

**2016**

**INABATA**

Financial  
Statements



## Independent Auditor's Report

To the Board of Directors of Inabata & Co., Ltd.:

We have audited the accompanying consolidated financial statements of Inabata & Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2016 and 2015, and the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

### **Management's Responsibility for the Consolidated Financial Statements**

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

### **Auditor's Responsibility**

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

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

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

### **Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Inabata & Co., Ltd. and its consolidated subsidiaries as at March 31, 2016 and 2015, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

### **Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2016 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

July 7, 2016  
Osaka, Japan

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS  
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 12 and 15)	¥ 21,316	¥ 23,572	\$ 189,169
Notes and accounts receivable - trade (Note 15):	145,565	155,961	1,291,845
Merchandise and finished goods	41,473	44,478	368,059
Work in Process	527	452	4,675
Raw materials and supplies	2,825	3,213	25,069
Deferred tax assets (Note 6)	899	456	7,978
Other current assets	11,031	8,248	97,897
Allowance for doubtful accounts (Note 15)	(1,189)	(1,406)	(10,549)
Total current assets	222,447	234,974	1,974,143
<b>Property, plant and equipment:</b>			
Land	3,108	2,130	27,581
Buildings and structures	12,958	12,854	115,000
Machinery and equipment	14,520	17,245	128,861
Construction in progress	466	1,128	4,136
Other property, plant and equipment	2,937	2,995	26,068
	33,989	36,352	301,646
Less accumulated depreciation	(22,723)	(23,702)	(201,661)
Property, plant and equipment, net	11,266	12,650	99,985
<b>Investments and other assets:</b>			
Investment securities (Notes 4, 7 and 15):	62,715	68,256	556,578
Long-term loans receivable (Note 15):	1,057	1,532	9,379
Intangible assets	3,586	3,625	31,820
Net defined benefit asset (Note 11)	2,503	3,795	22,211
Deferred tax assets (Note 6)	586	576	5,198
Other assets	1,956	2,268	17,367
Allowance for doubtful accounts (Note 15)	(680)	(814)	(6,031)
Total investments and other assets	71,723	79,238	636,522
<b>Total assets</b>	<b>¥ 305,436</b>	<b>¥ 326,862</b>	<b>\$ 2,710,650</b>

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED BALANCE SHEETS (CONTINUED)  
March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Notes and accounts payable - trade (Note 15):	¥ 83,265	¥ 91,158	\$ 738,947
Short-term loans payable (Notes 10 and 15)	44,384	54,460	393,894
Income taxes payable	2,047	1,650	18,163
Accrued expenses	1,227	1,297	10,894
Provision for bonuses	1,123	1,150	9,970
Other current liabilities	6,102	4,998	54,145
Total current liabilities	138,148	154,713	1,226,013
<b>Long-term liabilities:</b>			
Long-term loans payable (Notes 10 and 15)	23,993	24,355	212,933
Deferred tax liabilities (Note 6)	13,588	16,630	120,589
Provision for directors' retirement benefits	32	34	284
Provision for loss on debt guarantees	19	19	165
Net defined benefit liability (Note 11)	1,292	910	11,466
Other non-current liabilities	1,340	1,675	11,891
Total non-current liabilities	40,264	43,623	357,328
<b>Contingent liabilities (Note 19)</b>			
<b>Net assets</b>			
<b>Shareholders' equity (Note 16)</b>			
<b>Common stock:</b>			
Authorized - 200,000,000 shares			
Issued - 63,499,227 shares in 2016 and 63,499,227 shares in 2015	9,364	9,364	83,107
Capital surplus	7,709	7,709	68,411
Retained earnings (Note 20)	75,909	68,838	673,673
Treasury stock, at cost: (Note 17)			
1,402,268 shares in 2016 and 801,996 shares in 2015	(1,178)	(470)	(10,451)
Total shareholders' equity	91,804	85,441	814,740
<b>Accumulated other comprehensive income</b>			
Valuation difference on available-for-sale securities	31,859	34,934	282,736
Deferred gains (losses) on hedges	(69)	(79)	(609)
Foreign currency translation adjustments	3,056	6,911	27,120
Remeasurements of defined benefit plans	(613)	464	(5,438)
Total accumulated other comprehensive income	34,233	42,230	303,809
<b>Non-controlling interests</b>	987	855	8,760
Total net assets	127,024	128,526	1,127,309
<b>Total liabilities and net assets</b>	¥ 305,436	¥ 326,862	\$ 2,710,650

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF INCOME  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales	¥ 577,037	¥ 572,114	\$ 5,121,028
Cost of sales	535,973	533,073	4,756,596
Gross profit	41,064	39,041	364,432
Selling, general and administrative expenses (Note 9)	29,693	28,267	263,516
Operating income	11,371	10,774	100,916
Other income (expenses):			
Interest and dividend income	1,865	2,291	16,551
Interest expenses (Note 10)	(1,276)	(946)	(11,322)
Foreign exchange gains (losses)	(874)	82	(7,754)
Share of profit of entities accounted for using equity method	601	516	5,332
Impairment loss (Note 8)	-	(372)	-
Gain on sales of non-current assets	332	-	2,942
Gain on sales of investment securities	834	293	7,398
Other, net	569	501	5,056
Income before income taxes	13,422	13,139	119,119
Income taxes (Note 6)			
Income taxes - current	4,228	3,430	37,522
Income taxes - deferred	(554)	945	(4,916)
Net income	9,748	8,764	86,513
Net income attributable to non-controlling interests	238	133	2,112
Net income attributable to owners of parent	¥ 9,510	¥ 8,631	\$ 84,401
Amounts per share:			U.S. dollars (Note 1)
	Yen		2016
	2016	2015	
Basic net income per share	¥ 151.91	¥ 137.20	\$ 1.35
Cash dividends per share applicable to the year	36.00	33.00	0.32

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥ 9,748	¥ 8,764	\$ 86,513
Other comprehensive income (Note 13):			
Valuation difference on available-for-sale securities	(2,959)	947	(26,263)
Deferred gains (losses) on hedges	(14)	(58)	(124)
Foreign currency translation adjustment	(3,823)	5,261	(33,930)
Remeasurements of defined benefit plans, net of tax	(1,075)	1,319	(9,541)
Share of other comprehensive income of entities accounted for using equity method	(178)	310	(1,574)
Total other comprehensive income	<u>(8,049)</u>	<u>7,779</u>	<u>(71,432)</u>
Comprehensive income	<u>¥ 1,699</u>	<u>¥ 16,543</u>	<u>\$ 15,081</u>
Comprehensive income attributable to:			
Owners of parent	¥ 1,513	¥ 16,327	\$ 13,427
Non-controlling interests	186	216	1,654

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS  
Years ended March 31, 2016 and 2015

	Millions of yen									
	2016					2015				
	Shareholders' equity		Accumulated other comprehensive income			Shareholders' equity		Accumulated other comprehensive income		
Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total	
Balance at April 1, 2015	¥ 9,364	¥ 7,709	¥ 68,838	¥ (470)	¥ 34,934	¥ (79)	¥ 6,911	¥ 464	¥ 855	¥ 128,526
Net income attributable to owners of parent	-	-	9,510	-	-	-	-	-	-	9,510
Dividends of surplus	-	-	(2,132)	-	-	-	-	-	-	(2,132)
Purchase of treasury stock	-	-	-	(708)	-	-	-	-	-	(708)
Change of scope of consolidation	-	-	(307)	-	-	-	-	-	-	(307)
Net changes in items other than shareholders' equity	-	-	-	-	(3,075)	10	(3,855)	(1,077)	132	(7,865)
Balance at March 31, 2016	¥ 9,364	¥ 7,709	¥ 75,909	¥ (1,178)	¥ 31,859	¥ (69)	¥ 3,056	¥ (613)	¥ 987	¥ 127,024

