

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The Nisshin OilliO Group, Ltd. and Consolidated Subsidiaries  
Years Ended March 31, 2009 and 2008

## 1. SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

The following is a summary of the significant accounting and reporting policies adopted by The Nisshin OilliO Group, Ltd. (the "Company") and consolidated subsidiaries in the preparation of its consolidated financial statements.

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2008 consolidated financial statements to conform to the classifications used in 2009.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

**B. PRINCIPLES OF CONSOLIDATION**—The consolidated financial statements as of March 31, 2009 include the accounts of the Company and its 20 (18 in 2008) significant subsidiaries (together, the "Group").

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

Investments in 7 (8 in 2008) associated companies are accounted for by the equity method. Investments in the remaining 10 unconsolidated subsidiaries and 5 associated companies (8 unconsolidated subsidiaries and 6 associated companies in 2008) are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill is reported in the consolidated balance sheet as other assets and/or long-term liabilities and is amortized using the straight-line method over five years.

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

**C. UNIFICATION OF ACCOUNTING POLICIES APPLIED TO FOREIGN SUBSIDIARIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS**—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should, in principle, be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained. PITF No. 18 was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this accounting standard effective April 1, 2008. The effect of this change was not material.

**D. TRANSLATION OF FOREIGN CURRENCY ACCOUNTS**—Foreign currency transactions relate principally to the importation of raw materials through Japanese trading companies, contracted in U.S. dollars, for which the Company is obliged to bear any exchange rate risks involved in such transactions. Foreign currency transactions are translated into Japanese yen using the exchange rate in effect at the date of each transaction or at the applicable exchange rates under forward exchange contracts.

Gains or losses from foreign currency transactions are included in net income or loss.

**E. FOREIGN CURRENCY FINANCIAL STATEMENTS**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Differences arising from such translation are shown as “Foreign currency translation adjustments” in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

**F. CASH EQUIVALENTS**—Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**G. MARKETABLE SECURITIES AND INVESTMENT SECURITIES**—All securities are classified as available-for-sale securities and are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity. The cost of securities sold is determined based on the moving-average method. Non-marketable available-for-sale securities are stated at cost determined by the moving-average method. For other than temporary declines in fair value, non-marketable available-for-sale securities are reduced to net realizable value by a charge to income.

**H. ALLOWANCE FOR DOUBTFUL RECEIVABLES**—The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Company’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.

**I. INVENTORIES**—Prior to April 1, 2008, inventories were stated at cost, determined by the average method. In July 2006, the ASBJ issued ASBJ Statement No. 9, “Accounting Standard for Measurement of Inventories.” This standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate. The standard also requires that inventories held for trading purposes be measured at the market price. The standard was effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted.

The Company applied this new accounting standard for measurement of inventories effective April 1, 2008. The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥93 million (\$948 thousand).

**J. PROPERTY, PLANT AND EQUIPMENT**—Property, plant and equipment are stated at cost less accumulated depreciation.

Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed by the declining-balance method over the estimated useful lives of the assets, while the straight-line method is applied to the property, plant and equipment of consolidated foreign subsidiaries.

The straight-line method is applied to buildings and lease assets.

The range of useful lives is from 5 to 50 years for buildings and structures and from 4 to 16 years for machinery and equipment. The useful lives for lease assets are the terms of the respective leases.

Ordinary maintenance and repairs are charged to income as incurred. Major replacements and improvements are capitalized.

**K. LONG-LIVED ASSETS**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**L. LEASES**—In March 2007, the ASBJ issued ASBJ Statement No. 13, “Accounting Standard for Lease Transactions,” which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain “as if capitalized” information was disclosed in the note to the lessee’s financial statements. The revised accounting standard requires that all finance lease transactions should

be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the revised accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be measured at the obligations under finance leases less interest expense at the transition date and recorded as acquisition cost of lease assets. The effect of this change was not material.

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

**N. RETIREMENT AND PENSION PLANS**—The Company and its domestic consolidated subsidiaries have an unfunded retirement benefit plan for all eligible employees. The amounts of the retirement benefits are, in general, determined on the basis of length of service and conditions under which the termination occurs. In addition to the unfunded plan, the Company has non-contributory and contributory funded pension plans.

The liability for retirement benefits is based on the projected benefit obligations and plan assets at the balance sheet date. The net periodic benefit costs, based on an actuarial computation of current and future employee benefits, are charged to income.

