NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2014 and 2013

Building a better working world

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Independent Auditor's Report

The Board of Directors
NOF CORPORATION

We have audited the accompanying consolidated financial statements of NOF CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of NOF CORPORATION and its consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 4.

Ernst & Young ShinNihon LLC

June 20, 2014

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

As of	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
ASSETS						
Current assets:						
Cash and time deposits (Notes 5 and 7)	¥	11,933	¥	6,965	$	115,940
Notes and accounts receivable (Notes 7 and 26)		34,891		34,275		339,010
Allowance for doubtful accounts		(222)		(224)		(2,154)
		34,669		34,051		336,856
Inventories (Note 25)		31,862		29,687		309,576
Deferred tax assets (Note 12)		3,321		2,298		32,270
Other current assets (Note 6)		2,173		2,358		21,122
Total current assets		83,958		75,359		815,764
Property, plant and equipment (Notes 8 and 18):						
Land		19,713		19,640		191,538
Buildings and structures		63,815		60,625		620,048
Machinery, equipment and vehicles		96,888		91,654		941,392
Construction in progress		1,372		1,871		13,329
Leased assets		734		523		7,128
Others		14,208		13,962		138,047
Accumulated depreciation		(139,216)		(134,032)		(1,352,661)
Total property, plant and equipment		57,514		54,243		558,821
Investments and other assets:						
Investments in securities (Notes 6, 7 and 8)		31,980		27,299		310,730
Deferred tax assets (Note 12)		479		520		4,658
Intangible assets (Note 19)		839		596		8,156
Prepaid pension expenses (Note 13)		–		4,444		–
Assets for retirement benefits(Notes 3 and 13)		342		–		3,319
Other assets		1,588		1,547		15,421
Total investments and other assets		35,228		34,406		342,284
Total assets	¥	176,700	¥	164,008	$	1,716,869

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet (continued)

As of	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 7 and 8)	¥ 1,861	¥ 3,101	$ 18,087
Current portion of long-term debt (Notes 7 and 8)	156	463	1,520
Notes and accounts payable (Notes 7 and 26)	20,872	19,219	202,797
Electronically recorded obligations-operating (Note 26)	1,539	1,493	14,958
Accrued expenses	4,718	4,615	45,839
Income taxes payable	3,838	3,098	37,293
Deposits received	3,673	4,199	35,690
Lease obligations	184	131	1,785
Allowance for loss on litigation	2,558	–	24,854
Other current liabilities (Notes 12 and 21)	4,954	4,140	48,119
Total current liabilities	44,353	40,459	430,942
Long-term liabilities:			
Long-term debt (Notes 7 and 8)	8,057	8,045	78,283
Deferred tax liabilities (Note 12)	6,445	6,713	62,625
Retirement benefit provisions (Note 13)	–	4,113	–
Retirement benefit provisions for directors	19	214	186
Retirement benefit provisions for officers	94	87	913
Lease obligations	285	286	2,773
Liabilities for retirement benefits (Notes 3 and 13)	4,255	–	41,340
Other long-term liabilities (Notes 19 and 21)	570	417	5,536
Total long-term liabilities	19,725	19,875	191,656
Commitments and contingencies (Note 16)			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 783,828,000 shares at March 31, 2014 and 2013			
Issued: 186,682,752 shares at March 31, 2014 and 2013	17,742	17,742	172,386
Capital surplus	15,114	15,113	146,853
Retained earnings	72,132	64,594	700,840
Treasury stock, at cost	(1,398)	(1,264)	(13,576)
Total shareholders' equity	103,590	96,185	1,006,503
Accumulated other comprehensive income			
Unrealized gain on other securities	10,421	8,026	101,252
Foreign currency translation adjustments	510	(1,228)	4,963
Adjustments for retirement benefits	(2,634)	–	(25,589)
Total accumulated other comprehensive income	8,297	6,798	80,626
Minority interests	735	691	7,142
Total net assets	112,622	103,674	1,094,271
Total liabilities and net assets	¥ 176,700	¥ 164,008	$ 1,716,869

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Net sales	¥ 160,963	¥ 148,860	$ 1,563,964
Cost of sales (Notes 10 and 14)	116,743	108,592	1,134,313
Gross profit	44,220	40,268	429,651
Selling, general and administrative expenses (Notes 9, 10 and 14)	28,872	27,926	280,523
Operating income	15,348	12,342	149,128
Other income (expenses):			
Interest and dividend income	881	761	8,561
Interest expenses	(90)	(123)	(870)
Gain (loss) on sale of fixed assets (Note 27)	(23)	9	(222)
Loss on retirement of fixed assets (Note 28)	(53)	(78)	(515)
Gain (loss) on sale of investments in securities	34	(28)	334
Impairment loss on investments in securities	(1)	(151)	(5)
Foreign exchange gain, net	960	361	9,325
Impairment loss on fixed assets (Note 24)	(223)	(391)	(2,169)
Loss on litigation (Note 29)	(2,561)	–	(24,887)
Others, net	484	292	4,697
	(592)	652	(5,751)
Income before income taxes and minority interests	14,756	12,994	143,377
Income taxes (Note 12)			
Current	6,126	4,826	59,521
Deferred	(1,116)	(647)	(10,844)
	5,010	4,179	48,677
Income before minority interests	9,746	8,815	94,700
Minority interests	(8)	(31)	(87)
Net income	¥ 9,738	¥ 8,784	$ 94,613

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Income before minority interests	¥ 9,746	¥ 8,815	$ 94,700
Other comprehensive income (Note 22)			
Net unrealized holding gains on other securities	2,396	2,836	23,275
Foreign currency translation adjustments	1,764	827	17,135
Total other comprehensive income	4,160	3,663	40,410
Comprehensive income	13,906	12,478	135,110
Comprehensive income attributable to minority interests	34	46	334
Comprehensive income attributable to NOF Corporation	13,872	12,432	134,776