	Millions of yen									
	2015					2014				
	Shareholders' equity		Accumulated other comprehensive income			Shareholders' equity		Accumulated other comprehensive income		
Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Non-controlling interests	Total	
Balance at April 1, 2014	¥ 9,364	¥ 7,709	¥ 64,273	¥ (932)	¥ 33,862	¥ (21)	¥ 1,610	¥ (855)	¥ 871	¥ 115,881
Net income attributable to owners of parent	-	-	8,631	-	-	-	-	-	-	8,631
Dividends of surplus	-	-	(2,142)	-	-	-	-	-	-	(2,142)
Purchase of treasury stock	-	-	-	(605)	-	-	-	-	-	(605)
Retirement of treasury stock	-	(0)	(1,061)	1,061	-	-	-	-	-	-
Disposal of treasury stock	-	0	-	0	-	-	-	-	-	0
Change in treasury stock arising from change in equity in entities accounted for using equity method	-	-	-	6	-	-	-	-	-	6
Change of scope of consolidation	-	-	58	-	-	-	-	-	-	58
Change of scope of equity method	-	-	(921)	-	-	-	-	-	-	(921)
Net changes in items other than shareholders' equity	-	-	-	-	1,072	(58)	5,301	1,319	(16)	7,618
Balance at March 31, 2015	¥ 9,364	¥ 7,709	¥ 68,838	¥ (470)	¥ 34,934	¥ (79)	¥ 6,911	¥ 464	¥ 855	¥ 128,526

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Thousands of U.S. dollars (Note 1)  
2016

	Shareholders' equity						Accumulated other comprehensive income				Non-controlling interests	Total
	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
Balance at April 1, 2015	\$ 83,107	\$ 68,411	\$ 610,910	\$ (4,168)	\$ 310,029	\$ (698)	\$ 61,334	\$ 4,116		\$ 7,591	\$ 1,140,632	
Net income attributable to owners of parent	-	-	84,401	-	-	-	-	-	-	-	84,401	
Dividends of surplus	-	-	(18,918)	-	-	-	-	-	-	-	(18,918)	
Purchase of treasury stock	-	-	-	(6,283)	-	-	-	-	-	-	(6,283)	
Change of scope of consolidation	-	-	(2,720)	-	-	-	-	-	-	-	(2,720)	
Net changes in items other than shareholders' equity	-	-	-	-	(27,293)	89	(34,214)	(9,554)	-	1,169	(69,803)	
Balance at March 31, 2016	\$ 83,107	\$ 68,411	\$ 673,673	\$ (10,451)	\$ 282,736	\$ (609)	\$ 27,120	\$ (5,438)		\$ 8,760	\$ 1,127,309	

See accompanying Notes to Consolidated Financial Statements.



INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from operating activities:			
Income before income taxes	¥ 13,422	¥ 13,139	\$ 119,119
Adjustments to reconcile income before income taxes to cash provided by operating activities:			
Depreciation and amortization	2,270	2,151	20,148
Impairment loss	-	372	-
Increase (decrease) in allowance for doubtful accounts	(193)	(615)	(1,712)
Interest and dividend income	(1,865)	(2,291)	(16,551)
Interest expenses	1,276	946	11,322
Share of (profit) loss of entities accounted for using equity method	(601)	(516)	(5,332)
Increase (decrease) in provision for loss on business liquidation	-	(85)	-
Loss (gain) on sales of non-current assets	(332)	-	(2,942)
Loss (gain) on sales of investment securities	(834)	(293)	(7,398)
Decrease (increase) in notes and accounts receivable - trade	3,617	(1,050)	32,099
Decrease (increase) in inventories	947	(2,036)	8,407
Decrease (increase) in other current assets	(1,139)	(1,537)	(10,112)
Decrease (increase) in other non-current assets	387	387	3,438
Increase (decrease) in notes and accounts payable - trade	(4,290)	1,130	(38,075)
Increase (decrease) in other current liabilities	1,438	918	12,763
Other, net	797	(5)	7,057
Subtotal	14,900	10,615	132,231
Interest and dividend income received	2,100	2,487	18,642
Interest expenses paid	(1,295)	(929)	(11,493)
Income taxes paid	(3,839)	(3,818)	(34,071)
Net cash provided by (used in) operating activities	11,866	8,355	105,309
Cash flows from investing activities:			
Payments into time deposits	(4,310)	(5,822)	(38,254)
Proceeds from withdrawal of time deposits	5,849	5,185	51,909
Purchase of property, plant and equipment	(2,392)	(2,151)	(21,227)
Proceeds from sales of property, plant and equipment	781	61	6,931
Purchase of intangible assets	(676)	(514)	(6,000)
Purchase of investment securities	(431)	(45)	(3,826)
Proceeds from sales of investment securities	1,535	754	13,627
Purchase of shares of subsidiaries	(442)	(401)	(3,924)
Net decrease (increase) in short-term loans receivable	104	(69)	922
Payments of long-term loans receivable	(253)	(248)	(2,244)
Collection of long-term loans receivable	229	222	2,030
Other, net	(156)	(16)	(1,381)
Net cash provided by (used in) investing activities	(162)	(3,044)	(1,437)

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)  
Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	¥ (9,731)	¥ (13,119)	\$ (86,363)
Proceeds from long-term loans payable	3,955	12,002	35,101
Repayments of long-term loans payable	(2,370)	(3,982)	(21,035)
Purchase of treasury stock	(708)	(605)	(6,282)
Cash dividends paid	(2,138)	(2,150)	(18,976)
Dividends paid to non-controlling interests	(55)	(232)	(485)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(20)	-	(177)
Proceeds from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	20	-	177
Other - net	(82)	(108)	(727)
Net cash provided by (used in) financing activities	<u>(11,129)</u>	<u>(8,194)</u>	<u>(98,767)</u>
Effect of exchange rate change on cash and cash equivalents	(931)	1,664	(8,268)
Net increase (decrease) in cash and cash equivalents	<u>(356)</u>	<u>(1,219)</u>	<u>(3,163)</u>
Cash and cash equivalents at beginning of year	17,394	18,403	154,371
Increase in cash and cash equivalents resulting from change of scope of consolidation	50	210	443
Cash and cash equivalents at end of year (Note 12)	<u>¥ 17,088</u>	<u>¥ 17,394</u>	<u>\$ 151,651</u>

See accompanying Notes to Consolidated Financial Statements.

INABATA & CO., LTD. AND CONSOLIDATED SUBSIDIARIES  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of presenting consolidated financial statements

The accompanying consolidated financial statements of INABATA & CO., LTD. (“the Company”) have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law 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 from International Financial Reporting Standards.

The accounts of consolidated foreign subsidiaries are prepared in accordance with mainly either International Financial Reporting Standards or U.S. generally accepted accounting principles, with adjustments for the specified four items as applicable in compliance with ASBJ Practical Solution No. 18, “Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements.”

The accompanying consolidated financial statements have been reformatted and translated into English (with some expanded descriptions) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2016, which was ¥112.68 to US\$1.00. These 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

### (a) Consolidation

The consolidated financial statements include the accounts of the Company and its 41 (42 in 2015) significant domestic and foreign subsidiaries (together “the Companies”), the management of which is controlled by the Company. Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for by the equity method. The Company has 1 (1 in 2015) unconsolidated subsidiary and 5 (5 in 2015) affiliates accounted for by the equity method. Intercompany transactions and accounts are eliminated.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

For 7 consolidated subsidiaries, including SHANGHAI INABATA TRADING CO., LTD., the consolidation method under which tentative financial statements as of March 31 (the consolidated balance sheet date) were prepared in the same manner as the regular year-end financial statements are used for consolidation purposes due to the regulations regarding the accounting period in the respective countries.

### (b) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

### (c) Allowance for doubtful accounts

An allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable - trade, the allowance is stated at an amount based on the actual rate of bad debts in the past. For certain doubtful receivables, the uncollectible amount is individually estimated. With respect to doubtful receivables of foreign consolidated subsidiaries, the allowance is determined by estimates of management.

### (d) Securities

Equity securities issued by subsidiaries and affiliates which are not consolidated or accounted for using the equity method are stated at moving average cost.

Available-for-sale equity securities with available fair market values are stated at the average fair market value for the last month of the year. Non-equity available-for-sale securities with available fair market values are stated at fair market value on the last day of the year. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are computed using moving average cost. Other securities with no available fair market values are also stated at moving average cost.

(e) Derivative transactions and hedge accounting

Derivative transactions are measured at fair value. Hedging instruments which meet the criteria for hedge accounting are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as a component of net assets until the loss or gain on the related hedged item is recognized.

Certain forward foreign exchange contracts, certain currency swap transactions and certain interest rate swap transactions are accounted for using the allocation method and the special method. The allocation method requires that foreign currency monetary receivables and payables covered by forward foreign exchange contracts are translated at contract rates. Under the special method, interest rate swap transactions are accounted for as if the interest rates under those transactions were originally applied to the underlying loans.

With regard to forward foreign exchange contracts and currency swap transactions, the evaluation of the hedge effectiveness is omitted, if the significant terms of the hedging instruments and those of the hedged items are the same and the risk of change in foreign exchange rates is effectively hedged. With regard to interest rate swap transactions which meet the criteria for the special method, the evaluation of hedge effectiveness is omitted.