The transitional obligation determined as of April 1, 2000 amounted to ¥3,621 million. The full amount of the transitional obligation except for that of one domestic subsidiary, amounted to ¥3,423 million and was charged to income for the year ended March 31, 2001. The transitional obligation of one domestic subsidiary of ¥198 million is being amortized over 10 years using the straight-line method and annual amortization is presented as other expense in the consolidated statements of income.

Retirement allowances for directors and corporate auditors are recorded to state the liability for retirement benefits at the amount that would be required if all directors and corporate auditors retired at each balance sheet date.

**O. RESEARCH AND DEVELOPMENT**—Costs relating to research and development activities are charged to income as incurred.

**P. DERIVATIVES AND HEDGING ACTIVITIES**—The Group uses a variety of derivative financial instruments, including foreign currency forward contracts, commodity futures and interest rate swaps as a means of hedging exposure to foreign currency, price and interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

All derivatives are recognized as either assets or liabilities and measured at fair value, with gains or losses recognized in the consolidated statements of income.

If derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on the derivatives are deferred until maturity of the hedged transactions.

Foreign currency forward contracts are utilized to hedge foreign currency exposures in importation of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Commodity futures are utilized to hedge transactions in inventories and trading commitments. These futures which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. These swaps, which qualify for hedge accounting, are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as other liabilities or assets.

**Q. PER SHARE DATA**—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net income per share is not disclosed because the Company does not issue dilutive securities.

Cash dividends per share shown in the consolidated statements of income have been presented on an accrual basis and include, in each fiscal year ended March 31, dividends approved or to be approved after March 31, but applicable to the year then ended.

**R. APPROPRIATIONS OF RETAINED EARNINGS**—Appropriations of retained earnings are reflected in the consolidated financial statements for the following year on shareholders' approval.

**S. BONUSES TO DIRECTORS AND CORPORATE AUDITORS**—Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

#### **T. NEW ACCOUNTING PRONOUNCEMENTS**

*Business Combinations*—On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, “Accounting Standard for Business Combinations.” Major accounting changes under the revised accounting standard are as follows:

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires accounting for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for research and development costs to be charged to income as incurred. Under the revised standard, an in-process research and development (IPR&D) acquired by the business combination is capitalized as an intangible asset.
- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

*Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*—The current accounting standard requires unification of accounting policies within the consolidation group. However, the current guidance allows application of the equity method for the financial statements of foreign associated companies which have been prepared in accordance with generally accepted accounting principles in their respective jurisdictions without unification of accounting policies.

On December 26, 2008, the ASBJ issued ASBJ Statement No. 16 (Revised 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments.” The new standard requires adjustments to be made to conform the associated company’s accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associated company’s financial statements are used in applying the equity method, unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years’ effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained.

This standard is applicable to the equity method of accounting for investments effective on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

*Asset Retirement Obligations*—On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18, “Accounting Standard for Asset Retirement Obligations” and ASBJ Guidance No. 21, “Guidance on Accounting Standard for Asset Retirement Obligations.” Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset.

The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.

**2. MARKETABLE AND INVESTMENT SECURITIES**

Marketable and investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Current:			
Government and corporate bonds	<b>¥3,632</b>	¥ 3,294	<b>\$37,061</b>
Trust fund investments and other	<b>590</b>	318	<b>6,021</b>
Total	<b>¥4,222</b>	¥ 3,612	<b>\$43,082</b>
Non-current:			
Marketable equity securities	<b>¥8,198</b>	¥10,100	<b>\$83,653</b>
Government and corporate bonds	<b>1,327</b>	2,077	<b>13,541</b>
Trust fund investments and other	<b>56</b>	805	<b>571</b>
Total	<b>¥9,581</b>	¥12,982	<b>\$97,765</b>

The carrying amounts and aggregate fair values of marketable and investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	<b>¥6,419</b>	<b>¥2,193</b>	<b>¥1,826</b>	<b>¥6,786</b>
Debt securities	<b>5,803</b>	<b>3</b>	<b>847</b>	<b>4,959</b>
Other	<b>680</b>		<b>41</b>	<b>639</b>

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	¥6,001	¥3,993	¥388	¥9,606
Debt securities	6,093	4	869	5,228
Other	749		288	461

	Thousands of U.S. Dollars			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as available-for-sale:				
Equity securities	<b>\$65,500</b>	<b>\$22,378</b>	<b>\$18,633</b>	<b>\$69,245</b>
Debt securities	<b>59,214</b>	<b>31</b>	<b>8,643</b>	<b>50,602</b>
Other	<b>6,939</b>		<b>418</b>	<b>6,521</b>

