-cancelable operating lease arrangements as of March 31, 2012 are ¥210 million ($2,561 thousand) due within one year and ¥511 million ($6,232 thousand) due after one year.

24. Business Combinations

For the years ended March 31, 2012

Business combination through acquisition

Mica-Ava (Far East) Industrial Limited ("MAF") and Mica-Ava (Guangzhou) Material Company Ltd. ("MAG") were engaged in the manufacture of copper-clad laminates, a principal material used in the manufacture of printed wiring boards, in Hong Kong and Guangzhou, respectively. In addition to holding a 6.3% equity interest in each company, the Company consigned production of copper-clad laminates to both companies. The consignment production put a limit on effect of cost cutting measures initiated and led by the Company for boosting revenue and introduction of new products was difficult to make. Additionally, printed wiring board market was expected to expand in China and it was also expected to grow strongly especially in South China region as a world plant for printed wiring boards for infrastructure, server and router use. Therefore, the Company decided to increase equity interests in each company to 75% respectively and to include both companies in the scope of consolidation as subsidiaries.

The differences between the carrying amounts of shares (equity interests) in MAF and MAG held immediately prior to the business combination date and their fair values on the acquisition date were recorded as loss on step acquisitions totaling ¥191 million ($2,329 thousand). This amount and the difference between the capital paid for the acquisition and the combined value of assets and liabilities was recorded as goodwill, which will be amortized on a straight-line basis over a period of six years.

A breakdown of the cost of the acquisition and the goodwill acquired is as follows:

Fair value on the business combination date of shares (equity interests) in MAF and MAG held immediately prior to the business combination date:	¥ 317 million	$ 3,866 thousand
Cash paid for the acquisition:	¥5,065 million	$61,768 thousand
Direct acquisition expenses (due diligence and other expenses):	¥ 227 million	$ 2,768 thousand
Total cost of the acquisition:	¥5,609 million	$68,402 thousand
Goodwill:	¥1,845 million	$22,500 thousand

The incidence of goodwill is computed on a provisional basis as the allocation of acquisition cost is yet to be completed.

Transactions under common control

The Company undertook a tender offer for the shares of Shin-Kobe Electric Machinery Co., Ltd. between December 1, 2011 and January 19, 2012 acquiring a total of 19,961,369 of Shin-Kobe Electric Machinery Co., Ltd.'s shares as of January 26, 2012. As a result, the Company held 97.78% of the total number of voting rights represented by shares held by shareholders of record as of September 30, 2011. In addition, an extraordinary and class meeting of shareholders of Shin-Kobe Electric Machinery Co., Ltd. was held on February 28, 2012. After attending to all necessary procedures stipulated under the Companies Act of Japan and taking into account that residual shares held by other shareholders were less-than-one unit shares, the Company held 100% of Shin-Kobe Electric Machinery Co., Ltd.'s voting rights represented by shares as of March 31, 2012.

This transaction is geared toward further harnessing the Hitachi Chemical Group's overseas network, considerable funding ability, and research and development-related management resources. It is also designed to accelerate the pace of the Shin-Kobe Electric Machinery group's global development, expand Hitachi Chemical's R&D investment in the Shin-Kobe Electric Machinery group, bolster the product lineup, and further speed up efforts to expand business scale in the battery storage device and overseas automobile component markets specifically targeting the social infrastructure and energy fields, which are projected to experience growth. Recognizing the opportunity to enhance the corporate values of both companies the decision was therefore made to include Shin-Kobe Electric Machinery Co., Ltd. in Hitachi Chemical's scope of consolidation as a wholly owned subsidiary.

This acquisition of additional shares of a subsidiary company by way of tender offer has been accounted for as a transaction with minority shareholders as a part of a transaction under common control in accordance with the "Accounting Standard for Business Combinations" (Accounting Standards Board of Japan (ASBJ) Statement No.21, issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10, issued on December 26, 2008).

A breakdown of the cost of the acquisition and the goodwill acquired is as follows:

Cash paid for the acquisition of additional shares:	¥34,134 million	$416,268 thousand
Direct acquisition expenses (advisory and other expenses):	¥ 291 million	$ 3,549 thousand
Total cost of the acquisition:	¥34,425 million	$419,817 thousand
Goodwill:	¥21,981 million	$268,061 thousand

The goodwill will be amortized on a straight-line basis over a period of ten years.