The Companies enter into forward foreign exchange contracts, interest rate swap transactions and currency swap transactions to control risks related to fluctuations in the exchange rates of foreign currencies and interest rates. Forward foreign exchange contracts and currency swap transactions are used to hedge the risk of fluctuations in foreign currency exchange rates with respect to monetary receivables and payables denominated in foreign currencies. Interest rate swap transactions are used to convert variable rates to fixed rates with respect to borrowings.

The Companies use these derivative transactions in connection with managing their market risk and not for speculation or dealing purposes. The Companies minimize the credit risk exposure of these derivative transactions by using only highly rated financial institutions as counterparties. The derivative transactions are entered into in accordance with risk management policies.

(f) Inventories

Inventories are stated mainly at the lower of cost determined by the moving average method or net realizable value.

(g) Property, plant and equipment

Property, plant and equipment are carried at cost and depreciated by the straight-line method.

(h) Leased assets

Property and equipment capitalized under finance leases are depreciated by the straight-line method over the term of the respective lease.

(i) Intangible assets

Intangible assets are depreciated by the straight-line method. Software is depreciated by the straight-line method over its estimated useful life.

(j) Goodwill

Goodwill is depreciated by the straight-line method over five years.

(k) Income taxes

Income taxes comprise corporation tax, prefectural and municipal inhabitant's taxes and enterprise tax. The Companies recognize the tax effects of temporary differences between the carrying amounts of assets and liabilities for tax purposes and financial reporting purposes. The asset-liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of the temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

(l) Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end exchange rates.

Assets and liabilities of foreign subsidiaries are translated into Japanese yen at year-end exchange rates, except for net asset accounts, which are translated at historical exchange rates.

Revenue and expense accounts are translated into Japanese yen at the average exchange rates during the year.

The resulting translation adjustments are presented separately in the consolidated financial statements as foreign currency translation adjustments and in non-controlling interests.

(m) Retirement benefits

The Companies provide retirement payment plans and funded non-contributory pension plans under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service and certain other factors. The Companies sometime make additional payments that are not based on the amounts obtained by actuarial calculations. The Company has employee retirement benefit trusts for both plans.

The Companies provide for employees' severance and retirement benefits based on the estimated amounts of projected benefit obligation and the fair value of plan assets at the end of the year. Actuarial differences and prior service costs are recognized mainly in expenses using the straight-line method within the average of the estimated remaining service years of employees commencing with the following period.

The estimated amount of all retirement benefits to be paid at future retirement dates is attributed to each period using a benefit formula basis.

Actuarial differences are recognized in the income statement using the straight-line method over mainly 13 years.

Prior service cost is recognized in the income statement using the straight-line method over 14 years.

Directors, corporate auditors and executive officers of certain subsidiaries receive retirement payments based on established guidelines similar to the employees' retirement benefit plan, subject to shareholders' approval. Retirement benefits provided for directors and corporate auditors are sufficient to cover stipulated benefits arising from services performed as of the balance sheet date.

Directors' retirement benefits for these officers of the Company's subsidiaries had been made at an estimated amount based on the Company's internal rules for retirement allowances.

(n) Accrued employees' bonuses

The Company and certain subsidiaries accrue amounts for employees' bonuses based on estimated amounts to be paid in the subsequent period.

(o) Reclassifications

Certain reclassifications of the accompanying consolidated financial statements as of and for the years ended March 31, 2015 have been made to conform to the 2016 presentation. These reclassifications had no impact on the previously reported results of operation or retained earnings.

(p) Amounts per share

Computations of net income per share of common stock are based on the weighted average number of shares outstanding during each period.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

### 3. Accounting Changes

Year ended March 31, 2015

Change in accounting policies

(Application of the Accounting Standard for Retirement Benefits and its Guidance)

The Company adopted article 35 of the "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26, May 17, 2012) and article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, March 26, 2015) from the current fiscal year, and has changed the determination of retirement benefit obligations and current service costs.

In addition, the Company has changed the method of attributing expected benefit to periods from the straight-line basis to a benefit formula basis and determining the discount rates.

The adoption of the accounting standard and change in methods had no effect on the consolidated financial statements for the year ended March 31, 2015.

Accounting standards issued but not yet applied

- "Revised Accounting Standards for Business Combination" (ASBJ Statement No. 21, September 13, 2013)
- "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013)
- "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013)
- "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2, September 13, 2013)
- "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures" (ASBJ Guidance No. 10, September 13, 2013)

- “Revised Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4, September 13, 2013)

(a) Summary

The above standards and guidance have been revised primarily to account for:

- (1) How the changes of the shares in subsidiaries, over which the Company continues to control, should be treated by the Company when additional stock of a subsidiary is acquired.
- (2) Treatment of acquisition related costs
- (3) Presentation of current net income and the change of shareholder’s equity from minority interests to non-controlling interests
- (4) Provisional application of accounting treatments

(b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2016

Provisional application of the accounting standards is scheduled to begin for business combinations effective after the beginning of the fiscal year ending March 31, 2016.

(c) Effects of the application of the standards

The Companies are currently in the process of determining the effects of these new standards on the consolidated financial statements.

Year ended March 31, 2016

Change in accounting policies

(Accounting standard for business combinations)

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21, September 13, 2013 (hereinafter, “Statement No. 21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, September 13, 2013 (hereinafter, “Statement No. 22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, September 13, 2013 (hereinafter, “Statement No. 7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year.

As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred.

In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place.

The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests.” Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.



With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22 and article 57-4 (4) of Statement No. 7 with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.

These changes had no effect on profit and loss for the consolidated financial statements of the year ended March 31, 2016.

#### Accounting standards issued but not yet applied

(“Revised Implementation Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, “Guidance No. 26”))

##### (a) Overview

Following the framework in Auditing Committee Report No. 66 “Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets,” which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

- (1) Treatment for an entity that does not meet any of the criteria in types 1 to 5;
- (2) Criteria for types 2 and 3;
- (3) Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
- (4) Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
- (5) Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

##### (b) Effective date

Effective from the beginning of the fiscal year ending March 31, 2017

##### (c) Effects of application of the Guidance

The Companies are currently in the process of determining the effects of this new standards on the consolidated financial statements.

#### 4. Securities

(a) The following summarizes information on securities with available fair values as of March 31, 2016 and 2015.

(1) Trading securities:

At March 31, 2016 and 2015, there were no trading securities with fair market values.

(2) Available-for-sale securities as of March 31, 2016 and 2015:

Securities with book values (fair values) exceeding acquisition costs:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equity securities:			
Acquisition costs	¥ 6,658	¥ 7,703	\$ 59,089
Book values	51,824	58,078	459,919
Differences	¥ 45,166	¥ 50,375	\$ 400,830
Bonds:			
Acquisition costs	¥ -	¥ -	\$ -
Book values	-	-	-
Differences	¥ -	¥ -	\$ -

Securities with book values (fair values) not exceeding acquisition costs:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Equity securities:			
Acquisition costs	¥ 733	¥ 238	\$ 6,508
Book values	699	232	6,204
Differences	¥ (34)	¥ (6)	\$ (304)
Bonds:			
Acquisition costs	¥ 120	¥ -	\$ 1,062
Book values	115	-	1,020
Differences	¥ (5)	¥ -	\$ (42)
Others:			
Acquisition costs	¥ 46	¥ 73	\$ 404
Book values	46	73	404
Differences	¥ -	¥ -	\$ -

(b) The following table summarizes information on available-for-sale securities sold in the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total sales of available-for-sale securities:	¥ 1,422	¥ 731	\$ 12,617
Amount of related gains	834	293	\$ 7,398
Amount of related losses	30	15	262

(c) The loss on valuation of investment securities as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Available-for-sale securities	¥ 56	¥ 27	\$ 495
Investment in subsidiaries and affiliates	5	-	43
Total	¥ 61	¥ 27	\$ 538

The Companies recognize impairment loss when at the end of the period the fair value of marketable and investment securities is reduced to less than 50% of the acquisition cost. A loss may also be recognized when the fair market value declines less than 50% but more than 30%, if necessary, considering the possibility of market value recovery and other factors.