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Changes in Net Assets

For the Year Ended	Number of shares of common stock (thousands)	Millions of yen: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Adjustments for retirement benefits	Total accumulated other comprehensive income	Minority interests	Total net assets
Balance at March 31, 2012	186,683	¥ 17,742	¥ 15,113	¥ 57,814	¥ (1,255)	¥ 89,414	¥ 5,190	¥ (2,040)	¥ –	¥ 3,150	¥ 643	¥ 93,207
Net income	–	–	–	8,784	–	8,784	–	–	–	–	–	8,784
Cash dividends	–	–	–	(2,018)	–	(2,018)	–	–	–	–	–	(2,018)
Purchase of treasury stock	–	–	–	–	(10)	(10)	–	–	–	–	–	(10)
Disposal of treasury stock	–	–	(0)	–	1	1	–	–	–	–	–	1
Transfer of loss on disposal of treasury stock	–	–	0	(0)	–	–	–	–	–	–	–	–
Other	–	–	–	14	–	14	–	–	–	–	–	14
Net changes in items other than shareholders' equity	–	–	–	–	–	–	2,836	812	–	3,648	48	3,696
Balance at March 31, 2013	186,683	¥ 17,742	¥ 15,113	¥ 64,594	¥ (1,264)	¥ 96,185	¥ 8,026	¥ (1,228)	¥ –	6,798	¥ 691	¥ 103,674
Net income	–	–	–	9,738	–	9,738	–	–	–	–	–	9,738
Cash dividends	–	–	–	(2,202)	–	(2,202)	–	–	–	–	–	(2,202)
Purchase of treasury stock	–	–	–	–	(135)	(135)	–	–	–	–	–	(135)
Disposal of treasury stock	–	–	1	–	1	2	–	–	–	–	–	2
Other	–	–	–	2	–	2	–	–	–	–	–	2
Net changes in items other than shareholders' equity	–	–	–	–	–	–	2,395	1,738	(2,634)	1,499	44	1,543
Balance at March 31, 2014	186,683	¥ 17,742	¥ 15,114	¥ 72,132	¥ (1,398)	¥ 103,590	¥ 10,421	¥ 510	¥ (2,634)	¥ 8,297	¥ 735	¥ 112,622

For the Year Ended	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 4): Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Unrealized gain on other securities	Foreign currency translation adjustments	Adjustments for retirement benefits	Total accumulated other comprehensive income	Minority interest	Total net assets
Balance at March 31, 2013	186,683	$ 172,386	$ 146,846	$ 627,605	$ (12,276)	$ 934,561	$ 77,979	$ (11,927)	$ –	$ 66,052	$ 6,716	$ 1,007,329
Net income	–	–	–	94,613	–	94,613	–	–		–	–	94,613
Cash dividends	–	–	–	(21,388)	–	(21,388)	–	–		–	–	(21,388)
Purchase of treasury stock	–	–	–	–	(1,309)	(1,309)	–	–		–	–	(1,309)
Disposal of treasury stock	–	–	7	–	9	16	–	–		–	–	16
Other	–	–	–	10	–	10	–	–		–	–	10
Net changes in items other than shareholders' equity	–	–	–	–	–	–	23,273	16,890	(25,589)	14,574	426	15,000
Balance at March 31, 2014	186,683	$ 172,386	$ 146,853	$ 700,840	$ (13,576)	$ 1,006,503	$ 101,252	$ 4,963	$ (25,589)	$ 80,626	$ 7,142	$ 1,094,271

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 14,756	¥ 12,994	$ 143,377
Adjustments for:			
Depreciation	5,696	5,868	55,346
Impairment loss on fixed assets	223	391	2,169
Net changes in accrued retirement benefits	–	688	–
Net changes in retirement benefit liability	109	–	1,061
Interest and dividend income	(881)	(761)	(8,561)
Interest expenses	90	123	870
Loss (gain) on sale of fixed assets	23	(9)	222
Impairment loss on investments in securities	1	151	5
(Gain) loss on sale of investments in securities	(34)	28	(334)
Loss on litigation	2,561	–	24,887
Increase in notes and accounts receivable	(834)	(1,990)	(8,102)
Increase in inventories	(1,485)	(1,179)	(14,429)
Increase (decrease) in notes and accounts payable	1,618	(379)	15,719
Others, net	(1,515)	389	(14,710)
Sub total	20,328	16,314	197,520
Interest and dividends received	883	758	8,583
Interest paid	(87)	(130)	(845)
Payments for loss on disaster	–	(29)	–
Office transfer paid	–	(88)	–
Loss on litigation	(3)	–	(33)
Income taxes paid	(5,429)	(3,800)	(52,753)
Net cash provided by operating activities	15,692	13,025	152,472
Cash flows from investing activities:			
Payments for purchase of investments in securities	(996)	(452)	(9,680)
Proceeds from sale of investments in securities	50	37	485
Payments for purchase of property, plant and equipment	(6,807)	(5,923)	(66,139)
Proceeds from sale of property, plant and equipment	26	14	256
Net changes in short-term loans receivable	(29)	33	(282)
Payments for long-term loans receivable	(4)	(5)	(40)
Proceeds from long-term loans receivable	7	12	64
Others, net	(303)	185	(2,940)
Net cash used in investing activities	(8,056)	(6,099)	(78,276)

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows (continued)

Cash flows from financing activities:			
Net (decrease) in short-term bank loans	(1,506)	(5,282)	(14,631)
Proceeds from long-term debt	150	7,800	1,457
Repayments of long-term debt	(463)	(7,475)	(4,496)
Repayments of lease obligations	(143)	(127)	(1,388)
Payments for purchase of treasury stock	(135)	(10)	(1,308)
Proceeds from sale of treasury stock	2	1	16
Cash dividends paid	(2,194)	(2,017)	(21,318)
Cash dividends paid to minority shareholders	(3)	(5)	(28)
Others, net	(1)	–	(14)
Net cash used in financing activities	(4,293)	(7,115)	(41,710)
Effect of exchange rate changes on cash and cash equivalents	1,107	519	10,759
Net increase in cash and cash equivalents	4,450	330	43,245
Cash and cash equivalents at beginning of year	6,849	6,519	66,544
Increase in cash and cash equivalents from newly consolidated subsidiaries	489	–	4,751
Cash and cash equivalents at end of year (Note 5)	¥ 11,788	¥ 6,849	$ 114,540

The accompanying notes are an integral part of these statements.

