TOWA

ANNUAL REPORT

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A MESSAGE TO OUR SHAREHOLDERS

Greetings

Since its founding in Japan's ancient capital, Kyoto, in April 1979, TOWA Corporation has consistently developed proprietary technologies and created numerous de facto standards. Our primary operations are composed of development, manufacturing and sales of resin encapsulation systems for semiconductors and LED resin sealed devices, singulation systems and precision molds for manufacturing semiconductors, as well as the manufacture and sales of fine plastic molded products. We maintain a leading share of the global market for our mainstay semiconductor resin encapsulation systems, which enjoy an excellent reputation with users.

Economic Overview

Japan's economy during this consolidated accounting year displayed gentle recovery thanks to the government's package of economic measures including tax cuts, special demand arising from very hot weather and expansion of exports to emerging economies such as China. However, due to a falloff in demand following the initial surge stimulated by economic measures and stagnation in personal consumption brought about by the continuing harsh employment situation and so forth, the recovery trend temporarily stagnated.

On top of that, the Japan Earthquake of March 11, 2011 claimed many victims and dealt a hammer blow to the Japanese economy. The effects of this disaster will continue to be manifested for some time to come and cast a cloud over future business prospects.

Performance

In the semiconductor market, rebounding from the negative growth of the previous year, business during the first half was extremely brisk with demand being powerfully boosted by new electronic devices such as smartphones and tablet devices, etc., while demand for LED lighting in devices was solid.

Conversely, in the second half of the year, the market stagnated following completion of a round of investment in manufacturing equipment, inventory adjustment of electronic components and deceleration of the PC market and so on.

As a result, sales are 22,592 million yen (8,318 million yen and 58.3% increase compared with the pre-connected fiscal year), the operating profit 4,067 million yen (The pre-connected fiscal year is 338 million yen of the operating loss), and an ordinary profit 4,064 million yen (The pre-connected fiscal year is 345 million yen of an ordinary loss). The net income for the period became 3,751 million yen (The pre-connected fiscal year is 330 million yen of the net loss at this season).

Looking Ahead

However, currently semiconductor production technology is evolving at an ever-increasing rapid pace, and consequently, the requisite technical and quality standards have also reached extremely high levels. Due to the growing prominence of our competitors and the expansion of semiconductor markets in developing countries, as well as the diversification of semiconductor uses, our business environment is becoming even more global in scale at an even rapider pace, such that TOWA must seek to raise our level of technical sophistication by, in a sense, challenging ourselves to our utmost limits.

At TOWA, we are fully cognizant of the above-described state of affairs, and based on such, we have established a new mid-term management plan, covering the three years starting from April 2011, in order to clarify our mid-range management activities.

This plan specifies the mid-term management policies for "creating the 'structures' required in order to be a company with continued growth". Based on the assumption that upheavals in the global economy and semiconductor market, competition in business fields, emergence of new industries and markets and various other changes will occur, TOWA Group aims to be a company worthy of the trust and confidence of customers now and in the future through creating the structures during this term to sustain growth while overcoming such environmental shifts.

A summary of the new mid-term management plan is given below.

① Constantly seek to realize originality and differentiation through concentrating management resources into the strengths of TOWA Group.
② Stabilize the management base through improving efficiency and quality.
③ Allocate earnings to investment and development in our business fields, and thereby create a positive cycle as a technical development corporation.
④ Improve the “quality” of human resources.
⑤ Unearth fields for giving shape (as products and services) to our technologies and know how.

Through giving priority to resolution of issues based on higher efficiency and quality while conducting aggressive investment in advantageous fields, TOWA Group aims to stay fit and lean enough to respond to changes.

Through working on this “concentration on strong points” and “improvement of efficiency and quality,” we hope to realize originality and differentiation in our business fields. This originality and differentiation will generate stable earnings and, through re-investing these more into our “strengths,” we aim to facilitate further technical innovation and generate competitiveness with a view to “maximizing earnings.”

TOWA Group believes that such a positive cycle as a technology development corporation is the “structure” we require in order to become a continuously growing enterprise.

(1) Semiconductor molding business

Through securing higher share in the volume zone and disseminating the already original and differentiated compression mold system into the market, we are committed to establishing the “TOWA brand” to provide the things customers seek other than price and delivery.

(2) LED business

Definite growth is anticipated in the LED market from now on, however, it will be necessary to greatly reduce the cost of LED packages in order to disseminate LED lighting. Through applying the technologies and know-how fostered in the semiconductor business to the LED business and realizing cost reduction of LED packages, TOWA Group aims to build relationships of trust with LED makers and expand its LED business.

(3) Chemical products business

In the medical field, which is regarded as one of the few domestic growth industries, demand for plastic molded products for use in various instruments is stable. We aim to maintain quality that is worthy of customer confidence and secure business profitability in the future.

(4) Unearthing of new business fields

The needs of people and society are constantly changing and the lifecycles of products and services are likely to become shorter. In order to continue corporate business activities, it is essential to realize continuous change, and TOWA Group is committed to developing new markets in which it can give shape (as products and services) to its technologies and expanding “business fields” through developing and refining new technologies.

In addition to soundly executing the measures contained in the newly prepared mid-term management plan, we aim to prioritize and overcome the management lessons we have learned in this year’s earthquake and tsunami disaster.