## 5. Derivatives

### (a) Derivative transactions for which hedge accounting is not applied

#### (1) Currency related

		Millions of yen			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
	Forward foreign exchange contracts:				
	Selling:				
Non-market transaction	U.S. dollars	¥ 44	¥ -	¥ 0	¥ 0
	Japanese yen	70	-	(1)	(1)
	Buying:				
	U.S. dollars	381	-	(2)	(2)
	Japanese yen	380	-	5	5
	Total	¥ 875	¥ -	¥ 2	¥ 2

		Millions of yen			
		March 31, 2015			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
	Forward foreign exchange contracts:				
	Selling:				
Non-market transaction	S.G. dollars	¥ 113	¥ -	¥ (0)	¥ (0)
	Japanese yen	1	-	(0)	(0)
	Buying:				
	U.S. dollars	363	-	(2)	(2)
	S.G. dollars	78	-	(0)	(0)
	Japanese yen	483	-	(4)	(4)
	Total	¥ 1,038	¥ -	¥ (6)	¥ (6)

		Thousands of U.S. dollars			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
	Forward foreign exchange contracts:				
	Selling:				
Non-market transaction	U.S. dollars	\$ 392	\$ -	\$ 4	\$ 4
	Japanese yen	619	-	(8)	(8)
	Buying:				
	U.S. dollars	3,383	-	(19)	(19)
	Japanese yen	3,369	-	41	41
	Total	\$ 7,763	\$ -	\$ 18	\$ 18

(2) Interest rate related

		Millions of yen			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
Non-market transaction	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	¥ 2,813	¥ 2,813	¥ (18)	¥ (18)
	Total	<u>¥ 2,813</u>	<u>¥ 2,813</u>	<u>¥ (18)</u>	<u>¥ (18)</u>

		Millions of yen			
		March 31, 2015			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
Non-market transaction	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	¥ 1,322	¥ 1,322	¥ (18)	¥ (18)
	Total	<u>¥ 1,322</u>	<u>¥ 1,322</u>	<u>¥ (18)</u>	<u>¥ (18)</u>

		Thousands of U.S. dollars			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
Non-market transaction	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	\$ 24,960	\$ 24,960	\$ (156)	\$ (156)
	Total	<u>\$ 24,960</u>	<u>\$ 24,960</u>	<u>\$ (156)</u>	<u>\$ (156)</u>

(3) Stock related

There were no stock related transactions for the year ended March 31, 2015.

		Millions of yen			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
Market transaction	Options:				
	(Buy)	¥ -	¥ -	¥ 109	¥ 109
	Total	<u>¥ -</u>	<u>¥ -</u>	<u>¥ 109</u>	<u>¥ 109</u>

		Thousands of U.S. dollars			
		March 31, 2016			
Classification	Type of derivative transaction	Contracted amount	Contracted amount over 1 year	Fair value	Recognized gains (losses)
Market transaction	Options:				
	(Buy)	\$ -	\$ -	\$ 966	\$ 966
	Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 966</u>	<u>\$ 966</u>

Fair values are based on year-end forward rates and prices presented by principal financial institutions at March 31, 2016 and 2015, respectively.

(b) Derivative transactions for which hedge accounting is applied

(1) Currency related

		Millions of yen			
		March 31, 2016			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		¥ 2,780	¥ -	¥ 17
	G.B. pound		0	-	0
	Euro	Accounts receivable	29	-	(0)
	Swiss franc		1	-	(0)
Deferral hedge accounting (*1)	China yuan	- trade	10	-	(0)
	Thai baht		2	-	(0)
	Buying:				
	U.S. dollars		5,024	-	(135)
	Euro	Accounts payable	494	-	(5)
	China yuan		211	-	(1)
	Thai baht	- trade	421	-	(13)
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		¥ 3,466	¥ -	¥
	G.B. pound		26	-	
	Euro	Accounts receivable	1,128	-	
	Swiss franc		7	-	
Allocation method for forward foreign exchange contracts, etc.	China yuan	- trade	13	-	
	Thai baht		35	-	
	Buying:				
	U.S. dollars		835	-	(*2)
	G.B. pound	Accounts payable	5	-	
	Euro		90	-	
	China yuan	- trade	77	-	
	Thai baht		50	-	
	Currency swaps:	Long-term loans payable	2,409	1,500	
	Total		<u>¥ 17,113</u>	<u>¥ 1,500</u>	<u>¥ (137)</u>

		Millions of yen			
		March 31, 2015			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		¥ 7,584	¥ -	¥ (119)
	G.B. pound	Accounts	0	-	0
Deferral hedge accounting (*1)	Euro	receivable	28	-	3
	Swiss franc	- trade	2	-	(0)
	Buying:				
	U.S. dollars	Accounts	4,025	-	26
	Euro	payable	474	-	(31)
	China yuan	- trade	1	-	0
	Thai baht		381	-	3
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		¥ 2,008	¥ -	¥
	G.B. pound		44	-	
	Euro	Accounts	38	-	
	Swiss franc	receivable	4	-	
	Thai baht	- trade	24	-	
	Japanese yen		8	-	
	Buying:				
	U.S. dollars		374	-	(*2)
	G.B. pound		1	-	
	Euro	Accounts	60	-	
	China yuan	payable	54	-	
	Thai baht	- trade	3	-	
	Japanese yen		57	-	
	Currency swaps:	Long-term	2,409	2,409	
		loans payable			
	Total		<u>¥ 17,579</u>	<u>¥ 2,409</u>	<u>¥ (118)</u>

		Thousands of U.S. dollars			
		March 31, 2016			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		\$ 24,672	\$ -	\$ 150
	G.B. pound		1	-	0
	Euro	Accounts receivable	255	-	(1)
	Swiss franc	- trade	11	-	(0)
	China yuan		90	-	(0)
	Thai baht		22	-	(0)
	Buying:				
	U.S. dollars		44,587	-	(1,196)
	Euro	Accounts payable	4,388	-	(40)
	China yuan	- trade	1,871	-	(13)
	Thai baht		3,732	-	(119)
	Forward foreign exchange contracts:				
	Selling:				
	U.S. dollars		\$ 30,757	\$ -	\$ -
	G.B. pound		235	-	-
	Euro	Accounts receivable	10,008	-	-
	Swiss franc	- trade	63	-	-
	China yuan		117	-	-
	Thai baht		312	-	-
	Buying:				
	U.S. dollars		7,412	-	(*2)
	G.B. pound	Accounts	41	-	-
	Euro	payable	802	-	-
	China yuan	- trade	681	-	-
	Thai baht		440	-	-
	Currency swaps:	Long-term loans payable	21,378	13,312	-
	Total		<u>\$ 151,875</u>	<u>\$ 13,312</u>	<u>\$ (1,219)</u>

(\*1) Fair values are based on year-end forward rates and prices presented by principal financial institutions at March 31, 2016 and 2015, respectively.

(\*2) Since forward foreign exchange contracts, etc., are accounted for by the allocation method (refer to Note 2(e)), their fair value is included in that of the account receivable - trade, account payable - trade and long-term loans payable disclosed in Note 15, "Financial instruments."

(2) Interest rate related

		Millions of yen			
		March 31, 2016			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
Special method	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	Long-term loans payable	¥ 2,197	¥ 2,085	¥ (*)
	Total		<u>¥ 2,197</u>	<u>¥ 2,085</u>	<u>¥ -</u>

		Millions of yen			
		March 31, 2015			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
Special method	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	Long-term loans payable	¥ 1,961	¥ 1,961	¥ (*)
	Total		<u>¥ 1,961</u>	<u>¥ 1,961</u>	<u>¥ -</u>

		Thousands of U.S. dollars			
		March 31, 2016			
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contracted amount	Contracted amount over 1 year	Fair Value
Special method	Interest rate swaps:				
	(Pay fixed rate, receive floating rate)	Long-term loans payable	\$ 19,500	\$ 18,500	\$ (*)
	Total		<u>\$ 19,500</u>	<u>\$ 18,500</u>	<u>\$ -</u>

(\*) Since interest rate swaps are accounted for by the special method (refer to Note 2(e)), their fair value is included in that of the long-term loans payable disclosed in Note 16, "Financial instruments."



## 6. Income taxes

The Company and its domestic subsidiaries are subject to a number of taxes based on income, which, in the aggregate, indicate a statutory income tax rate in Japan of approximately 33.1% and 35.4% for the years ended March 31, 2016 and 2015, respectively.