1. Basis of presentation

NOF CORPORATION (the "Company") and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its foreign subsidiaries maintain their accounting records in conformity with those of their countries of domicile. Effective April 1, 2008, the Company adopted the "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (PITF No. 18). In accordance with PITF No. 18, the accompanying consolidated financial statements have been prepared by using the accounts of foreign consolidated subsidiaries prepared in accordance with either International Financial Reporting Standards (IFRS) or accounting principles generally accepted in the United States as adjusted for certain items including those for goodwill, actuarial differences and capitalized development costs. The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of IFRS, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

2. Summary of significant accounting policies

(1) Scope of consolidation

The Company had 35 subsidiaries (majority-owned companies) as of March 31, 2014 (34 for 2013). The accompanying consolidated financial statements include the accounts of the Company and 25 of its subsidiaries (collectively, the "Group") for the year ended March 31, 2014 (23 for 2013).

The remaining 10 (11 for 2013) subsidiaries, whose combined assets, net sales, net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from consolidation.

The above mentioned 25 majority-owned subsidiaries are listed below:

Name of subsidiaries	Percentage of voting rights owned by the Company
(Domestic subsidiaries)	%
Nippon Koki Co., Ltd.	95.0
Nichiyu Giken Kogyo Co., Ltd.	100.0
HOKKAIDO NOF CORPORATION	100.0
NOF METAL COATINGS ASIA PACIFIC Co., Ltd.	100.0
Showa Kinzoku Kogyo Co., Ltd.	97.3
JAPEX Corp.	70.0
Nichiyu Trading Co., Ltd.	100.0
Nichiyu Logistics Co., Ltd.	100.0
Nippo Kogyo Co., Ltd.	93.3
Yuka Sangyo Co., Ltd.	100.0
Nichiyu Kogyo Co., Ltd.	100.0
NIKKA COATING Co., Ltd.	100.0
CACTUS Co., Ltd.	100.0
(Foreign subsidiaries)	
Changshu NOF Chemical Co., Ltd.	100.0
P.T. NOF MAS Chemical Industries	89.6
NOF EUROPE (BELGIUM) N.V.	100.0
NOF METAL COATINGS NORTH AMERICA Inc.	100.0
NOF AMERICA CORPORATION	100.0
NOF METAL COATINGS EUROPE S.A.	100.0
NOF METAL COATINGS EUROPE N.V.	100.0
NOF METAL COATINGS KOREA Co., Ltd.	100.0
SIE s.r.l.	100.0
NOF METAL COATINGS SOUTH AMERICA Ind. E Com. Ltda.	90.0
MICHIGAN METAL COATINGS COMPANY	100.0
GEORGIA METAL COATINGS COMPANY	100.0

The Company and all of its consolidated subsidiaries use a fiscal year ended March 31, except for NOF METAL COATINGS ASIA PACIFIC Co., Ltd., NIKKA COATING Co., Ltd. and foreign subsidiaries. Those subsidiaries use a fiscal year ended December 31. The accounts of those subsidiaries have been consolidated by using the results of operations and account balances for the fiscal year, and necessary adjustments have been made for any material transactions that occurred between the different fiscal year-ends.

(2) Consolidation and elimination

For the purposes of preparing the accompanying consolidated financial statements, any gains/losses in relation to inter-company transactions have been eliminated, and the portion thereof attributable to minority interests is charged to minority interests.

Applicable inter-company accounts have been eliminated. The cost of investments in the common stock of consolidated subsidiaries is offset by the underlying equity in the net assets of such subsidiaries. Assets and liabilities in the consolidated subsidiaries are revalued at fair market value when the majority interest in the subsidiaries is purchased.

The differences between the cost of an investment and the amount of underlying equity in the net assets of such subsidiaries, except for negative goodwill generated from the beginning of the fiscal year ended March 31, 2011, are amortized on a straight-line basis over their estimated useful lives or over a period of 5 years.

(3) Translation of financial statements of foreign subsidiaries

The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen using the current exchange rate at the balance sheet date, except for shareholders’ equity, which is translated using the historical rate. The income statements of the consolidated foreign subsidiaries are translated into Japanese yen using the average rate for the fiscal year. Related translation adjustments are recorded as “Foreign currency translation adjustments” in a separate component of net assets.

(4) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash in hand, bank deposits able to be withdrawn on demand and short-term investments with an original maturity of three months or less and which represent a minor risk of fluctuations in value.

(5) Accounting for investments in unconsolidated subsidiaries and affiliates

The unconsolidated subsidiaries and affiliates, whose combined net income and retained earnings in the aggregate are not significant in relation to those of the consolidated financial statements of the Group, have been excluded from equity method.

(6) Financial instruments

(a) Other securities

Available-for-sale securities for which market quotations are available are stated at an amount based on the average market price over a period of one month prior to the balance sheet date. Net unrealized gains or losses on those securities are reported as a separate component of net assets at a net-of-tax amount.

Available-for-sale securities for which market quotations are unavailable are stated at cost, principally determined by the moving-average method.

(b) Hedge accounting

The Company has entered into forward foreign exchange contracts to reduce its exposure to the risk of fluctuation in foreign exchange rates related to its trade accounts receivables and payables, and the Company also has entered into interest rate swap contracts to reduce its exposure to the risk of fluctuation in interest rates related to long-term bank loans. It is the Company's policy not to enter into any speculative derivatives transactions.

Gains or losses arising from changes in fair value of hedging instruments are deferred as assets or liabilities until the related gains or losses on the hedged items are recognized.

If forward foreign exchange contracts meet certain hedging criteria, however, the existing foreign currency receivables or payables are translated at their forward rates.

In addition, if interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the liabilities for which the swap contracts were executed.

The Company evaluates the effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedges.

(7) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at amounts sufficient to cover probable losses on collection. It consists of the estimated uncollectible amounts with respect to identified doubtful accounts and an amount calculated by a formula based on actual collection losses incurred in the past with respect to the remaining receivables.