We look forward to your continuing support and assistance in the future.
We would like to express our heartfelt appreciation for your support.

September 2011

Hisao Nishimura
President & COO

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2010 and 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	***2011***	***2011***
ASSETS			
Current assets:	¥	¥	$
Cash on hand and at banks ……	3,897	**5,142**	**61,840**
Notes and accounts receivable :			
Trade ……	5,623	**5,516**	**66,338**
Less: Allowance for doubtful accounts ……	(9)	**(1)**	**(12)**
	5,614	**5,515**	**66,326**
Inventories ……	2,807	**2,733**	**32,868**
Deferred tax assets (Note 10) ……	25	**17**	**204**
Other current assets ……	203	**262**	**3,151**
Total current assets ……	12,546	**13,669**	**164,389**
Property, plant and equipment, at cost :			
Land ……	4,232	**4,186**	**50,343**
Buildings and structures ……	12,357	**12,096**	**145,472**
Machinery and equipment ……	9,784	**9,814**	**118,028**
Construction in progress ……	23	**79**	**950**
Less: Accumulated depreciation ……	(16,026)	**(16,401)**	**(197,246)**
Total property, plant and equipment ……	10,370	**9,774**	**117,547**
Other assets:			
Investment securities (Note 3) ……	2,318	**2,606**	**31,341**
Deferred income taxes (Note 10) ……	11	**48**	**577**
Other ……	1,494	**1,192**	**14,336**
Total other assets ……	3,823	**3,846**	**46,254**
Total assets ……	26,739	**27,289**	**328,190**

The accompanying notes are an integral part of these financial statements.

Consolidated Balance Sheets

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
March 31, 2010 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	***2011***	***2011***
LIABILITIES AND NET ASSETS			
Current liabilities:	¥	¥	$
Short-term borrowings (Note 5)	5,587	**2,898**	**34,854**
Current portion of long-term debt (Note 5)	1,775	**1,793**	**21,563**
Notes and accounts payable	2,043	**1,982**	**23,836**
Accrued expenses(Note 2(11))	195	**461**	**5,544**
Accrued income taxes	46	**175**	**2,105**
Deffered tax liabilities	0	**49**	**589**
Other current liabilities(Note 2(10))	870	**1,144**	**13,758**
Total current liabilities	10,516	**8,502**	**102,249**
Long-term liabilities:			
Long-term debt (Note 5)	4,196	**3,002**	**36,103**
Accrued severance indemnities for employees(Notes2(12)and 6)	783	**786**	**9,453**
Deferred tax liabilities (Note 10)	152	**228**	**2,742**
Other long-term liabilities	0		
Total long-term liabilities	5,131	**4,016**	**48,298**
Total liabilities	15,647	**12,518**	**150,547**
Contingent liabilities (Note 12)			
Shareholders' equity (Note 7)			
Common stock			
Authorized: 80,000,000 shares			
Issued :			
25,021,832 shares at 31st March, 2011	8,933	**8,933**	**107,432**
Additional paid-in capital	462	**462**	**5,556**
Retained earnings	1,854	**5,606**	**67,420**
Less: Treasury stock at cost	(8)	**(8)**	**(96)**
Total shareholders' equity	11,241	**14,993**	**180,312**
Accumulated Other Comprehensive Income			
Unrealized gain (loss) on other securities	406	**517**	**6,218**
Translation adjustments	(555)	**(739)**	**(8,887)**
Total accumulated other comprehensive income	(149)	**(222)**	**(2,669)**
Total liabilities and net assets	26,739	**27,289**	**328,190**

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	***2011***	***2011***
	¥	¥	$
Net sales	14,275	**22,593**	**271,714**
Cost of sales	11,190	**14,442**	**173,686**
Gross profit	3,085	**8,151**	**98,028**
Selling, general and administrative expenses (Notes2(13)and 8)	3,423	**4,083**	**49,104**
Operating Income	(338)	**4,068**	**48,924**
Other income (expenses)			
Interest and dividend income	25	**29**	**349**
Interest expenses	(265)	**(197)**	**(2,369)**
Foreign exchange gains (losses)	(39)	**(65)**	**(782)**
Equity in earnings (losses) of affiliates	22	**186**	**2,237**
Loss on impairment of fixed assets	-	**(126)**	**(1,515)**
Gain on subsidiaries liquidation	36	**-**	**-**
Other, net	274	**47**	**564**
Total other income (expenses)	53	**(126)**	**(1,516)**
Income before income taxes and minority interests	(285)	**3,942**	**47,408**
Income taxes (Note 10)			
Current	54	**170**	**2,044**
Deferred	(9)	**20**	**241**
Income before minority interests	(330)	**3,752**	**45,123**
Minority Interests	-	**-**	**-**
Net Income	(330)	**3,752**	**45,123**

			U.S. dollars (Note 1)
Amount per share of common stock (Note 2 (16)):	¥	¥	$
Net Income	(13.19)	150.00	1.80
Diluted net income	(13.19)	150.00	1.80
Cash dividends	0.00	10.00	0.12

The accompanying notes are an integral part of these financial statements.