- (a) The following table summarizes the significant differences between the statutory tax rate and the effective tax rate for financial statement purposes:

	2016	2015
Statutory tax rate	33.1%	35.4%
Share of (profit) loss of entities accounted for using equity method	(1.5)	(1.4)
Expenses not deductible for income tax purposes	2.3	1.7
Dividends and other income deductible for income tax purposes	(10.2)	(8.5)
Net adjustment resulting from elimination of dividend income	8.8	6.5
Unrealized tax benefits, such as those on prior losses of consolidated subsidiaries	(2.0)	2.0
Different tax rates applied at foreign subsidiaries	(3.4)	(5.9)
Adjustment of loss on sales of investments in subsidiaries and affiliates	-	0.2
Income taxes for prior periods	(0.3)	0.4
Foreign source taxes	0.7	3.2
Decrease in deferred tax assets (liabilities) resulting from changes in statutory tax rates	0.1	(0.1)
Other, net	(0.2)	(0.2)
Effective tax rate	<u>27.4%</u>	<u>33.3%</u>

- (b) Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Allowance for doubtful accounts	¥ 398	¥ 492	\$ 3,536
Loss carryforwards	255	233	2,266
Net defined benefit liability	338	297	3,000
Net defined benefit asset	189	-	1,681
Directors' retirement benefits	24	119	213
Unrealized profit on inventories	190	238	1,688
Unrealized profit on property, plant and equipment	317	309	2,809
Depreciation	158	156	1,400
Write-down of golf club memberships	12	13	110
Write-down of investment securities	225	290	1,993
Write-down of inventories	79	62	705
Provision for bonuses	298	322	2,643
Enterprise taxes payable	124	102	1,102
Other	642	693	5,686
Total deferred tax assets	<u>3,249</u>	<u>3,326</u>	<u>28,832</u>
Valuation allowance	(1,027)	(1,423)	(9,113)
Net deferred tax assets	<u>2,222</u>	<u>1,903</u>	<u>19,719</u>
Deferred tax liabilities:			
Gain on securities contributed to employee retirement benefit trust	(662)	(698)	(5,872)
Valuation difference on available-for-sale securities	(13,540)	(16,057)	(120,165)
Net defined benefit asset	-	(220)	-
Other	(123)	(526)	(1,095)
Total deferred tax liabilities	<u>(14,325)</u>	<u>(17,501)</u>	<u>(127,132)</u>
Net deferred tax liabilities	<u>¥ (12,103)</u>	<u>¥ (15,598)</u>	<u>\$ (107,413)</u>

Net deferred tax liabilities as of March 31, 2016 and 2015 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets (current assets)	¥ 899	¥ 456	\$ 7,978
Deferred tax assets (investment and other assets)	586	576	5,198
Deferred tax liabilities (current liabilities)	-	-	-
Deferred tax liabilities (non-current liabilities)	(13,588)	(16,630)	(120,589)
Net deferred tax liabilities	¥ (12,103)	¥ (15,598)	\$ (107,413)

(c) Adjustment of deferred tax assets and liabilities for enacted changes in tax laws and rates:

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. As a result of these amendments, the statutory income tax rate for the Company will be reduced to 30.9% for years beginning on or after April 1, 2016 and 30.6% for years beginning on or after April 1, 2018.

Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are 30.9% and 30.6%, respectively, as of March 31, 2016.

Due to these changes in statutory income tax rates as of March 31, 2016, net deferred tax assets decreased by ¥33 million (\$292 thousand), net deferred tax liabilities decreased by ¥746 million (\$6,618 thousand), remeasurements of defined benefit plans decreased by ¥15 million (\$131 thousand), income taxes - deferred recognized for the year ended March 31, 2016 increased by ¥10 million (\$86 thousand) and valuation difference on available-for-sale securities increased by ¥737 million (\$6,544 thousand).

## 7. Pledged assets

At March 31, 2016 and 2015, the following assets were pledged as security for trading transactions:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investment securities	¥ 8,346	¥ 9,341	\$ 74,065

## 8. Impairment loss

Impairment loss on non-current assets for the year ended March 31, 2015 consisted of the following:

Use	Type of assets	Location	Millions of yen
			2015
Production facilities for manufacturing and coloring synthetic resin materials	Buildings		¥ 101
	Machinery and equipment	Dalian China	84
	Others		27
Production facilities for plastic films	Buildings and structures	Hasuda City Saitama	¥ 75
	Machinery and equipment	Japan	70
	Others		15
		Total	¥ 372

The Company and its subsidiaries grouped their assets principally by industry segment. Leased assets and idle assets were grouped independently. The Companies reduced the book value of the asset groups in the above tables to the recoverable amounts and recognized impairment loss of 372 million (\$3,096 thousand) due to the book value exceeding future cash flow as a result of a decrease in the profitability of the consolidated subsidiary.

The recoverable amounts were determined based on the estimated utility value that discounted future cash flow by 3.6% and 0.23% respectively.

There was no impairment loss on non-current assets for the year ended March 31, 2016.

## 9. Research and development expenses

Research and development expenses included in selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Research and development expenses	¥ 171	¥ 181	\$ 1,518

## 10. Short-term loans payable and long-term loans payable

Short-term loans payable at March 31, 2016 and 2015 consisted of bank loans bearing interest at average annual rates of 1.75% and 1.10%, respectively. Long-term loans payable due within one year at March 31, 2016 and 2015 consisted of bank loans bearing interest at average annual rates of 1.30% and 1.36%, respectively.

(a) Long-term loans payable at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured loans from banks and insurance companies, due through 2024	¥ 27,356	¥ 25,895	\$ 242,776
Less amounts due within one year	(3,363)	(1,540)	(29,843)
Total	¥ 23,993	¥ 24,355	\$ 212,933

(b) The aggregate annual maturities of long-term loans payable at March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
2018	¥ 7,435	\$ 65,983
2019	6,374	56,563
2020	2,768	24,561
2021	1,901	16,875
2022 and thereafter	5,515	48,951
Total	¥ 23,993	\$ 212,933

(c) In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with 6 banks. The status of these lines of credit at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Lines of credit	¥ 23,521	¥ 24,420	\$ 208,742
Credit utilized	-	-	-

## 11. Retirement and pension plans

### (a) Defined benefit pension plans

- (1) The change in the retirement benefit obligation for the years ended March 31, 2016 and 2015 were as following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥ 8,047	¥ 7,936	\$ 71,416
Service cost	408	402	3,621
Interest cost	93	89	825
Actuarial differences	543	(29)	4,817
Retirement benefits paid	(279)	(395)	(2,478)
Others	(62)	44	(547)
Balance at the end of the year	¥ 8,750	¥ 8,047	\$ 77,654

- (2) The change in plan assets for the years ended March 31, 2016 and 2015 were as following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Balance at the beginning of the year	¥ 10,933	¥ 8,681	\$ 97,024
Expected return on plan assets	253	210	2,241
Actuarial differences	(1,007)	1,854	(8,935)
Contributions by the Company and its consolidated subsidiaries	5	420	46
Retirement benefits paid	(221)	(234)	(1,958)
Others	(2)	2	(22)
Balance at the end of the year	¥ 9,961	¥ 10,933	\$ 88,396

- (3) The following table sets forth the funded status of the plans and the amounts recognized in the Company's and its consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded projected benefit obligations	¥ 7,964	¥ 7,313	\$ 70,680
Plan assets	(9,961)	(10,933)	(88,396)
Subtotal	(1,997)	(3,620)	(17,716)
Unfunded projected benefit obligations	786	735	6,971
Net amount of liability and asset in consolidated balance sheet	(1,211)	(2,885)	(10,745)
Liabilities (net defined benefit liability)	1,292	910	11,466
Assets (net defined benefit asset)	(2,503)	(3,795)	(22,211)
Net amount of liability and asset in consolidated balance sheet	¥ (1,211)	¥ (2,885)	\$ (10,745)

- (4) The components of retirement benefit expense for the ended for the years ended March 31, 2016 and 2015 were as following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 408	¥ 402	\$ 3,620
Interest cost	93	89	825
Expected return on plan assets	(253)	(210)	(2,241)
Amortization of actuarial differences	(13)	173	(117)
Amortization of prior service cost	(5)	(0)	(47)
Retirement benefit expense	¥ 230	¥ 454	\$ 2,040

(5) Actuarial differences and prior service cost included in other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Prior service cost	¥ (5)	¥ (0)	\$ (44)
Actuarial differences	(1,563)	2,014	(13,868)
Total	¥ (1,568)	¥ 2,014	\$ (13,912)

(6) Unrecognized Actuarial differences and unrecognized prior service cost included in accumulated other comprehensive income as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized prior service cost	¥ (21)	¥ (26)	\$ (190)
Unrecognized actuarial differences	901	(662)	7,998
Total	¥ 880	¥ (688)	\$ 7,808

(7) The allocation of plan assets, by major category, as a percentage of total plan assets at the fair value as of March 31, 2016 and 2015 was as follows:

	2016	2015
Bonds	36.3%	29.4%
Equity securities	60.0	63.4
Cash and time deposits	3.4	6.9
Others	0.3	0.3
Total	100.0%	100.0%

Note: 1. The expected long-term rate of return on plan assets is determined with consideration for both the present and future portfolio allocation and the expected long-term rate of return on multiple plan assets at present and in the future.