Available-for-sale securities whose fair value is not readily determinable as of March 31, 2009 and 2008 were as follows:

	Carrying Amount		Thousands of U.S. Dollars
	Millions of Yen	2008	2009
	2009		
Available-for-sale:			
Equity securities	<b>¥1,411</b>	¥1,293	<b>\$14,398</b>
Other	<b>3,000</b>		<b>30,612</b>
Total	<b>¥4,411</b>	¥1,293	<b>\$45,010</b>

Proceeds from sales of available-for-sale securities for the years ended March 31, 2009 and 2008 were ¥438 million (\$163 thousand) and ¥1,167 million, respectively. Gross realized gains and losses on these sales, computed on the moving average cost basis, were ¥11 million (\$112 thousand) and ¥16 million (\$163 thousand), respectively, for the year ended March 31, 2009 and ¥838 million and ¥0 million, respectively, for the year ended March 31, 2008.

The carrying values of debt securities by contractual maturities for securities classified as available-for-sale at March 31, 2009 are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due in one year or less	¥4,222	\$43,082
Due after one year through five years	453	4,623
Due after five years through ten years	198	2,020
Due after ten years	726	7,408
Total	¥5,599	\$57,133

As of March 31, 2009, the following assets were pledged as collateral to secure trade accounts of ¥6,037 million (\$61,602 thousand):

	Millions of Yen	Thousands of U.S. Dollars
Equity securities	¥127	\$1,296

### 3. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2009 and 2008 consisted of bank overdrafts, loans on deed and notes to banks. The average interest rates applicable to the short-term bank loans as of March 31, 2009 and 2008 were 3.1% and 3.8%, respectively.

Long-term debt as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
1.0% unsecured bonds due 2010	¥ 5,000	¥ 5,000	\$ 51,020
1.4% unsecured bonds due 2012	5,000	5,000	51,020
1.8% unsecured bonds due 2014	10,000	10,000	102,041
1.3% unsecured bonds due 2011	5,000		51,020
1.5% unsecured bonds due 2013	5,000		51,020
1.2% unsecured bonds due 2010	200		2,041
1.5% unsecured bonds due 2011	50		510
Loans from banks, due through 2016 with interest rates ranging from 0.5% to 4.7% (2009) and from 0.8% to 5.9% (2008)			
—Unsecured	9,552	3,380	97,471
Obligations under finance leases	1,083		11,051
Total	40,885	23,380	417,194
Less current portion	(2,445)	(3,340)	(24,949)
Long-term debt, less current portion	¥38,440	¥20,040	\$392,245

The aggregate annual maturities of long-term debt, excluding finance leases (see Note 9), as of March 31, 2009 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 2,445	\$ 24,949
2011	7,010	71,530
2012	6,510	66,429
2013	6,165	62,908
2014	8,745	89,235
2015 and thereafter	10,010	102,143
Total	¥40,885	\$417,194

#### 4. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 40.6% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets:			
Liability for retirement benefits	¥ 2,579	¥ 2,788	\$ 26,316
Tax loss carryforwards	2,171	1,240	22,153
Accrued expenses	1,535	1,031	15,663
Unrealized profits on sales of fixed assets	130	105	1,327
Inventories	133	48	1,357
Impairment loss on long-lived assets	740	319	7,551
Other	1,606	1,188	16,388
Less valuation allowance	(2,963)	(2,030)	(30,235)
Total	5,931	4,689	60,520
Deferred tax liabilities:			
Gain on securities transferred of the retirement benefit trust fund	1,325	1,325	13,520
Property, plant and equipment	4,452	4,889	45,429
Unrealized gain on available-for-sale securities	21	928	214
Other	1,409	1,604	14,377
Total	7,207	8,746	73,540
Net deferred tax liabilities	¥(1,276)	¥(4,057)	\$(13,020)

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2009 and 2008 is as follows:

	2009	2008
Normal effective statutory tax rate	40.6%	40.6%
Expenses not deductible for income tax purposes	2.3	6.8
Per capita levy of corporate tax	0.9	1.0
Elimination of intercompany dividends	2.4	6.3
Amortization of goodwill	5.9	7.0
Difference from effective statutory tax rate of consolidated subsidiaries	(1.8)	1.5
Equity in earnings (losses) of associated companies	0.8	(0.4)
Temporary difference due to not unrecognized deferred taxes	1.9	(3.6)
Research and development expenses deductible for income taxes	(1.7)	(1.7)
Effect of tax reforms	(5.0)	
Other—net	(3.4)	(1.6)
Actual effective tax rate	42.9%	55.9%