Consolidated Statements of Comprehensive Income

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	***2011***	***2011***
	¥	¥	$
Income Before Minority Interests ……………………………………………	-	**3,752**	**45,123**
Other Comprehensive Income	-		
Unrealized gain on other securities……………………………………	-	**111**	**1,335**
Translation adjustment…………………………………………………	-	**(112)**	**(1,346)**
Share of other comprehensive income of affiliates accounted for the equity method	-	**(72)**	**(866)**
Total other comprehensive income	-	**(73)**	**(877)**
Comprehensive Income	-	**3,679**	**44,246**
(Comprehensive income attributable to)			
Comperehensive income attributable to owners of the parent……………	-	**3,679**	**44,246**
Comprehensive income attributable to minority interests………………	-	**-**	**-**

Consolidated Statements of Shareholders' Equity

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2011

	Millions of yen							
	Shareholders' equity					*Accumulated other comprehensive income*		
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Treasury stock*	*Unrealized gain on other securities*	*Translation adjustments*	*Total net assets*
		¥	¥	¥	¥	¥	¥	¥
Balance at March 31, 2009 ………………………………	25,021,832	8,933	3,115	(469)	(7)	82	(564)	11,090
Net Income …………………………………………….	-	-	-	(330)	-	-	-	(330)
Net increase of treasury stock ……………………………..	-	-	-	-	(1)	-	-	(1)
Net increase of unrealized gain on other securities ………..	-	-	-	-	-	324	-	324
Net increase of translation …………………………………	-	-	-	-	-	-	9	9
Reserve from legal capital surplus ……………………………	-	-	(2,653)	2,653	-	-	-	0
Balance at March 31, 2010 ………………………………	25,021,832	8,933	462	1,854	(8)	406	(555)	11,092
Net Income …………………………………………….	-	-	-	3,752	-	-	-	3,752
Net increase of treasury stock ……………………………..	-	-	-	-	0	-	-	0
Net increase of unrealized gain on other securities ………..	-	-	-	-	-	111	-	111
Net increase of translation …………………………………	-	-	-	-	-	-	(184)	(184)
Reserve from legal capital surplus ……………………………	-	-	-	-	-	-	-	0
Balance at March 31, 2011 ………………………………	25,021,832	8,933	462	5,606	(8)	517	(739)	14,771

	Thousands of U.S.dollars (Note 1)							
	Shareholders' equity					*Accumulated other comprehensive income*		
	Number of shares of common stock	*Common stock*	*Additional paid-in capital*	*Retained earnings*	*Treasury stock*	*Unrealized gain on other securities*	*Translation adjustments*	*Total net assets*
		$	$	$	$	$	$	$
Balance at March 31, 2010 ………………………………	25,021,832	107,432	5,556	22,297	(96)	4,883	(6,675)	133,397
Net Income …………………………………………….	-	-	-	45,123	-	-	-	45,123
Net increase of treasury stock ……………………………..	-	-	-	-	0	-	-	0
Net increase of unrealized gain on other securities ………..	-	-	-	-	-	1,335	-	1,335
Net increase of translation …………………………………	-	-	-	-	-	-	(2,212)	(2,212)
Reserve from legal capital surplus ……………………………	-	-	-	-	-	-	-	0
Balance at March 31, 2011 ………………………………	25,021,832	107,432	5,556	67,420	(96)	6,218	(8,887)	177,643

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Cash Flows

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES
Two years ended March 31, 2011

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	***2011***	***2011***
Cash Flows from Operating Activities:	¥	¥	$
Net Income before income taxes and minority interests	(285)	**3,942**	**47,408**
Adjustments for:			
Depreciation	1,309	**1,171**	**14,083**
Loss on impairment of fixed assets	0	**126**	**1,515**
Equity in earnings of affiliates	(22)	**(186)**	**(2,237)**
Interest and dividends income	(25)	**(29)**	**(349)**
Interest expenses	265	**197**	**2,369**
Foreign exchange losses (gains)	68	**29**	**349**
Gain on subsidiaries liquidation	(36)	**0**	**0**
(Increase) decrease in trade notes and accounts receivable	(2,244)	**111**	**1,335**
(Increase) decrease in inventories	2,046	**45**	**541**
(Increase) decrease in other current assets	57	**(10)**	**(120)**
Increase (decrease) in notes and accounts payable	1,485	**(32)**	**(385)**
Increase(decrease) in accrued and other current liabilities	95	**117**	**1,407**
Other, net	58	**361**	**4,343**
Sub-total	2,771	**5,842**	**70,259**
Interest and dividends received	26	**48**	**577**
Interest paid	(255)	**(203)**	**(2,442)**
Income taxes paid	(47)	**(115)**	**(1,383)**
Net cash provided by (used in) operating activities	2,495	**5,572**	**67,011**
Cash Flows from Investing Activities:			
Purchase of investment securities	(7)	**(7)**	**(84)**
Sale of investment securities	0	**1**	**12**
Purchase of property, plant and equipment	(470)	**(490)**	**(5,892)**
Sale of property, plant and equipment	178	**17**	**204**
Other, net	8	**(141)**	**(1,696)**
Net cash provided by (used in) investing activities	(291)	**(620)**	**(7,456)**
Cash Flows from Financing Activities:			
Increase (decrease) in short-term borrowings	(3,098)	**(2,634)**	**(31,679)**
Proceeds from issuance of long-term debt	3,400	**600**	**7,217**
Repayments of long-term debt	(2,463)	**(1,303)**	**(15,671)**
Redemption of bonds	(572)	**(472)**	**(5,676)**
Net cash provided by (used in) financing activities	(2,733)	**(3,809)**	**(45,809)**
Effect of exchange rate changes on Cash and Cash Equivalents	(33)	**(45)**	**(541)**
Net increase(decrease) in Cash and Cash Equivalents	(562)	**1,098**	**13,205**
Cash and Cash Equivalents at Beginning of Period	4,399	**3,837**	**46,146**
Cash and Cash Equivalents at End of Period (Note2(3))	3,837	**4,935**	**59,351**