2. Total plan assets include securities contributed to the retirement benefit trust (30.2% at March 31, 2016 and 34.3% at March 31, 2015).

(8) The assumptions used in accounting for the above plans were as follows:

	2016	2015
Discount rate	0.4%	1.0%
Expected long-term rate of return on plan assets	3.0%	3.0%

(b) Defined contribution pension plans

The required contribution to defined contribution pension plans for the years ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Contribution to defined contribution pension plans by the Company and its consolidated subsidiaries	¥ 116	¥ 164	\$ 1,029

## 12. Cash and time deposits

The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and time deposits	¥ 21,316	¥ 23,572	\$ 189,169
Time deposits with maturities of more three months	(4,228)	(6,178)	(37,518)
Cash and cash equivalents	¥ 17,088	¥ 17,394	\$ 151,651

## 13. Other comprehensive income

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and the tax effects for each component of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Valuation difference on available-for-sale securities:			
Increase (decrease) during the year	¥ (4,642)	¥ (829)	\$ (41,200)
Reclassification adjustments	(834)	(293)	(7,398)
Amount before tax effect	(5,476)	(1,122)	(48,598)
Tax effect	2,517	2,069	22,335
Subtotal, net of tax effect	(2,959)	947	(26,263)
Deferred gains (losses) on hedges:			
Increase (decrease) during the year	(20)	(86)	(175)
Reclassification adjustments	-	-	-
Amount before tax effect	(20)	(86)	(175)
Tax effect	6	28	51
Subtotal, net of tax effect	(14)	(58)	(124)
Foreign currency translation adjustment:			
Increase (decrease) during the year	(3,889)	5,232	(34,512)
Reclassification adjustments	66	42	582
Amount before tax effect	(3,823)	5,274	(33,930)
Tax effect	-	(13)	-
Subtotal, net of tax effect	(3,823)	5,261	(33,930)
Remeasurements of defined benefit plans, net of tax:			
Increase (decrease) during the year	(1,545)	1,845	(13,707)
Reclassification adjustments	(23)	169	(205)
Amount before tax effect	(1,568)	2,014	(13,912)
Tax effect	493	(695)	4,371
Subtotal, net of tax effect	(1,075)	1,319	(9,541)
Share of other comprehensive income of entities accounted for using equity method:			
Increase (decrease) during the year	(177)	315	(1,564)
Reclassification adjustments	(1)	(5)	(10)
Subtotal	(178)	310	(1,574)
Total other comprehensive income	¥ (8,049)	¥ 7,779	\$ (71,432)

## 14. Segment information

### (a) General Information about reportable segments.

Inabata Group's reportable segments represent the group's component divisions for which separate financial information is available. This information is regularly evaluated by the Board of Directors in deciding how to allocate management resources and in assessing performance. Inabata Group is primarily engaged in the trading of merchandise, the manufacture and sale of various products and the provision of services in Japan and abroad and operates its business in line with a comprehensive strategy regarding merchandise, products and services for domestic and international markets. For effective business management purposes, Inabata Group has segmented its corporate sales and marketing functions into 5 divisions (reportable segments) based on merchandise, products and target markets/industries, namely: IT & Electronics, Chemicals, Life Industry, Plastics and Housing & Eco Materials.

The major merchandise, products and services covered by each reportable segment are as follows.

IT & Electronics:	Semiconductor manufacturing equipment Electronic materials, including parts Dyes for printing Raw materials for copying
Chemicals:	Motor parts and raw materials Raw materials for plastic resin Dyestuffs
Life Industry:	Pharmaceutical and agricultural chemicals and bulk raw materials Raw materials for insecticides Raw materials for toiletries Raw and processed agricultural products Raw and processed marine products
Plastics:	General purpose plastics Engineering plastics
Housing & Eco Materials:	Lumber Composite materials Wooden building materials Residential housing equipment

### (b) Basis of measurement for reportable segment profit and loss, segment assets, segment liabilities and other material items

Accounting methods applied to the reportable business segments are generally the same as those described in Note 2, "Summary of significant accounting policies." Segmental income derives from operating income. Inter-segment profits and transfers are based on prevailing market prices.



(c) Information about reported segment profit and loss, segment assets, segment liabilities and other material items for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen							
	Year ended March 31, 2016							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated
Net sales:								
Outside customers	¥ 210,649	¥ 48,198	¥ 41,022	¥ 251,164	¥ 24,818	¥ 1,186	¥ -	¥ 577,037
Intersegment	-	-	-	-	-	-	-	-
Total	210,649	48,198	41,022	251,164	24,818	1,186	-	577,037
Segment income (loss)	¥ 3,578	¥ 1,011	¥ 1,524	¥ 4,434	¥ 421	¥ 403	¥ -	¥ 11,371
Total assets	¥ 85,867	¥ 25,369	¥ 21,511	¥ 106,576	¥ 10,321	¥ 1,064	¥ 54,728	¥ 305,436
Depreciation and amortization	¥ 582	¥ 145	¥ 257	¥ 1,220	¥ 58	¥ 8	¥ -	¥ 2,270
Amortization of goodwill	40	-	-	-	-	-	-	40
Investments in equity method	1,797	950	-	875	-	-	-	3,622
Increases in tangible and intangible assets	¥ 804	¥ 146	¥ 103	¥ 1,324	¥ 0	¥ 14	¥ 677	¥ 3,068

	Millions of yen							
	Year ended March 31, 2015							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated
Net sales:								
Outside customers	¥ 209,370	¥ 52,846	¥ 34,660	¥ 250,428	¥ 24,258	¥ 552	¥ -	¥ 572,114
Intersegment	-	-	-	-	-	-	-	-
Total	209,370	52,846	34,660	250,428	24,258	552	-	572,114
Segment income (loss)	¥ 4,489	¥ 1,073	¥ 1,038	¥ 3,730	¥ 286	¥ 158	¥ -	¥ 10,774
Total assets	¥ 93,024	¥ 31,512	¥ 18,114	¥ 113,164	¥ 9,350	¥ 978	¥ 60,720	¥ 326,862
Depreciation and amortization	¥ 516	¥ 132	¥ 251	¥ 1,192	¥ 55	¥ 5	¥ -	¥ 2,151
Amortization of goodwill	51	-	-	-	-	-	-	51
Investments in equity method	1,588	919	-	840	-	-	-	3,347
Increases in tangible and intangible assets	¥ 179	¥ 275	¥ 196	¥ 1,446	¥ 2	¥ 1	¥ 566	¥ 2,665

	Thousands of U.S. dollars							
	Year ended March 31, 2016							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated
Net sales:								
Outside customers	\$ 1,869,444	\$ 427,746	\$ 364,058	\$ 2,229,002	\$ 220,250	\$ 10,528	\$ -	\$ 5,121,028
Intersegment	-	-	-	-	-	-	-	-
Total	1,869,444	427,746	364,058	2,229,002	220,250	10,528	-	5,121,028
Segment income (loss)	\$ 31,741	\$ 8,975	\$ 13,527	\$ 39,355	\$ 3,739	\$ 3,579	\$ -	\$ 100,916
Total assets	\$ 762,048	\$ 225,145	\$ 190,900	\$ 945,826	\$ 91,594	\$ 9,444	\$ 485,693	\$ 2,710,650
Depreciation and amortization	\$ 5,160	\$ 1,289	\$ 2,280	\$ 10,827	\$ 518	\$ 74	\$ -	\$ 20,148
Amortization of goodwill	359	-	-	-	-	-	-	359
Investments in equity method	15,947	8,433	-	7,767	-	-	-	32,147
Increases in tangible and intangible assets	\$ 7,131	\$ 1,299	\$ 912	\$ 11,750	\$ 3	\$ 128	\$ 6,004	\$ 27,227

Note: 1. Classified as "Others" is business such as real estate rental services not included in reportable segments.

2. Corporate assets included above in the elimination and corporate column in the amount of ¥54,728 million (\$485,693 thousand) and ¥60,720 million for the years ended March 31, 2016 and 2015, respectively, are mainly surplus funds (cash and deposits), long-term investment funds (investment securities, etc.) and assets pertaining to administrative functions of the Company.