(8) Inventories

Inventories are principally stated at the lower of cost, determined by the total-average method, or net selling value.

(9) Property, plant and equipment (except for leased assets)

Depreciation of property, plant and equipment (excluding buildings) is principally computed using the declining-balance method, based on the estimated useful lives of the assets. Depreciation of buildings (excluding attachments to buildings) is principally computed using the straight-line method, based on the estimated useful lives of the assets. The principal range of useful lives is principally from 7 to 50 years for buildings and structures and from 5 to 10 years for machinery, equipment and vehicles.

(10) Intangible assets (except for leased assets)

Intangible assets are amortized using the straight-line method.

Software for internal use is amortized using the straight-line method over the useful life of the software, which is 5 years.

(11) Retirement benefit

Accrued retirement benefits and prepaid pension cost for employees have been recorded mainly at the amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over periods (mainly 10 years), which are shorter than the average remaining years of service of the employees.

Certain consolidated subsidiaries adopt a simplified method in calculating the retirement benefit obligation and retirement benefit expenses. Liabilities of retirement benefits adopted for a simplified method is determined to be equal to the required amount as if all the employees retire voluntary.

(12) Retirement benefit provisions for directors

Certain subsidiaries calculate the amount that would be required, based on the pertinent rules of these companies, if all directors are to retire at the balance sheet dates, and accounts for it as retirement benefit provisions for directors, which was presented as retirement benefit provisions for directors and corporate auditors.

(13) Retirement benefit provisions for officers

The Company calculates the amount that would be required, based on the pertinent rules of the Company, if all officers are to retire at the balance sheet dates, and accounts for it as retirement benefit provisions for officers, which was presented as retirement benefit provisions for officers.

(14) Loss on litigation provisions

The Company has provided the necessary accruals, if any, for litigation for which the amount of loss can be reasonably estimated.

(15) Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of contract as the useful life.

Finance lease transactions that do not transfer ownership to the lessee, starting on or before March 31, 2008, are accounted for as operating lease transactions.

(16) Income taxes

The income taxes of the Company and its domestic subsidiaries consist of corporate income taxes, local inhabitant taxes and enterprise taxes.

Deferred income taxes were determined using the assets and liabilities 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.

(17) Consumption tax

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. The consumption tax paid is generally offset against the balance of consumption tax withheld, and the balance is included in the accompanying consolidated balance sheets in “Other current liabilities.”

(18) Reclassification of accounts

Certain prior year amounts have been reclassified to conform to the current year’s presentation.

(19) Standards issued but not yet effective

On May 17, 2012, the ASBJ issued “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26) and “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009.

Overview – The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

Scheduled date of adoption – The revised accounting standard and guidance were adopted as of the end of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

Impact of adopting revised accounting standard and guidance – The Company is currently evaluating the impact on the consolidated financial statements.

3. Accounting Changes

The Company adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 of May17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as liabilities for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as liabilities for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in adjustments for retirement benefits through accumulated other comprehensive income. As a result of this change, assets for retirement benefits by ¥342 million ($3,319 thousand) and liabilities for retirement benefits ¥4,255 million ($41,340 thousand) were recognized at the end of the fiscal year. In addition, accumulated other comprehensive income decreased ¥2,634 million ($25,589 thousand) and minority interests decreased ¥4 million ($42 thousand) as a result of application of the new standard. The effect of this change on net assets per share is decreased by ¥14.37 ($0.14).

4. United States dollar amounts

The Company maintains its accounting records in yen. The dollar amounts included in the consolidated financial statements and notes thereto represent the arithmetical results of translating yen to dollars on the basis of ¥102.92 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2014. The inclusion of such dollar amounts is solely for convenience and is not intended to imply that yen amounts have been or could be converted, realized or settled in dollars at ¥102.92 = U.S.$1 or at any other rate.

5. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2014 and 2013 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Cash and time deposits	¥ 11,933	¥ 6,965	$ 115,940
Time deposits with maturity of more than three months	(412)	(201)	(3,998)
Money Market Fund	267	85	2,598
Cash and cash equivalents	¥ 11,788	¥ 6,849	$ 114,540

6. Investments in securities

(1) The acquisition cost, book value and unrealized gains or losses on available-for-sale securities with fair value as of March 31, 2014 and 2013 are as follows:

	Millions of yen		
	2014		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 13,405	¥ 29,633	¥ 16,228
Bonds	10	10	0
Others	37	40	3
Sub total	¥ 13,452	¥ 29,683	¥ 16,231
Fair market value does not exceed acquisition cost			
Stocks	¥ 1,251	¥ 1,026	¥ (225)
Others	267	267	–
Sub total	¥ 1,518	¥ 1,293	¥ (225)
Total	¥ 14,970	¥ 30,976	¥ 16,006

	Millions of yen		
	2013		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥ 12,118	¥ 24,817	¥ 12,699
Bonds	10	10	0
Others	20	22	2
Sub total	¥ 12,148	¥ 24,849	¥ 12,701
Fair market value does not exceed acquisition cost			
Stocks	¥ 1,557	¥ 1,148	¥ (409)
Others	102	102	0
Sub total	¥ 1,659	¥ 1,250	¥ (409)
Total	¥ 13,807	¥ 26,099	¥ 12,292

Description	Thousands of U.S. dollars (Note 4)		
	2014		
	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	$ 130,247	$ 287,920	$ 157,673
Bonds	97	97	0
Others	360	390	30
Sub total	$ 130,704	$ 288,407	$ 157,703
Fair market value does not exceed acquisition cost			
Stocks	$ 12,151	$ 9,963	$ (2,188)
Others	2,598	2,598	–
Sub total	$ 14,749	$ 12,561	$ (2,188)
Total	$ 145,453	$ 300,968	$ 155,515

The Company recorded impairment losses on investments in securities in the amounts of ¥1 million (US$5 thousand) and ¥151 million for the years ended March 31, 2014 and 2013, respectively.

Impairment losses are recorded for securities whose fair values have declined by 50% or more over or for those that have declined in range of 30% to 50% if the decline is deemed to be irrecoverable.