25. Related Party Transactions

Certain consolidated subsidiary has related party transactions with Hitachi, Ltd., the parent company. The related balances as of March 31, 2012 and 2011, and the amount of these transactions for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Balances with Hitachi, Ltd.			
Deposits to Hitachi group cash management fund	¥ 35,168	¥ 54,083	$ 428,878
Transactions with Hitachi, Ltd.			
Net increase (decrease) in deposits to Hitachi group cash management fund	¥△18,915	¥△6,918	$△230,671

26. Segment Information

The Company's reportable segment is the constituent units of our business, for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors of the Company to determine the allocation of management resources and assess their performance.

The Company is developing business activities based on the organizational structure that is categorized depending on the degree of product processing, from materials through components to parts.

Based on the above, according to the degree of product processing, the Company determines two reportable segments, namely categorizing materials as "Functional Materials Segment" and the components and parts as "Advanced Components and Systems Segment", and the main products of each reportable segment are provided on page 05 of this annual report.

Reportable segment information:

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2012		
Sales to external customers	¥240,411	¥232,658	¥473,069	¥ —	¥473,069
Intersegment sales	8,611	428	9,039	△9,039	—
	249,022	233,086	482,108	△9,039	473,069
Operating income	¥ 20,004	¥4,511	¥ 24,515	¥ △20	¥ 24,495
Assets	¥251,071	¥191,618	¥442,689	¥△1,708	¥440,981
Other					
Depreciation and amortization	¥ 14,291	¥ 13,949	¥ 28,240	¥ —	¥ 28,240
Investments in equity method affiliates	4,747	1,680	6,427	—	6,427
Increase in property, plant and equipment and intangible assets	19,579	41,839	61,418	—	61,418
Impairment losses on fixed assets	14	585	599	—	599
Amortization of goodwill	136	672	808	—	808
Goodwill	1,570	23,113	24,683	—	24,683

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2011		
Sales to external customers	¥251,984	¥245,468	¥497,452	¥ —	¥497,452
Intersegment sales	8,590	440	9,030	△9,030	—
	260,574	245,908	506,482	△9,030	497,452
Operating income	¥ 31,075	¥ 12,387	¥ 43,462	¥ 9	¥ 43,471
Assets	¥261,844	¥171,951	¥433,795	¥△1,611	¥432,184
Other					
Depreciation and amortization	¥ 14,702	¥ 14,283	¥ 28,985	¥ —	¥ 28,985
Investments in equity method affiliates	4,340	1,204	5,544	—	5,544
Increase in property, plant and equipment and intangible assets	14,159	17,953	32,112	—	32,112
Impairment losses on fixed assets	1,215	5,340	6,555	—	6,555
Amortization of goodwill	—	316	316	—	316
Goodwill	—	1,629	1,629	—	1,629
Amortization of negative goodwill	—	645	645	—	645
Negative goodwill	—	—	—	—	—

	Thousands of U.S. dollars				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
	2012				
Sales to external customers	$2,931,842	$2,837,292	$5,769,134	$ —	$5,769,134
Intersegment sales	105,012	5,220	110,232	△110,232	—
	3,036,854	2,842,512	5,879,366	△110,232	5,769,134
Operating income	$ 243,952	$ 55,012	$ 298,964	$ △244	$ 298,720
Assets	$3,061,841	$2,336,805	$5,398,646	$△20,829	$5,377,817
Other					
Depreciation and amortization	$ 174,280	$ 170,110	$ 344,390	$ —	$ 344,390
Investments in equity method affiliates	57,890	20,488	78,378	—	78,378
Increase in property, plant and equipment and intangible assets	238,768	510,232	749,000	—	749,000
Impairment losses on fixed assets	171	7,134	7,305	—	7,305
Amortization of goodwill	1,659	8,195	9,854	—	9,854
Goodwill	19,146	281,866	301,012	—	301,012

Geographic Information:

	Millions of yen			
	Japan	Asia	Other areas	Total
	2012			
Net sales	¥272,355	¥171,613	¥29,101	¥473,069
Net property, plant and equipment	¥ 90,769	¥ 35,865	¥ 4,661	¥131,295

	Millions of yen			
	Japan	Asia	Other areas	Total
	2011			
Net sales	¥281,352	¥181,535	¥34,565	¥497,452
Net property, plant and equipment	¥ 92,874	¥ 24,064	¥ 3,575	¥120,513

	Thousands of U.S. dollars			
	Japan	Asia	Other areas	Total
	2012			
Net sales	$3,321,402	$2,092,841	$354,890	$5,769,133
Net property, plant and equipment	$1,106,939	$ 437,378	$ 56,841	$1,601,158

Independent Auditor's Report

The Board of Directors
Hitachi Chemical Co., Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hitachi Chemical Co., Ltd. and consolidated subsidiaries at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 21, 2012

Tokyo, Japan

Ernst & Young ShinNihon LLC