3. An increase in capital expenditure stated in the elimination and corporate column in the amount of ¥677 million (\$6,004 thousand) and ¥566 million for the years ended March 31, 2016 and 2015, respectively, is attributable to the Company's administrative functions.

4. Segment income or loss has been adjusted to be consistent with operating income in the consolidated financial statements.

[Related information]

(a) Geographic information

(1) Net sales

Millions of yen											
Year ended March 31, 2016											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
¥	220,798	¥	128,663	¥	199,764	¥	16,371	¥	11,441	¥	577,037

Millions of yen											
Year ended March 31, 2015											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
¥	225,712	¥	126,091	¥	193,097	¥	16,540	¥	10,674	¥	572,114

Thousands of U.S. dollars											
Year ended March 31, 2016											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
\$	1,959,512	\$	1,141,845	\$	1,772,847	\$	145,286	\$	101,538	\$	5,121,028

Note: Sales amounts are based on customer locations and divided into countries and regions.

(2) Property, plant and equipment

Millions of yen											
Year ended March 31, 2016											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
¥	4,896	¥	4,387	¥	926	¥	34	¥	1,023	¥	11,266

Millions of yen											
Year ended March 31, 2015											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
¥	4,914	¥	3,433	¥	3,095	¥	120	¥	1,088	¥	12,650

Thousands of U.S. dollars											
Year ended March 31, 2016											
	Japan		Southeast Asia		Northeast Asia		The Americas		Europe		Consolidated
\$	43,455	\$	38,935	\$	8,217	\$	298	\$	9,080	\$	99,985

(b) Information on the amount of impairment loss on non-current assets by reportable segment

		Millions of yen							
		Year ended March 31, 2015							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated	
Impairment loss	¥ -	¥ -	¥ -	¥ 372	¥ -	¥ -	¥ -	¥ 372	

There was no impairment loss on non-current assets for the year ended March 31, 2016.

(c) Information on the amount of amortization and unamortized balance of goodwill by reportable segment

		Millions of yen							
		Year ended March 31, 2016							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated	
Amortization	¥ 40	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 40	
Unamortized balance	6	-	-	-	-	-	-	6	

		Millions of yen							
		Year ended March 31, 2015							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated	
Amortization	¥ 51	¥ -	¥ -	¥ -	¥ -	¥ -	¥ -	¥ 51	
Unamortized balance	47	-	-	-	-	-	-	47	

		Thousands of U.S. dollars							
		Year ended March 31, 2016							
	IT & Electronics	Chemicals	Life Industry	Plastics	Housing & Eco Materials	Others	Elimination & Corporate	Consolidated	
Amortization	\$ 359	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 359	
Unamortized balance	53	-	-	-	-	-	-	53	

Note: Amounts stated in the "Others" column are related to the business of design, construction and sale of hoists and cranes.

## 15. Financial Instruments

### (Fair values of financial instruments)

Book values and fair values of the financial instruments on the consolidated balance sheet at March 31, 2016 and 2015 were as follows:

	Millions of yen		
	March 31, 2016		
	Book values	Fair values	Differences
Cash and time deposits	¥ 21,316	¥ 21,316	¥ -
Notes and accounts receivable - trade	145,565		
Allowance for doubtful accounts (*1)	(991)		
	144,574	144,574	-
Trading securities and investment securities			
Available-for-sale securities	52,684	52,684	-
Long-term loans receivable	1,057		
Allowance for doubtful accounts (*1)	(42)		
	1,015	1,051	36
<b>Total Assets</b>	<b>¥ 219,589</b>	<b>¥ 219,625</b>	<b>¥ 36</b>
Notes and accounts payable - trade	¥ 83,265	¥ 83,265	¥ -
Short-term loans payable (*2)	44,384	44,384	-
Long-term loans payable	23,993	24,487	(494)
<b>Total Liabilities</b>	<b>¥ 151,642</b>	<b>¥ 152,136</b>	<b>¥ (494)</b>
Derivative transactions (*3)			
Derivative transactions for which hedge accounting is not applied	¥ 93	¥ 93	¥ -
Derivative transactions for which hedge accounting is applied	(137)	(137)	-
<b>Total Derivative Transactions</b>	<b>¥ (44)</b>	<b>¥ (44)</b>	<b>¥ -</b>

  

	Millions of yen		
	March 31, 2015		
	Book values	Fair values	Differences
Cash and time deposits	¥ 23,572	¥ 23,572	¥ -
Notes and accounts receivable - trade	155,961		
Allowance for doubtful accounts (*1)	(785)		
	155,176	155,176	-
Trading securities and investment securities			
Available-for-sale securities	58,382	58,382	-
Long-term loans receivable	1,532	1,562	30
<b>Total Assets</b>	<b>¥ 238,662</b>	<b>¥ 238,692</b>	<b>¥ 30</b>
Notes and accounts payable - trade	¥ 91,158	¥ 91,158	¥ -
Short-term loans payable (*2)	54,460	54,460	-
Long-term loans payable	24,355	24,506	(151)
<b>Total Liabilities</b>	<b>¥ 169,973</b>	<b>¥ 170,124</b>	<b>¥ (151)</b>
Derivative transactions (*3)			
Derivative transactions for which hedge accounting is not applied	¥ (24)	¥ (24)	¥ -
Derivative transactions for which hedge accounting is applied	(118)	(118)	-
<b>Total Derivative Transactions</b>	<b>¥ (142)</b>	<b>¥ (142)</b>	<b>¥ -</b>

Thousands of U.S. dollars			
March 31, 2016			
	Book values	Fair values	Differences
Cash and time deposits	\$ 189,169	\$ 189,169	\$ -
Notes and accounts receivable - trade	1,291,845		
Allowance for doubtful accounts (*1)	(8,795)		
	1,283,050	1,283,050	-
Trading securities and investment securities			
Available-for-sale securities	467,547	467,547	-
Long-term loans receivable	9,379		
Allowance for doubtful accounts (*1)	(372)		
	9,007	9,332	325
<b>Total Assets</b>	<b>\$ 1,948,773</b>	<b>\$ 1,949,098</b>	<b>\$ 325</b>
Notes and accounts payable - trade	\$ 738,947	\$ 738,947	\$ -
Short-term loans payable (*2)	393,894	393,894	-
Long-term loans payable	212,933	217,315	(4,382)
<b>Total Liabilities</b>	<b>\$ 1,345,774</b>	<b>\$ 1,350,156</b>	<b>\$ (4,382)</b>
Derivative transactions (*3)			
Derivative transactions for which hedge accounting is not applied	\$ 828	\$ 828	\$ -
Derivative transactions for which hedge accounting is applied	(1,219)	(1,219)	-
<b>Total Derivative Transactions</b>	<b>\$ (391)</b>	<b>\$ (391)</b>	<b>\$ -</b>

(\*1) The balance of "Allowance for doubtful accounts" is deducted individually from the balances of "Notes and accounts receivable - trade" and "Long-term loans receivable."

(\*2) At March 31, 2016 and 2015, short-term loans payable include long-term loans payable due within one year in the amount of ¥3,363 million (\$29,843 thousand) and ¥1,540 million, respectively.

(\*3) Net receivables and payables generated from derivative transactions are shown above. Items that represent net payables are shown in parentheses.

(a) Methods used to calculate fair values of financial instruments and matters relating to securities and derivative transactions

Assets

(1) Cash and time deposits

Because "Cash and time deposits" are short-term and their book values approximate the fair value, these instruments are stated at book value.

(2) Notes and accounts receivable - trade

Because "Notes and accounts receivable - trade" are short-term and their book values approximate the fair value, these instruments are stated at book value. The fair value of doubtful receivables is calculated using the amounts deemed recoverable because of collateral, guarantees, etc.

(3) Trading securities and investment securities

The fair value of equity securities is equivalent to the quoted market price, if available. The fair value of bonds is calculated using the present value as determined by discounting the total amount of principal and interest at a rate determined by taking into account the current maturity and credit risks. Because negotiable deposits are short-term and their book values approximate the fair value, these instruments are stated at book value. Please see Note 4, "Securities," for matters relating to trading securities and investment securities based on holding purposes.

#### (4) Long-term loans receivable

For long-term loans receivable at floating interest rates, market interest rates are reflected over a short period. As such, they are stated at book value because the book value approximates fair value unless the borrower's credit status has become materially different after such loans were made. The fair value of long-term loans receivable at fixed interest rates is the present value of future cash flows of the receivables. The receivables are categorized into certain periods and divided into groups according to credit risk. Future cash flows are calculated for each group and discounted by a rate that is the sum of an appropriate index rate, such as the long-term prime rate, and the credit spread. The fair value of doubtful receivables is calculated using the amounts deemed recoverable because of collateral, guarantees, etc.