## 5. RELATED PARTY DISCLOSURES

Transactions of the Company with affiliated companies for the years ended March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Sales	<b>¥69,561</b>	¥59,030	<b>\$709,806</b>
Purchases	<b>64,212</b>	78,660	<b>655,224</b>

The balances due to or from these affiliated companies at March 31, 2009 and 2008 were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Trade accounts receivable	<b>¥11,030</b>	¥12,448	<b>\$112,551</b>
Other assets	<b>224</b>		<b>2,286</b>
Trade accounts payable	<b>7,058</b>	7,708	<b>72,020</b>

## 6. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,386 million (\$24,347 thousand) and ¥2,254 million for the years ended March 31, 2009 and 2008, respectively.

## 7. RETIREMENT AND PENSION PLANS

The Company and its domestic consolidated subsidiaries have severance payment plans for employees, directors and corporate auditors. The contributory funded defined benefit plan, which is established under the Japanese Welfare Pension Insurance Law, covers a substitutional portion of the governmental pension program managed by the Company on behalf of the government and a corporate portion established at the discretion of the Company. According to the enactment of the Defined Benefit Pension Plan Law in April 2002, the Company applied for an exemption from obligation to pay benefits for future employee services related to the substitutional portion, which would result in the transfer of pension obligations and related assets to the government by another subsequent application, and also applied for transfer of the substitutional portion of past pension obligations to the government and obtained approval from the Ministry of Health, Labour and Welfare.

The Company thereafter transferred the substitutional portion of the pension obligations and related assets to the government on February 6, 2006 and recognized ¥79 million as other income for the difference between the balance of the retirement benefit liabilities brought forward and the amount actually transferred for the year ended March 31, 2006.

The liability for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	<b>¥ 18,411</b>	¥ 18,358	<b>\$ 187,867</b>
Fair value of plan assets	<b>(10,742)</b>	(14,211)	<b>(109,612)</b>
Unrecognized prior service cost	<b>1,330</b>	1,454	<b>13,571</b>
Unrecognized actuarial loss	<b>(8,493)</b>	(4,774)	<b>(86,663)</b>
Unrecognized transitional obligation	<b>(20)</b>	(40)	<b>(204)</b>
Prepaid pension expense	<b>720</b>	156	<b>7,347</b>
Net liability	<b>¥ 1,206</b>	¥ 943	<b>\$ 12,306</b>

The components of net periodic benefit costs for the years ended March 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	<b>¥ 660</b>	¥ 670	<b>\$ 6,735</b>
Interest cost	<b>360</b>	358	<b>3,673</b>
Expected return on plan assets	<b>(795)</b>	(810)	<b>(8,112)</b>
Amortization of prior service cost	<b>(124)</b>	(124)	<b>(1,265)</b>
Recognized actuarial loss	<b>434</b>	185	<b>4,428</b>
Amortization of transitional obligation	<b>20</b>	20	<b>204</b>
Net periodic benefit costs	<b>¥ 555</b>	¥ 299	<b>\$ 5,663</b>

Assumptions used for the years ended March 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate	2.2%	2.2%
Expected rate of return on plan assets	5.8%	4.9%
Amortization period of prior service cost	14–17 years	14–17 years
Recognition period of actuarial gain	14–17 years	14–17 years
Amortization period of transitional obligation—One subsidiary (Settsu Oil Mills Co., Ltd.)	10 years	10 years

Retirement allowances for directors and corporate auditors are paid subject to approval of the shareholders.

The Group recorded a liability for its unfunded retirement allowance plan covering all of its directors and corporate auditors for the years ended March 31, 2009 and 2008 of ¥1,099 million (\$11,214 thousand) and ¥1,313 million, respectively.

## 8. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

**A. DIVIDENDS**—Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

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

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

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

**C. TREASURY STOCK AND TREASURY STOCK ACQUISITION RIGHTS**—The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

## 9. LEASES

The Group leases certain machinery, computer equipment and other assets.

Total lease payments for the years ended March 31, 2009 and 2008 were ¥263 million (\$2,684 thousand) and ¥491 million, respectively.

For the year ended March 31, 2008, the Group recorded an impairment loss of ¥1 million on certain leased property held under finance leases that do not transfer ownership and an allowance for impairment loss on leased property.