(2) Available-for-sale securities sold during the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Proceeds from sale of available-for-sale securities	¥ 50	¥ 108	$ 485
Realized gain	34	4	334
Realized loss	–	32	–

(3) The book value of major securities without fair value as of March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Unlisted stocks	¥ 746	¥ 747	$ 7,248
Fund certificates	5	5	52

7. Financial instruments

(1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries raise funds through bank borrowings. The Group manages temporary cash surpluses through low-risk financial assets. Further, the Group raises short-term capital through bank borrowings. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk and risk management system

Trade receivables—Trade notes and accounts receivable—are exposed to credit risk in relation to customers.
In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Marketable securities and investment securities are exposed to market risk. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships, or affiliated companies.
Regarding the shares of common stock of other listed companies, the Group evaluates market value quarterly to reduce fluctuation risk.
The Group has also loans receivable from other companies with which it has business relationships.
Short-term borrowings are raised mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments.
Long-term debt with variable interest rates is exposed to interest rate fluctuation risk.
However, to reduce such risk and fix interest expense for long-term debt bearing interest at variable rates, the Group utilizes interest rate swap transactions as hedging instruments.
The group policy for derivative and hedge accounting is indicated in Note 15 “Derivative financial instruments.”

(3) Supplemental information on the fair value of financial instruments

The Group calculates the fair value of financial instruments based on market prices, or by using reasonable estimates when market prices are not available. These estimates include variable factors and are subject to fluctuation due to changes in underlying assumptions. The contract amounts of the derivatives indicated in Note 15 “Derivative financial instruments” are not an indicator of the market risk associated with derivatives transactions.

(4) Fair value of financial instruments

The carrying value, the estimated fair value and the difference of the financial instruments on the balance sheets as of March 31, 2014 and 2013 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 11,933	¥ 11,933	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥ 34,669	¥ 34,669	¥ –
Available-for-sale securities	¥ 30,976	¥ 30,976	¥ –
Liabilities			
Notes and accounts payable	¥ 20,872	¥ 20,872	¥ –
Short-term bank borrowings	¥ 1,861	¥ 1,861	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,213	¥ 8,182	¥ (31)
Derivative transactions	¥ –	¥ –	¥ –

	Millions of yen		
	2013		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 6,965	¥ 6,965	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥ 34,051	¥ 34,051	¥ –
Available-for-sale securities	¥ 26,099	¥ 26,099	¥ –
Liabilities			
Notes and accounts payable	¥ 19,219	¥ 19,219	¥ –
Short-term bank borrowings	¥ 3,101	¥ 3,101	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,508	¥ 8,451	¥ (57)
Derivative transactions	¥ –	¥ –	¥ –

	Thousands of U.S. dollars (Note 4)					
	2014					
	Carrying value		Estimated fair value		Difference	
Assets						
Cash and time deposits	$	115,940	$	115,940	$	–
Trade notes and accounts receivable (less allowance for doubtful accounts)	$	336,856	$	336,856	$	–
Available-for-sale securities	$	300,968	$	300,968	$	–
Liabilities						
Notes and accounts payable	$	202,797	$	202,797	$	–
Short-term bank borrowings	$	18,087	$	18,087	$	–
Long-term borrowings from banks and other financial institutions	$	79,803	$	79,497	$	(306)
Derivative transactions	$	–	$	–	$	–

Fair value measurement of financial instruments and information relating to short-term investment securities and derivative transactions:

Assets

(1) Cash and time deposits

Since these items are subject to be settled in a short term, their carrying amounts approximate fair value.

(2) Trade notes and accounts receivable

The carrying value, less allowance for doubtful accounts, is used as the amount approximates fair value due to the short maturity of these instruments.

(3) Available-for-sale securities

The fair value of equity securities equals quoted market price, if available. The fair value of debt securities equals quoted market price or the price provided by financial institutions. The fair value of MMF equals the carrying amount as it approximates fair value due to the short maturity of these instruments.
Moreover, investment securities classified by holding purpose are described in Note 6 “Investments in securities.”

Liabilities

(1) Notes and accounts payable and (2) Short-term bank borrowings

The carrying amount is used as the amount approximates fair value due to the short maturity of these instruments.

(3) Long-term borrowings from banks and other financial institutions

The fair value of long-term borrowings from banks is calculated based on each payment period by applying a discount rate to the total of future net cash flows. The discount rate is based on the interest rate considering the payment periods or credit risk.

Long-term borrowings with variable interest rates from banks are hedged by interest rate swap contracts and accounted for as debt with a fixed interest rate. The fair value of long-term borrowings from banks with variable interest is calculated based on the present value of the total of principal, interest and net cash flows of the interest rate swap contracts discounted by the same interest rate.

(4) Derivative transactions

The contract amount, fair value, unrealized gain or loss, and others are described in Note 15 "Derivative financial instruments."

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Unlisted stock	¥ 1,267	¥ 1,280	$ 12,307
Fund certificate	¥ 5	¥ 5	$ 52

These items are not included in short-term investments in securities and investments in securities because the fair values are not readily determinable as market prices do not exist.

The carrying value of monetary assets as of March 31, 2014 and 2013 is as follows:

	Millions of yen			
	2014			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥ 11,631	¥ –	¥ –	¥ –
Notes and accounts receivable	¥ 34,891	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ 10	¥ –	¥ –	¥ –

	Millions of yen			
	2013			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥ 6,961	¥ –	¥ –	¥ –
Notes and accounts receivable	¥ 34,275	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ –	¥ 10	¥ –	¥ –

	Thousands of U.S. dollars (Note 4)			
	2014			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	$ 113,011	$ –	$ –	$ –
Notes and accounts receivable	$ 339,010	$ –	$ –	$ –
Available-for-sale securities				
Government and municipal bonds	$ 97	$ –	$ –	$ –

8. Short-term bank loans and long-term debt

Short-term bank loans outstanding are generally represented by notes payable issued by the Company to banks with weighted average interest rates of 0.95% at March 31, 2014, and 0.87% at March 31, 2013.