#### Liabilities

##### (1) Notes and accounts payable - trade and (2) Short-term loans payable

Because "Notes and accounts payable - trade" and "Short-term loans payable" are short-term and their book values approximate the fair value, these instruments are stated at book value.

##### (3) Long-term loans payable

The fair value of long-term loans payable is calculated by discounting the total amount of principal and interest at a rate that is assumed to be applied when a similar loan is newly borrowed. A part of the long-term loans payable is subject to currency swaps. The fair value of these long-term loans payable is determined by discounting the future cash flows that were accounted for as a single item with the related currency swaps at the rate that is assumed to apply if a new similar loan was taken out.

#### Derivative Transactions

See Note 5, "Derivatives."

(b) The following table summarizes book values of financial instruments with no available fair value as of March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Investments in subsidiaries and affiliates	¥ 5,617	¥ 5,291	\$ 49,853
Available-for-sale securities			
Non-quoted equity securities	4,454	4,763	39,531
Others	6	6	51
<b>Total</b>	<b>¥ 10,077</b>	<b>¥ 10,060</b>	<b>\$ 89,435</b>

The above items are not included in "Trading securities and investment securities" because the absence of a market value makes it impossible to estimate future cash flows and extremely difficult to determine the fair value.

(c) Financial instruments with maturities as of March 31, 2016 and 2015 were as follows:

Millions of yen				
March 31, 2016				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	¥ 21,316	¥ -	¥ -	¥ -
Notes and accounts receivable - trade	145,013	399	153	-
Available-for-sale securities				
Bonds	115	-	-	-
Others	46	-	-	-
Long-term loans receivable	-	858	143	56
Total	¥ 166,490	¥ 1,257	¥ 296	¥ 56

Millions of yen				
March 31, 2015				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	¥ 23,572	¥ -	¥ -	¥ -
Notes and accounts receivable - trade	154,381	1,574	6	-
Available-for-sale securities				
Bonds	-	-	-	-
Others	73	-	-	-
Long-term loans receivable	-	1,087	387	58
Total	¥ 178,026	¥ 2,661	¥ 393	¥ 58

Thousands of U.S. dollars				
March 31, 2016				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Cash and time deposits	\$ 189,169	\$ -	\$ -	\$ -
Notes and accounts receivable - trade	1,286,948	3,543	1,354	-
Available-for-sale securities				
Bonds	1,020	-	-	-
Others	404	-	-	-
Long-term loans receivable	-	7,612	1,273	494
Total	\$ 1,477,541	\$ 11,155	\$ 2,627	\$ 494

(d) Short-term loans payable and long-term loans payable with maturities as of March 31, 2016 and 2015 were as follows:

Millions of yen				
March 31, 2016				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Short-term loans payable	¥ 44,384	¥ -	¥ -	¥ -
Long-term loans payable	-	18,477	5,516	-
Total	¥ 44,384	¥ 18,477	¥ 5,516	¥ -

Millions of yen				
March 31, 2015				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Short-term loans payable	¥ 54,460	¥ -	¥ -	¥ -
Long-term loans payable	-	17,786	6,569	-
Total	¥ 54,460	¥ 17,786	¥ 6,569	¥ -

Thousands of U.S. dollars				
March 31, 2016				
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years	Over 10 years
Short-term loans payable	\$ 393,894	\$ -	\$ -	\$ -
Long-term loans payable	-	163,982	48,951	-
Total	\$ 393,894	\$ 163,982	\$ 48,951	\$ -

## 16. Shareholders' equity

The Japanese Corporate Law (the "Law") became effective on May 1, 2006, replacing the Japanese Commercial Code (the "Code"). The Law is generally applicable to events and transactions occurring after April 30, 2006 and for fiscal years ending after that date.

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common stock. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Law, in cases in which a dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets.

Under the Law, additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Code, however, on condition that the total amount of legal earnings reserve and additional paid-in capital remained equal to or exceeded 25% of common stock. They were available for distribution by resolution of the shareholders' meeting. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

The change in common stock for the years ended March 31, 2016 and 2015 was as follows:

		Number of shares		
		Year ended March 31, 2016		
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	63,499,227	-	-	63,499,227

  

		Number of shares		
		Year ended March 31, 2015		
	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	65,159,227	-	1,660,000	63,499,227

The decrease in common stock consists of 1,660,000 shares resulting from retirement of treasury stock by resolution of the Board of Directors.



## 17. Treasury stock

The change in treasury stock for the years ended March 31, 2016 and 2015 was as follows:

	Number of shares			
	Year ended March 31, 2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Treasury stock	801,996	600,272	-	1,402,268

The increase in treasury stock consists of 600,000 shares resulting from the purchase of shares by resolution of the Board of Directors and 272 shares resulting from the purchase of shares of less than one voting unit for the year ended March 31, 2016.

	Number of shares			
	Year ended March 31, 2015			
	April 1, 2014	Increase	Decrease	March 31, 2015
Treasury stock	1,886,225	600,166	1,684,395	801,996

The increase in treasury stock consists of 600,000 shares resulting from the purchase of shares by resolution of the Board of Directors and 166 shares resulting from the purchase of shares of less than one voting unit for the year ended March 31, 2015. The decrease in treasury stock consists of 1,660,000 shares resulting from the retirement of treasury stock by resolution of the Board of Directors, 24,327 shares resulting from a change in equity in entities accounted for using the equity method and 68 shares resulting from the disposal of shares of less than one voting unit.

## 18. Related party disclosures

The Company is an affiliate of SUMITOMO CHEMICAL COMPANY, LIMITED, which owned 22.2% and 22.0% of the Company's voting shares at March 31, 2016 and 2015, respectively.

SUMIKA TECHNOLOGY CO., LTD., DONGWOO FINE-CHEM CO., LTD. and SUMIKA ELECTRONIC MATERIALS (WUXI) CO., LTD. are subsidiaries of SUMITOMO CHEMICAL COMPANY, LIMITED.

As of March 31, 2016 and 2015, the Company controlled 15% and 15% of the voting shares of SUMIKA TECHNOLOGY CO., LTD.

(a) Significant transactions with related parties for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars	
	2016	2015	2016	
<b>SUMITOMO CHEMICAL COMPANY, LIMITED</b>				
Net sales	¥ 5,749	¥ 5,674	\$	51,018
Purchases	10,595	10,671		94,025
Notes and accounts receivable - trade	2,963	3,084		26,296
Notes and accounts payable - trade	1,743	1,332		15,470
Pledge of investment securities	7,490	8,227		66,467
<b>SUMIKA TECHNOLOGY CO., LTD</b>				
Net sales	¥ 22,788	¥ 22,916	\$	202,236
Notes and accounts receivable - trade	8,054	8,780		71,478
Guarantees	511	939		4,538
<b>DONGWOO FINE-CHEM CO., LTD</b>				
Net sales	¥ 13,465	¥ 13,660	\$	119,494
Notes and accounts receivable - trade	2,051	3,743		18,204

(b) The Consolidated subsidiaries' significant transactions with related parties for the years ended March 31, 2016 and 2015 were as follows:

(1) TAIWAN INABATA SANGYO CO., LTD.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
SUMIKA TECHNOLOGY CO., LTD			
Purchases	¥ 42,734	¥ 49,323	\$ 379,249
Notes and accounts payable - trade	5,319	8,752	47,209

(2) SHANGHAI INABATA FINANCIAL LEASING CO., LTD.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
SUMIKA ELECTRONIC MATERIALS (WUXI) CO., LTD.			
Sales of non-current assets	¥ 2,741	¥ -	\$ 24,327
Gain on sales of non-current assets	264	-	2,340
Other current assets	2,123	-	18,839

## 19. Contingent liabilities

At March 31, 2016 and 2015, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Discounted notes receivables	¥ 841	¥ 911	\$ 7,464
Guarantees for loans of customers and others	4,440	5,341	39,404
Total	5,281	6,252	46,868

## 20. Subsequent events

(Cash dividends)

At the meeting of the Board of Directors of the Company held on May 10, 2016, an appropriation of nonconsolidated retained earnings for the years ended March 31, 2016 and 2015 was duly approved as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash dividends - ¥20.00 (\$0.180) per share	¥ 1,246	¥ 1,132	\$ 11,056