The accompanying notes are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

TOWA CORPORATION AND CONSOLIDATED SUBSIDIARIES

1. Basis of presenting Consolidated Financial Statements

TOWA CORPORATION (the ”Company”) and its domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Corporate Law of Japan and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan (“JPGAAP”), which are different, in certain respects from the application and disclosures and disclosure requirements of International Financial Reporting Standards (“IFRS”).

The Company’s overseas subsidiaries maintain their accounts and records in conformity with generally accepted accounting principles and practices prevailing in their respective countries of domicile, and the Company makes necessary adjustments to its consolidated accounting process in case there are considerable differences as to application and disclosure requirements from International Financial Reporting Standards.

The accompanying consolidated financial statements of the Company are prepared on the basis of accounting principles generally accepted in Japan, as required by the Securities and Exchange Law of Japan.

In preparing the accompanying 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 readers outside Japan.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2011, which was ¥83.15 to US$1.00. These convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(1) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its subsidiaries and affiliates. All significant inter-company transactions, account balances and unrealized profits have been eliminated in consolidation. Fiscal year end of some subsidiaries is December 31, which differs from that of the Company, March 31, and the Company consolidate such subsidiaries using their provisional settlements as of March 31. Shown below are the significant subsidiaries and affiliates of the Company.

Subsidiaries

(All subsidiaries have been consolidated)

Name	Ownership	Country of Incorporation
BANDICK Corporation	100%	Japan
TOWATEC Co., Ltd.	100	Japan
TOWA Service Co., Ltd.	100	Japan
TOWAM Sdn. Bhd.	100	Malaysia
TOWA (Suzhou) Co., Ltd.	100	China
TOWA America Corporation	100	The United States of America
TOWA Asia-Pacific Pte. Ltd.	100	Singapore
TOWA (Shanghai) Co., Ltd.	100	China
TOWA TAIWAN Co., Ltd	100	Taiwan
TOWA Semiconductor Equipment Philippines Corporation	100	Philippines
TOWA Europe GmbH	100	Germany

Affiliates

(All affiliates are accounted for by the equity method)

Name	Ownership	Country of Incorporation
TONGIJIN Corporation	35 %	Korea
SECRON Co., Ltd.	23	Korea
TOWA Jipal Technologies Co., Ltd.	40	Taiwan
Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd	20	Japan

※ 1 . Liquidation proceedings of TOWA Singapore Mfg.Pte.Ltd have been completed in the fiscal year ended March 31, 2010 and its financial statement isn't consolidated into accompanying financial statement for 2010 and 2011.

(2) Translation of Foreign Currency Items

In accordance with the Japanese accounting standard, every monetary assets and liabilities denominated in foreign currencies are principally translated into Japanese yen at the exchange rate in effect at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the statements of income.

With respect to financial statements of overseas subsidiaries, the balance sheet accounts are translated into Japanese yen at the exchange rates in effect at the balance sheet date except for shareholders' equity, which are translated at the historical rates. And revenue and expenses are translated at the exchange rate in effect at the balance sheet date. The differences resulting from translation in this manner are included in "Translation adjustments" which is listed in Accumulated Other Comprehensive Income in the accompanying consolidated balance sheets.

(3) Cash and Cash Equivalents

For the purposes of cash flow statements, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

Components of cash and cash equivalents as of March 31, 2010 and 2011 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Cash on hand and at banks	¥3,897	¥5,142	$61,840
Less: Time deposits with deposit term of over three months	¥60	¥207	$2,489
Cash and cash equivalent at end of year	¥3,837	¥4,935	$59,351

(4) Securities

Securities are classified into four categories.

Categorization and valuation for investments in securities are as follows:-

1. Trading Securities

- Such securities held for the purpose of generating profits from short-term price movements.
- Unrealized gain/loss at the end of period resulting from the valuation by applying the fair value at such date is directly debited/credited to income;
- Such securities are treated in current assets in the balance sheet.

2. Held-to-maturity Debt Securities

- Debt securities whose maturity dates are predetermined and are to be redeemed at par, acquired with intention to hold to their maturity dates;
- The difference between the acquisition cost and the amount expected to gain at maturity is amortized or appreciated over the remaining period to maturity date. The amount amortized or appreciated is charged/credited to income for the respective period as interest expense or interest income, as the case may be.
- Unrealized loss will be required to be charged to income as impairment unless unrealized loss is expected to recover within a reasonable period.

3. Shares in equity of Subsidiaries and Affiliates

- Those securities are carried at cost unless such investment is regarded impaired.

4. Other Securities:

- Such securities other than those categorized in 1 to 3 above;
- Other Securities with market quotation are valued at such market price at the end of period, and those without market quotation are valued at cost.
- Unrealized gain/loss at the end of period resulting from such valuation is charged to Accumulated Other Comprehensive Income as “Unrealized gain/(loss) on Other Securities” after netting off the deferred income taxes thereto.
- Unrealized loss which it incurred as the fair value is less than 50% of its acquisition cost will be required to be charged to income.
- Unrealized loss which it incurred as the fair value is 30% ~50% of its acquisition cost will be required to be charged to income unless the unrealized loss is expected to recover within a reasonable period.