Long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Loans, principally from banks and insurance companies, due April 2014 to September 2022 with average interest rates of 0.52% at March 31, 2014, and 0.54% at March 31, 2013	¥ 8,213	¥ 8,508	$ 79,803
Less: Current maturities of:			
Long-term loans	156	463	1,520
	¥ 8,057	¥ 8,045	$ 78,283

Aggregate annual maturities of long-term debt subsequent to March 31, 2014 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 4)
2016	¥ 5,106	$ 49,607
2017	0	2
2018	2,800	27,208
2019	150	1,459
2020 and thereafter	1	7
	¥ 8,057	$ 78,283

The Company's assets pledged as collateral for long-term loans and to obtain credit from banks, other financial institutions (including the current portion), and suppliers of ¥172 million (US$1,674 thousand) at March 31, 2014, and ¥531 million at March 31, 2013 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Investments in securities	¥ 12	¥ 26	$ 114
Property, plant and equipment at book value	15,161	14,398	147,308
	¥ 15,173	¥ 14,424	$ 147,422

9. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Delivery and storage charges	¥ 4,708	¥ 4,309	$ 45,741
Salaries and bonuses	7,381	7,043	71,712
Retirement benefit expenses	452	537	4,394
Retirement benefit costs for officers	31	33	303
Research and development costs	5,588	5,655	54,290
Amortization of goodwill	85	82	822
Accrued bonuses	1,053	974	10,228
Allowance for doubtful accounts	39	(3)	381

10. Research and development costs

Research and development costs for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Research and development costs	¥ 6,674	¥ 6,723	$ 64,850

11. Net assets

Information regarding changes in net assets for the years ended March 31, 2014 and 2013 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	2014			
	Number of shares at March 31, 2013	Increase	Decrease	Number of shares at March 31, 2014
Common stock	186,683	–	–	186,683
Treasury stock	3,233	192	2	3,423

The increase in treasury stock during the year ended March 31, 2014 was due to the purchase of odd-lot shares (192 thousand shares).
The decrease in treasury stock during the year ended March 31, 2014 was due to the disposal of odd-lot shares (2 thousand shares).

	Thousands of shares			
	2013			
	Number of shares at March 31, 2012	Increase	Decrease	Number of shares at March 31, 2013
Common stock	186,683	–	–	186,683
Treasury stock	3,211	24	2	3,233

The increase in treasury stock during the year ended March 31, 2013 was due to the purchase of odd-lot shares (24 thousand shares).

The decrease in treasury stock during the year ended March 31, 2013 was due to the disposal of odd-lot shares (2 thousand shares).

(2) Cash dividends

Appropriations are not accrued in the consolidated financial statements for the period to which they relate, but are recorded in the subsequent accounting period when the shareholders' approval has been obtained.

Dividends paid for the year ended March 31, 2014:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2013	Common stock	¥ 1,101	$ 10,695	¥ 6	$ 0.06
Meeting of the Board of Directors on November 1, 2013	Common stock	¥ 1,101	$ 10,693	¥ 6	$ 0.06

Dividends paid for the year ended March 31, 2013:

		Millions of yen	Yen
	Type of shares	Total dividends	Dividends per share
The General Meeting of Stockholders on June 28, 2012	Common stock	¥ 1,101	¥ 6
Meeting of the Board of Directors on November 1, 2012	Common stock	¥ 917	¥ 5

Dividends with the cut-off date in the year ended March 31, 2014 and the effective date in the year ending March 31, 2015:

		Millions of yen	Thousands of U.S. dollars (Note 4)	Yen	U.S. dollars (Note 4)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 27, 2014	Common stock	¥ 1,283	$ 12,464	¥ 7	$ 0.07

12. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Deferred tax assets:			
Accrued bonus	¥ 1,100	¥ 1,126	$ 10,688
Retirement benefit provisions	–	1,871	–
Liabilities for retirement benefits	3,416	–	33,193
Elimination of intercompany profits	567	373	5,511
Accrued enterprise tax	291	285	2,829
Retirement benefit provisions for directors and officers	72	100	696
Impairment loss on fixed assets	341	324	3,311
Impairment loss on investment securities	380	380	3,694
Valuation difference	40	86	391
Valuation loss on inventories	212	271	2,064
Others	2,512	1,413	24,395
	8,931	6,229	86,772
Valuation allowance	(1,269)	(1,121)	(12,326)
Total deferred tax assets	7,662	5,108	74,446
Deferred tax liabilities:			
Unrealized gain on investments in securities	(5,585)	(4,267)	(54,268)
Reserve for advanced depreciation of property plant and equipment	(2,037)	(2,109)	(19,788)
Valuation differences	(1,762)	(1,762)	(17,120)
Gain on revaluation of assets trusted for retirement benefit	(736)	(737)	(7,151)
Others	(187)	(128)	(1,816)
Total deferred tax liabilities	(10,307)	(9,003)	(100,143)
Net deferred tax liabilities	¥ (2,645)	¥ (3,895)	$ (25,697)

Note: Deferred tax assets and liabilities as of March 31, 2014 and 2013 are reflected in the following accounts in the consolidated balance sheets:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Current assets – deferred tax assets	¥ 3,321	¥ 2,298	$ 32,270
Investments and other assets – deferred tax assets	479	520	4,658
Current liabilities – deferred tax liabilities	–	(0)	–
Long-term liabilities – deferred tax liabilities	(6,445)	(6,713)	(62,625)

(2) Reconciliation of the statutory tax rate to the Company's effective tax rate

Income taxes in Japan applicable to the Company and its domestic consolidated subsidiaries consist of corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in a statutory rate of approximately 38.0% for the years ended March 31, 2014 and 2013, respectively. Income taxes of the foreign consolidated subsidiaries are based generally on the tax rates applicable in their countries of incorporation.