### *Pro forma Information for the Year Ended March 31, 2008*

Pro forma information of leased property such as acquisition cost, accumulated depreciation, accumulated impairment loss, obligations under finance lease, depreciation expense and interest expense of finance leases that do not transfer ownership of the leased property to the lessee on an "as if capitalized" basis for the year ended March 31, 2008 was as follows:

	Millions of Yen
Machinery and Equipment	2008
Acquisition cost	¥ 2,250
Accumulated depreciation	(1,306)
Accumulated impairment loss	(1)
Net leased property	<u>¥ 943</u>

Obligations under finance leases:

	Millions of Yen
	2008
Due within one year	¥409
Due after one year	534
Total	<u>¥943</u>

The amount of obligations under finance leases includes the imputed interest expense portion. Depreciation expense, which is not reflected in the accompanying consolidated statement of income computed by the straight-line method, was ¥491 million for the year ended March 31, 2008.

## 10. COMMITMENTS AND CONTINGENT LIABILITIES

The Group was contingently liable at March 31, 2009, for guarantees of employee's housing loans and guarantees of assigned lease liability, totaling ¥524 million (\$5,347 thousand) and ¥0 million (\$0 thousand), respectively.

The Group executed a ¥40,989 million (\$418,255 thousand) committed borrowing facility with a domestic banking group during the fiscal year ended March 31, 2009.

## 11. DERIVATIVES

The Group enters into foreign exchange forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. Forward exchange contracted amounts which are assigned to associated assets and liabilities and are reflected on the consolidated balance sheet at year end are not subject to the disclosure of market value information.

The Group has purchased currency options, as a whole, to reduce the purchase price associated with foreign currency transactions. The Group enters into commodity futures in the normal course of business to determine the cost corresponding to the selling price, which is based on the forward delivery contract. The Group enters into interest rate swap agreements as a means of managing their interest rate exposure and profit or loss on redemption of bonds.

The Group also enters into agreements for certain derivative financial instruments as a part of their trading activities.

Derivatives are subject to market risk and credit risk. Market risk is the exposure created by potential volatility in market conditions, including interest and foreign exchange rates. Credit risk is the possibility that a loss may result from a counter party's failure to perform according to terms and conditions of the contract.

Derivative transactions entered into by the Group have been made in accordance with internal policies, which regulate limits of positions, and establishment of the opposite position to reduce risk. Derivative transactions in a loss position that exceed certain predetermined thresholds will be reversed. The execution of these transactions is reviewed by the internal audit department.

The Group had the following derivatives contracts outstanding at March 31, 2009:

	Millions of Yen			Thousands of U.S. Dollars		
	2009			2009		
	Contract Amount	Fair Value	Unrealized Gain/Loss	Contract Amount	Fair Value	Unrealized Gain/Loss
Interest rate swaps (fixed rate receipt, floating rate payment)	¥700	¥(24)	¥(24)	\$7,143	\$(245)	\$(245)

Foreign currency forward contracts which qualify for hedge accounting for the years ended March 31, 2009 and 2008 are excluded from the disclosure of market value information.

## 12. SUBSEQUENT EVENT

The following appropriation of retained earnings at March 31, 2009 was approved at the Company's shareholders meeting held on June 25, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥5.00 (\$0.05) per share	¥862	\$8,796

## 13. SEGMENT INFORMATION

The Group operates in the following segments:

Oils and meal consist of food products for home and food service use, as well as edible oils and fats for processed food manufacturers.

Healthy foods and soy protein consist of therapeutic foods, health foods and foods taken in liquid form.

Fine chemicals consist of cosmetics and toiletries, chemical products, middle chain fatty acids, lecithin and tocopherol (Vitamin E).

Other consists of real estate leasing, management and mediation services, pharmaceuticals, packaging services, customs-related business, warehousing, restaurant management, sports facility management, marine products, sales promotions, engineering, accident and liability insurance, computing-related services and garden supplies.