The moving average method is applied for calculation of the costs of securities.

(5) Inventories

Inventories are mainly stated at the lower of cost or net selling value, the cost being determined by mainly specific identification method for finished products and work-in-process, by mainly moving-average method for raw materials and by the last purchase cost method for supplies.

(6) Allowance for Doubtful Accounts

The Company and its domestic subsidiaries have provided the allowance based on the past uncollectible receivable experience for a certain reference period. Furthermore, for receivables which are from the debtors with financial difficulty, the allowance is provided for estimated unrecoverable amounts individually. Overseas subsidiaries have provided an allowance for doubtful accounts in the estimated amounts of possible bad debts.

(7) Property, Plant and Equipment

Property, plant and equipment are stated at cost.

Depreciation for property, plant and equipment of the Company and its domestic subsidiaries is calculated by applying declining-balance method, except for buildings acquired on and after April 1, 1998 which are applied the straight-line method, over the estimated useful lives.

The principal estimated useful lives are as follows:

Buildings and structures	2	～	50	years
Machinery and equipment	2	～	10	years

Depreciation for those of overseas subsidiaries is computed by the straight-line method in accordance with the regulations of respective domicile countries.

(8) Leased Assets

Leased assets are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

However, finance lease transactions other than those in which titles to leased property are determined to be transferred to lessees, which transactions started on or before March 31, 2008, are stated by applying the accounting treatment applicable to ordinary operating lease transactions.

(9) Derivatives

The Company has entered into foreign exchange agreements and interest rate agreements to hedge the fluctuation of foreign currency and interest rate exposures, and not for speculative purposes. The instruments include foreign currency forward contracts and interest rate swap agreements.

These instruments were accounted by the deferral hedge accounting. The Company has accounted for foreign currency forward contracts by the designation accounting, and accounted for interest rate swap agreements by the exception accounting.

(10) Product Warranties

The Company has accounted for the estimate amounts of maintenance expenses as the product warranties, which corresponded to the sales based on the prior track record for the outcome of maintenance expenses of the sold products during the period of warranty.

As of March 31, 2011, the liability for expected warranty costs was 154 million yen ($1,852thousand) .

(11) Accrued Bonus

The Company and its subsidiaries provide for accrued bonuses to directors and employees for the expected payment of their bonuses for the current fiscal year to those directors and employees serving at the end of the fiscal year.

(12) Accrued Severance Indemnities

Employees who terminate their service with the Company and its domestic subsidiaries are under most circumstances, entitled to lump-sum severance indemnities determined by reference to current basis rates of pay, length of service and conditions under which the terminations occur.

Accrued severance indemnities are provided based on the amount of projected benefit obligation less pension plan assets at fair value at the end of the annual period.

(13) Research and Development Costs

Research and development expenditure is charged to income when incurred.

(14) Income Taxes

Income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local taxes and enterprise taxes. Enterprise taxes are deductible when paid for the computation of other taxes.

Deferred income taxes are recognized using the asset and liability approach, whereby deferred tax assets and liabilities were recognized in respect of temporary differences between the tax basis of assets and liabilities and those as reported in the financial statements.

(15) Appropriation of Retained Earnings

Under the Japanese Corporate Law and the Articles of Incorporation of the Company, the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors. The appropriations of retained earnings reflected in the accompanying consolidated financial statements include the results of such appropriations applicable to the immediately preceding financial year as approved by the Board of Directors, and effected, during the relevant year. Dividends are paid to shareholders on the shareholders' register as at the end of each financial year.

(16) Per Share Information

Net income per share and diluted net income per share are computed based on the weighted-average number of shares of common stock outstanding during each year and stock splits are reflected in the calculation of the weighted-average number of shares of common stock.

Cash dividend per share is the total of the per-share amounts of interim cash distribution and the year-end cash dividends for the income of the respective financial periods.

(Additional Information)

Effective from the fiscal year ended March 31, 2011, the “Accounting Standard for Presentation of Comprehensive Income” (ASBJ Statement No.25 issued on June 30, 2010) has been adopted. As a result of the adoption of the standard, the Company has presented the consolidated statement of comprehensive income in the consolidated financial statements for the fiscal year ended March 31, 2011.

The consolidated balance sheet and the consolidated statement of changes in net assets as of and for the fiscal year ended March 31, 2010 have been modified to conform with the new presentation rules of 2011. In addition, the Company has presented the consolidated statement of comprehensive income for the fiscal year ended March 31, 2010 as well as that for the fiscal year ended March 31, 2011.