A reconciliation of the statutory tax rate to the Company's effective tax rates for years ended March 31, 2014 and 2013 is summarized as follows:

	2014	2013
Statutory tax rate	38.0%	38.0%
Non-deductible expenses	0.5	0.5
Tax credits	(3.4)	(3.3)
Valuation allowance	1.0	0.1
Inhabitants' per capita taxes	0.3	0.3
Deduction of loss carryforward	(0.4)	(0.7)
Deduction of dividends received	(1.1)	(1.2)
Effects of Japanese tax law changes	1.2	–
Different tax rates applied to foreign subsidiaries	(0.7)	(1.1)
Other	(1.4)	(0.4)
Effective tax rates	34.0%	32.2%

Change in statutory effective tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal year beginning on or after April 1, 2014.

As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 38.0% to 36.0% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥177 million ($1,716 thousand) and increase deferred income taxes by the same amount as of and for the fiscal year ended March 31, 2014.

13. Retirement benefit plans

The Company and its consolidated subsidiaries have either funded and unfunded defined benefit plans and/or defined contribution plans for benefit payments to their employees. For defined benefit plans (all funded plans), a lump-sum payment or annual pension calculated based on salary paid and length of service provided will be paid. For certain lump-sum retirement plan, its lump-sum payments are also determined based on salary paid and length of service provided. For defined benefit corporate pension plans and retirement lump-sum plans offered by certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by a simplified method. In addition, certain consolidated subsidiaries adopt smaller enterprise retirement allowance mutual plan and defined contribution pension plans.

Defined benefit plan

(1) The changes in retirement benefit obligation during the year ended March 31, 2014 are as follows (excluding the plan using the simplified method):

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2014	2014
Beginning balance of retirement benefit obligation	¥ 20,348	$ 197,711
Service cost	1,022	9,928
Interest cost	249	2,422
Actuarial loss	176	1,712
Retirement benefits paid	(880)	(8,547)
Other	47	445
Ending balance of retirement benefit obligation	¥ 20,962	$ 203,671

(2) The changes in plan assets during the year ended March 31, 2014 are as follows (excluding the plan using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 4)	
	2014		2014	
Beginning balance of plan assets	¥	17,052	$	165,685
Expected return on plan assets		304		2,954
Actuarial loss		528		5,130
Contributions by the Company		994		9,655
Retirement benefits paid		(643)		(6,252)
Other		4		48
Ending balance of plan assets	¥	18,239	$	177,220

(3) The changes in liabilities for retirement benefits calculated by using the simplified method during the year ended March 31, 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)	
	2014		2014	
Beginning balance of net defined benefit liability	¥	1,130	$	10,975
Retirement benefit expenses		217		2,105
Retirement benefits paid		(78)		(751)
Contributions by the Company		(79)		(759)
Ending balance of net defined benefit liability	¥	1,190	$	11,570

(4) The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 4)	
	2014		2014	
Funded retirement benefit obligation	¥	19,010	$	184,701
Plan assets		(19,079)		(185,374)
		(69)		(673)
Unfunded retirement benefit obligation		3,982		38,694
Net liabilities in consolidated balance sheet		3,913		38,021
Assets for retirement benefits		342		3,319
Liabilities for retirement benefits		4,255		41,340
Net liabilities in consolidated balance sheet	¥	3,913	$	38,021

(5) The components of retirement benefit expense for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2014	2014
Service cost	¥ 1,022	$ 9,928
Interest cost	249	2,422
Expected return on plan assets	(304)	(2,954)
Amortization of actuarial loss	335	3,259
Amortization of prior service cost	(34)	(327)
Retirement benefit expenses for simplified method	217	2,105
Retirement benefit expenses for defined benefit plans	¥ 1,485	$ 14,433

(6) Unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2014	2014
Unrecognized prior service cost	(10)	(92)
Unrecognized actuarial loss	4,127	40,090
Total	¥ 4,117	$ 39,998

(7) ① The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	2014
Debt securities	26%
Equity securities	31%
General accounts	33%
Other	10%
Total	100%

Note: The plan assets include 11% of the retirement pension trusts for corporate pension plans.

② The long-term expected rate of return on plan assets has been estimated based on the current and projected pension asset allocations and the current and projected return rate on various assets comprising plan assets.

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

	2014
Discount rate	1.06%
Long-term expected rate of return on plan assets	2.00%

Defined contribution plans

Required amount of contribution to the defined contribution plan for certain consolidated subsidiaries as of March 31, 2014 are as follow:

	Millions of yen	Thousands of U.S. dollars (Note 4)
	2014	2014
This year	¥ 97	$ 939

The Company has a pension plan (funded and non-contributory) to cover the employees (excluding directors and corporate auditors) of the Company. The benefits under this plan are determined generally by reference to the employees' average rate of pay, length of service and the conditions under which retirement occurs.
The following tables show the funded and accrued status of the employees' retirement benefits, and the amounts recognized in the consolidated balance sheets as of March 31, 2013.

	Millions of yen
	2013
Projected benefit obligations	¥ (22,270)
Plan assets	17,844
Unfunded projected benefit obligations	(4,426)
Unrecognized actuarial loss	4,801
Unrecognized prior service cost	(44)
Book value – net	331
Prepaid pension expenses	(4,444)
Retirement benefit provisions	¥ (4,113)

Net pension expenses related to retirement benefits for the years ended March 31, 2013 is as follows:

	Millions of yen
	2013
Service cost *1	¥ 1,139
Interest cost	388
Expected return on plan assets	(304)
Amortization of actuarial loss	732
Amortization of prior service cost	(35)
Net pension expenses	¥ 1,920

Note: *1 The pension expenses of consolidated subsidiaries that applied the simplified method are included in "Service cost."

Assumptions used in the calculation of the above information are as follows:

	2013
Discount rate	1.06%
Expected rate of return on plan assets	2.0%
Amortization of unrecognized prior service cost	10 years
Amortization of unrecognized actuarial gains or losses	10 years

14. Leases

The Group leases certain machinery, equipment and vehicles and other assets. The following is information on the leases in existence at the transition date of the new accounting standard that continues to be accounted for as operating leases.

Total lease payments under these leases were ¥25 million (US$241 thousand) and ¥35 million for the years ended March 31, 2014 and 2013, respectively.