Information about industry segments and geographical segments of the Group for the years ended March 31, 2009 and 2008 is as follows:

### (1) INDUSTRY SEGMENTS

#### A. SALES AND OPERATING INCOME (LOSS)

	Millions of Yen					Consolidated
	2009					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Sales to customers	¥312,610	¥ 8,696	¥5,254	¥11,365		¥337,925
Intersegment sales	1,605	1,037	730	14,284	¥(17,656)	
Total sales	314,215	9,733	5,984	25,649	(17,656)	337,925
Operating expenses	306,422	10,783	6,126	24,006	(17,684)	329,653
Operating income (loss)	¥ 7,793	¥ (1,050)	¥ (142)	¥ 1,643	¥ 28	¥ 8,272

#### B. TOTAL ASSETS, DEPRECIATION AND CAPITAL EXPENDITURES

	Millions of Yen					Consolidated
	2009					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Total assets	¥170,656	¥5,404	¥5,433	¥12,428	¥23,567	¥217,488
Depreciation and amortization	5,671	229	181	575		6,656
Capital expenditures	3,387	289	44	365		4,085

## A. SALES AND OPERATING INCOME (LOSS)

	Millions of Yen					Consolidated
	2008					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Sales to customers	¥272,648	¥ 8,616	¥5,405	¥11,527		¥298,196
Intersegment sales	2,049	667	703	14,087	¥(17,506)	
Total sales	274,697	9,283	6,108	25,614	(17,506)	298,196
Operating expenses	271,174	10,062	5,682	24,662	(17,498)	294,082
Operating income (loss)	¥ 3,523	¥ (779)	¥ 426	¥ 952	¥ (8)	¥ 4,114

## B. TOTAL ASSETS, DEPRECIATION AND CAPITAL EXPENDITURES

	Millions of Yen					Consolidated
	2008					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Total assets	¥177,338	¥6,260	¥5,533	¥13,166	¥3,527	¥205,824
Depreciation and amortization	5,305	160	162	505		6,132
Capital expenditures	2,618	223	31	142		3,014

## A. SALES AND OPERATING INCOME (LOSS)

	Thousands of U.S. Dollars					Consolidated
	2009					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Sales to customers	\$3,189,898	\$ 88,735	\$53,612	\$115,969		\$3,448,214
Intersegment sales	16,378	10,582	7,449	145,755	\$(180,164)	
Total sales	3,206,276	99,317	61,061	261,724	(180,164)	3,448,214
Operating expenses	3,126,756	110,031	62,510	244,959	(180,450)	3,363,806
Operating income (loss)	\$ 79,520	\$ (10,714)	\$ (1,449)	\$ 16,765	\$ 286	\$ 84,408

## B. TOTAL ASSETS, DEPRECIATION AND CAPITAL EXPENDITURES

	Thousands of U.S. Dollars					Consolidated
	2009					
	Oils and Meal	Healthy Foods & Soy Protein	Fine Chemicals	Other	Eliminations/Corporate	
Total assets	\$1,741,387	\$55,143	\$55,439	\$126,816	\$240,480	\$2,219,265
Depreciation and amortization	57,867	2,337	1,847	5,867		67,918
Capital expenditures	34,561	2,949	449	3,725		41,684

## (2) GEOGRAPHICAL SEGMENTS

The geographical segments of the Company and its subsidiaries for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of Yen				Consolidated
	2009				
	Japan	Asia	Eliminations/Corporate		
Sales to customers	¥254,785	¥83,140			¥337,925
Interarea transfer	242	4,821	¥(5,063)		
Total sales	255,027	87,961	(5,063)		337,925
Operating expenses	248,021	86,694	(5,062)		329,653
Operating income	¥ 7,006	¥ 1,267	¥ (1)		¥ 8,272
Total assets	¥189,830	¥29,400	¥(1,742)		¥217,488

Thousands of U.S. Dollars				
2009				
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	\$2,599,847	\$848,367		\$3,448,214
Interarea transfer	2,469	49,194	\$(51,663)	
Total sales	2,602,316	897,561	(51,663)	3,448,214
Operating expenses	2,530,826	884,633	(51,653)	3,363,806
Operating income	\$ 71,490	\$ 12,928	\$ (10)	\$ 84,408
Total assets	\$1,937,041	\$300,000	\$(17,776)	\$2,219,265

Millions of Yen				
2008				
	Japan	Asia	Eliminations/ Corporate	Consolidated
Sales to customers	¥225,293	¥72,903		¥298,196
Interarea transfer	638	3,597	¥(4,235)	
Total sales	225,931	76,500	(4,235)	298,196
Operating expenses	223,505	74,776	(4,199)	294,082
Operating income	¥ 2,426	¥ 1,724	¥ (36)	¥ 4,114
Total assets	¥174,028	¥34,424	¥(2,628)	¥205,824

### (3) SALES TO FOREIGN CUSTOMERS

Sales to foreign customers for the years ended March 31, 2009 and 2008 amounted to ¥86,174 million (\$879,327 thousand) and ¥72,758 million, respectively.