3. Securities

(1) The following is a summary of investments in affiliates and other securities at March 31, 2010:

	Millions of yen			
	2010			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥831	¥569	¥12	¥1,388
	¥831	¥569	¥12	¥1,388
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥834	¥569	¥12	¥1,391

Investments in affiliates:	Millions of yen
	2010
	Book Value
Market value not available:	
Equity securities	¥927
	¥927
Total	¥2,318

(2) The following is a summary of investments in affiliates and other securities at March 31, 2011

	Millions of yen			
	2011			
Other securities:	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	¥837	¥769	¥23	¥1,583
	¥837	¥769	¥23	¥1,583
Market value not available:				
Equity securities	3	-	-	3
Other securities total	¥840	¥769	¥23	¥1,586

Investments in affiliates:	*Millions of yen*
	2011
	Book Value
Market value not available:	
Equity securities	¥1,020
	¥1,020
Total	¥2,606

Other securities:	Thousands of U.S. dollars (Note 1)			
	2011			
	Cost	Unrealized gains	Unrealized losses	Book Value (Estimated fair value)
Market value available:				
Equity securities	$10,066	$9,248	$277	$19,037
	$10,066	$9,248	$277	$19,037
Market value not available:				
Equity securities	$ 36	-	-	$ 36
Other securities total	$10,102	$9,248	$277	$19,073

Investments in affiliates:	Thousands of U.S. dollars (Note 1)
	2011
	Book Value
Market value not available:	
Equity securities	$12,268
	$12,268
Total	$31,341

4. Estimated Fair Value of Financial Instruments

As of March 31, 2010 and 2011, the book value and fair value of financial instruments and the differences between these figures are set forth in the table below. The table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2010		
	Book Value	Fair Value	Difference
Cash and deposits	¥3,897	¥3,897	¥0
Notes and accounts receivable	5,623		
Less:Allowance for Doubtful Accounts	(9)		
	¥5,614	¥5,614	¥0
Investment securities	1,388	1,388	0
Total assets	¥10,899	¥10,899	¥0
Notes and accounts payable	2,043	2,043	0
Short-term borrowings	5,587	5,587	0
Bonds	508	509	1
Long-term borrowings	5,463	5,466	3
Total liabilities	¥13,601	¥13,605	¥4
Derivative financial instruments	¥0	¥(29)	¥(29)

	Millions of yen		
	2011		
	Book Value	Fair Value	Difference
Cash and deposits	¥5,142	¥5,142	¥0
Notes and accounts receivable	5,516		
Less:Allowance for Doubtful Accounts	(1)		
	¥5,515	¥5,515	¥0
Investment securities	1,583	1,583	0
Total assets	¥12,240	¥12,240	¥0
Notes and accounts payable	1,982	1,982	0
Short-term borrowings	2,898	2,898	0
Bonds	36	36	0
Long-term borrowings	4,759	4,761	2
Total liabilities	¥9,675	¥9,677	¥2
Derivative financial instruments	¥0	¥(13)	¥(13)

	Thousands of U.S. dollars (Note 1)		
	2011		
	Book Value	Fair Value	Difference
Cash and deposits	$61,840	$61,840	$0
Notes and accounts receivable	66,338	0	
Less:Allowance for Doubtful Accounts	(12)	0	
	$66,326	$60,340	$(5,986)
Investment securities	19,038	19,038	0
Total assets	$147,204	$141,218	$(5,986)
Notes and accounts payable	23,836	23,836	0
Short-term borrowings	34,854	34,854	0
Bonds	433	433	0
Long-term borrowings	57,234	57,258	24
Total liabilities	$116,357	$116,381	$24
Derivative financial instruments	$0	$(156)	$(156)

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2010 and 2011 were as follows, respectively.

	Millions of yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	
Unlisted equity securities	¥930	¥1,023	$12,303

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

The redemption schedule for bonds and long-term borrowings is disclosed in Note5.

5. Short-term Borrowings and Long-term Debt

Short-term borrowings represent loans from banks and an insurance company. The annual average interest rates applicable to short-term borrowings at March 31, 2010 are 1.8% and 2011 are 1.9%, respectively.

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

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Borrowings from financial institutions	¥5,463	¥4,759	$57,234
0.7% Yen Bonds due 2010	100	-	-
1.1% Yen Bonds due 2011	100	-	-
0.6% Yen Bonds due 2011	200	-	-
1.6% Yen Bonds due 2011	108	36	432
Long-term installment payment for Purchase of machinery and equipment	1	0	-
Less: Portion due within one year	(1,776)	(1,793)	(21,563)
	¥4,196	¥3,002	$36,103

The aggregate annual maturity of long-term debt after March 31, 2011 is summarized as follows:

Years ending March 31,	*Millions of Yen*	*Thousands of U.S. dollars (Note 1)*
2012	¥1,793	$21,563
2013	2,410	28,984
2014	323	3,884
2015 and thereafter	269	3,235
	¥4,795	$57,666

The Company's assets pledged as collateral for short-term borrowings and long-term debt were as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Principal of debt:			
Short-term borrowings	¥ 5	¥ -	$ -
Portion due within one year	500	1,000	12,026
Long-term borrowings	2,900	1,900	22,850
	¥ 3,405	¥ 2,900	$34,876
Assets pledged as collateral:			
Land	¥3,893	¥3,728	$44,835
Buildings	3,196	2,874	34,564
	¥7,089	¥6,602	$79,399

Regarding loan payables, the syndicate loan contract with limit of ¥3,400 million yen($40,890thousand) , commitment line contracts with limits of ¥ 2,500 million yen ($ 30,066 thousand) and convertible term loan contract with limit of ¥300 million yen ($ 3,608 thousand), respectively include financial covenant terms. The contractor triggers acceleration and is enforced to repay the full principal and interest if the contractor breaches either of the following terms.

(Financial covenant terms included in the syndicated loan contract, commitment line contract and convertible term loan contract)

(1) The amount of Net Assets on the consolidated balance sheets at the end of each fiscal year and each semiannual period must be maintained 9,040 million yen（$108,719 thousand）or more.

(2) The ordinary losses in both consolidated statements of income for each fiscal year must not be existed in two successive periods after the fiscal year ended March 31, 2010.

6. Accrued Severance Indemnities for employees

The following tables set forth the changes in benefit obligation, plan assets and funded status of the Company and its subsidiaries at March 31, 2010 and 2011.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Projected benefit obligation at end of year	¥1,652	¥1,630	$19,603
Fair value of plan assets at end of year	781	804	9,669
Funded status:			
Benefit obligation in excess of plan assets	871	826	9,934
Unrecognized actuarial loss	88	40	481
Accrued pension liability recognized in the Consolidation balance sheets	¥783	¥786	$9,453

Note: Some subsidiaries adopted the alternative method of accounting for retirement benefit allowable for small business entity under the new accounting standards.

Severance and pension costs of the Company and its subsidiaries included the following components for the year ended March 31, 2010 and 2011.

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Service cost	¥102	¥111	$1,335
Interest cost	27	30	361
Expected return on plan assets	-	-	-
Actuarial losses	22	18	216
Net periodic benefit cost	¥151	¥159	$1,912

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2010 and 2011 are as follows:

	2010	2011
Method of attributing benefit to periods of service	Straight –line basis	Straight –line basis
Discount rate	2.0%	2.0%
Long-term rate of return on fund assets	0.0%	0.0%
Amortization unrecognized projected Benefit obligation at the date of transition	-	-
Amortization period for actuarial losses	10years(declining-balance basis)	10years(declining-balance basis)

7. Shareholders' Equity

Under the Japanese Corporate Law the appropriation of retained earnings or disposition of accumulated deficit could be adopted by the Board of Directors.

The Japanese Company Law requires that amounts equal to 10% of interim cash dividend and 10% or more of cash dividends and other appropriations of retained earnings paid out with respect to each financial period be set aside in the legal reserve until an aggregate amount of additional paid-in capital and the legal reserve equals 25% of the amount of stated capital. The amount of total additional paid-in capital and legal reserve which exceeding 25% of stated capital can be transferred to retained earnings by a resolution of the shareholders, which may be available for dividends.

Under the Japanese Corporate Law, although the entire amount of the issue price of new shares is required to be accounted for as common stock a company may, by resolutions of its Board of Directors, account for an amount not exceeding one-half of the issue price of such new shares as additional paid-in capital.

8. Research and Development Costs

Research and development costs charged to income for the years ended March 31, 2010 and 2011 were ¥145million and ¥331million ($3,981 thousand), respectively.

9. Loss on impairment of fixed assets

The Company has recognized impairment loss of 126 million yen ($1,515 thousand), mainly for the following group of assets as of March 31, 2011.

Location	Use	Category	Impairment loss (millions of yen)
TOWA America Corporation (CA, United States)	Equipment for production of Semiconductor equipment	Land and Buildings	113

The company and its subsidiaries assessed impairment of each group of assets, which are grouped on the basis of segment by products for domestic companies and by location for foreign subsidiaries.

Therefore, due to the decline in real estate value of asset above, the company has decided to mark the assets down to the appraised value, and accrued impairment loss as ¥113million ($1,359thousand).

10. Income Taxes

The company is subject to a number of different income taxes, which in the aggregate, result in a statutory tax rate in Japan of approximately 40.6% for the years ended of March 31, 2010 and 2011.

The deferred tax assets and deferred tax liabilities at March 31, 2010 and 2011 are as follows:

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
	2010	2011	2011
Deferred tax assets:			
Inventory write down	¥229	¥172	$2,069
Impairment loss of fixed assets	696	714	8,587
Retirement and severance benefits	298	302	3,632
Net operating loss carried forward	2,940	1,696	20,397
Other, net	900	927	11,147
Valuation Allowance	(5,000)	(3,715)	(44,678)
	63	96	1,154
Deferred tax liabilities:			
Other, net	(179)	(308)	(3,704)
	(179)	(308)	(3,704)
Net deferred tax assets/(liabilities)	¥(116)	¥(212)	$(2,550)

11. Leases

The Company and its consolidated subsidiaries and equity method affiliates have been utilizing finance lease arrangements other than those deemed to transfer the ownership of the leased property to the lessee to employ certain machinery and equipment.

The finance lease transactions, which do not transfer ownership to lessee, started before April 1, 2008 were accounted for as operating leases.

Total lease payments for such lease arrangements for the year ended March 31, 2010 and 2011 are ¥2million and ¥2 million ($24 thousand), respectively.

Summarized below are the pro forma information on acquisition costs, accumulated depreciation and future minimum lease payments for the property held under such lease as mentioned above:

As of March 31, 2010

Millions of yen

	Machinery And Equipment	Other	Total
Acquisition costs	¥ 7	¥3	¥10
Accumulated Depreciation	4	3	7
Net leased property	¥ 3	¥ -	¥3

As of March 31, 2011

Millions of yen

	Machinery And Equipment	Other	Total
Acquisition costs	¥ 7	¥-	¥7
Accumulated Depreciation	5	-	5
Net leased property	¥ 2	¥ -	¥2

Thousands of U.S. dollars (Note 1)			
	Machinery And Equipment	Other	Total
Acquisition costs	$84	$-	$84
Accumulated Depreciation	60	-	60
Net leased property	$24	$-	$24

Future minimum lease payments as of March 31, 2010 and 2011:

	Millions of yen 2010	*Millions of yen* 2011	*Thousands of U.S. dollars (Note 1)* 2011
Due within one year	¥ 2	¥ 1	$12
Due after one year	2	0	0
Total	¥4	¥1	$12

Depreciation is calculated by the straight-line method on the assumption that the term of the lease is useful life of the relevant leased asset and residual value is zero.

Depreciation expense, which is not reflected in the accompanying consolidated statements of income, would have been ¥2 million and ¥2 million ($24 thousand) for the year ended March 31, 2010and 2011, respectively.

12. Contingent Liabilities

The Companies have no significant contingent liabilities.

13. Segment Information

(1) Segment by products

Year ended March 31, 2010	*Millions of Yen*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 13,172	¥1,103	¥ -	¥14,275
Inter-segment sales	-	-	-	-
	13,172	1,103	-	14,275
Cost of sales and Operating expenses	13,689	924	-	14,613
Operating income	¥ (517)	¥ 179	¥ -	¥ (338)
Ⅱ.Assets				
Total assets	¥ 25,759	¥ 980	-	¥ 26,739
Depreciation and amortization	¥ 1,210	¥ 99	-	¥ 1,309
Capital expenditure	¥ 216	¥ 20	-	¥ 236

Year ended March 31, 2011	*Millions of Yen*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	¥ 21,304	¥1,289	¥ -	¥22,593
Inter-segment sales	-	-	-	-
	21,304	1,289	-	22,593
Cost of sales and Operating expenses	17,394	1,131	-	18,525
Operating income	¥ 3,910	¥ 158	¥ -	¥ 4,068
Ⅱ.Assets				
Total assets	¥ 26,214	¥ 1,075	-	¥ 27,289
Depreciation and amortization	¥ 1,085	¥ 86	-	¥ 1,171
Capital expenditure	¥ 542	¥ 36	-	¥ 578

Year ended March 31, 2010	*Thousands of U.S. dollars (Note 1)*			
	Semiconductor equipment	Fine plastic mold	Elimination/ Unallocated Assets	Consolidated
Ⅰ.Sales and operating income				
Net sales to customers	$256,212	$15,502	$ -	$271,714
Inter-segment sales	-	-	-	-
	256,212	15,502	-	271,714
Cost of sales and Operating expenses	209,188	13,602	-	$222,790
Operating income	$ 47,024	$ 1,900	$ -	$ 48,924
Ⅱ.Assets				
Total assets	$315,262	$12,928	-	$328,190
Depreciation and amortization	$ 13,049	$ 1,034	-	$ 14,083
Capital expenditure	$ 6,518	$ 433	-	$ 6,951

(2) Sales by region

	Millions of Yen		*Thousands of U.S. dollars (Note 1)*
Year ended March 31	2010	2011	2011
Japan	¥ 3,381	¥ 4,508	$54,216
Overseas			
Asia	10,305	17,060	205,171
America	382	602	7,240
Other	207	423	5,087
Overseas total	10,894	18,085	217,498
Consolidated sales	¥14,275	¥22,593	$271,714

Corporate Information

as of June 29, 2011

Corporate Data

Corporate Name:	TOWA CORPORATION
Headquarters/Factory:	5 Kamichoshi-cho, Kamitoba, Minami-ku, Kyoto 601-8105, Japan
Eatablished:	April 17, 1979
Operations:	Develop, design, manufacture, and sell precision molds, manufacturing systems for electronic components, inspection systems for electronic components, precision-molded and assembly products, medical-use equipment, and electronic-communications equipment. Other related business.
Paid-in Capital:	¥8,932,627,777
Common Stock	
Authorized:	80,000,000
Issued Number of Shares:	25,021,832
Unit for Trading:	100
Stock Listings:	First Section of the Tokyo Stock Exchange First Section of the Osaka Securities Exchange
Transfer Agents:	Mizuho Trust & Banking Co., Ltd
Fiscal Year:	From April 1 to March 31
Number of Employees:	438
URL:	http://www.towajapan.co.jp
Subsidiaries and Affiliated Companies:	BANDICK Corporation TOWATEC Co., Ltd. TOWA Service Co., Ltd. TOWAM Sdn. Bhd. TOWA Asia-Pacific Pte. Ltd. TOWA Semiconducter Equipment Philippines Corporation TOWA America Corporation TOWA Europe GmbH TOWA (Shanghai) Co., Ltd. TOWA (Suzhou) Co., Ltd. TOWA TAIWAN Co., Ltd. TONGJIN Corporation SECRON Co., Ltd. TOWA-Jipal Technologies Co., Ltd. Scientific and Semiconductor Manufacturing Equipment Recycling Co., Ltd.

Board of Directors

Chairman & CEO
Kazuhiko Bandoh

President & COO
Hisao Nishimura

Directors
Hirokazu Okada
Makoto Fukutomi
Hisaji Konishi
Hajime Kuwaki

Standing Corporate Auditor
Kiyoshi Osaki

Coporate Auditors
Masanori Sugiyama
Katsuhiro Umeyama

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