Information relating to acquisition costs, accumulated depreciation and future minimum payments for assets held under finance leases which do not transfer ownership of the leased assets to the lessee on an "as if capitalized" basis for the years ended March 31, 2014 and 2013, is as follows:

	Millions of yen	
	2014	
	Others	Total
Acquisition costs	¥ 5	¥ 5
Accumulated depreciation	4	4
Net leased assets	¥ 1	¥ 1

	Millions of yen					
	2013					
	Machinery, equipment and vehicles		Others		Total	
Acquisition costs	¥	211	¥	5	¥	216
Accumulated depreciation		186		4		190
Net leased assets	¥	25	¥	1	¥	26

	Thousands of U.S. dollars (Note 4)			
	2014			
	Others		Total	
Acquisition costs	$	50	$	50
Accumulated depreciation		43		43
Net leased assets	$	7	$	7

Future minimum lease payments under finance leases as of March 31, 2014 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
Due within one year	¥	1	¥	25	$	7
Due over one year		–		1		–
Total	¥	1	¥	26	$	7

The acquisition costs and future minimum lease payments under finance leases include the interest expense portion because the amount of accrued lease payments was immaterial to the balance of property, plant and equipment as of March 31, 2014 and 2013.

The depreciation expense, which is not reflected in the accompanying consolidated statements of income, computed using the straight-line method, would have been ¥25 million (US$241 thousand) and ¥35 million for the years ended March 31, 2014 and 2013, respectively.

Obligations under non-cancelable operating leases as of March 31, 2014 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
Due within one year	¥	172	¥	142	$	1,670
Due after one year		429		498		4,169
Total	¥	601	¥	640	$	5,839

15. Derivative financial instruments

The Group uses derivative financial instruments, which comprise principally forward exchange contracts and interest rate swap agreements, to reduce its exposure to market risks from fluctuations in foreign currency exchange and interest rates. The Group has established a control environment, which includes policies and procedures for the approval and monitoring of transactions involving derivative financial instruments. The Group does not hold or issue financial instruments for trading purposes.

The Group is exposed to certain market risks arising from its forward exchange contracts and interest rate swap agreements. The Group is also exposed to the risk of credit loss in the event of non-performance by the counterparties. However, the Group does not anticipate non-performance by any of these counterparties all of whom are domestic financial institutions with high credit ratings.

The Company does not enter into derivative contracts which do not meet hedge accounting criteria.

Summarized below are the derivative transactions which meet hedge accounting criteria.

	Millions of yen		
	2014		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥ 5,400	¥ 5,400	¥ –

	Millions of yen		
	2013		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥ 5,400	¥ 5,400	¥ –

	Thousands of U.S. dollars (Note 4)		
	2014		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	$ 52,468	$ 52,468	$ –

Differences between the fair market value and book value of the interest rate swaps are included in the fair market value of the underlying long-term loans payable.

16. Commitments and contingencies

(1) As of March 31, 2014 and 2013, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥ 35	¥ 45	$ 340
NOF METAL COATINGS SHANGHAI Co., Ltd.	55	55	534
	¥ 90	¥ 100	$ 874

(2) As of March 31, 2014 and 2013, the Company was contingently liable for the conditional assignment of ¥1,865 million (US$18,126 thousand) and ¥2,309 million, respectively, of trade notes and accounts receivable with recourse obligations.

(3) As of March 31, 2014 and 2013, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥49 million (US$479 thousand) and ¥55 million, respectively.

(4) As of March 31, 2014 and 2013, the Company had unused commitment agreements amounting to ¥5,000 million (US$48,581 thousand) and ¥7,500 million, respectively, with banks and other financial institutions.

17. Per share information

Net income per share of common stock is based upon the weighted average number of shares outstanding during each fiscal year.

	Yen		U.S. dollars (Note 4)
	2014	2013	2014
Per share:			
Net income – basic	¥ 53.1	¥ 47.9	$ 0.52
Net income – diluted	–	–	–
Cash dividends applicable to the year	13.0	11.0	0.13
Net assets	610.54	561.37	5.93

Net income – diluted for the years ended March 31, 2014 and 2013 is not disclosed because there are no diluted shares.

Basis for calculating net income per share:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
Net income per share						
Net income	¥	9,738	¥	8,784	$	94,613
Amount not available to shareholders						
Earnings appropriated for directors' bonuses		–		–		–
Net income applicable to common stock	¥	9,738	¥	8,784	$	94,613
Average number of shares outstanding (1,000 shares)		183,386		183,463		

18. Deferred income tax on property, plant and equipment

Deferred income tax on property, plant and equipment for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
Buildings and structures	¥	543	¥	546	$	5,279
Machinery, equipment and vehicles		371		385		3,609
Other		24		24		230
Total	¥	938	¥	955	$	9,118

19. Goodwill

As of March 31, 2014 and 2013, goodwill included in "Intangible assets" amounted to ¥73 million (US$710 thousand) and ¥122 million, respectively.

As of March 31, 2013, negative goodwill included in "Other long-term liabilities" amounted to ¥0 million, respectively.

20. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Investments in securities	¥ 521	¥ 534	$ 5,060
Capital contribution	220	220	2,141
Total	¥ 741	¥ 754	$ 7,201

21. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheets at March 31, 2014 and 2013 is as follows:

A. Outline of the asset retirement obligations

Expenses allocated for obligations to remove harmful materials such as fluorocarbon and PCB (polychlorinated biphenyl) from fixed assets.

B. Calculation method of asset retirement obligations

An estimated period of use of 2-38 years and a discount rate of 0.21%-2.27% are used to calculate the amount of the asset retirement obligations.

C. Changes in the total amount of the asset retirement obligations for the fiscal years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Balance at beginning of year	¥ 244	¥ 238	$ 2,376
Increase due to acquisition of property, plant and equipment	3	16	26
Accretion expenses	1	1	5
Decrease due to fulfillment of asset retirement obligations	(1)	(11)	(7)
Balance at end of year	¥ 247	¥ 244	$ 2,400

22. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the year ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Unrealized gains on other securities:			
Amount arising during the year	¥ 3,748	¥ 4,048	$ 36,414
Reclassification adjustments for gains and losses included in net income	(34)	179	(329)
Amount before tax effect	3,714	4,227	36,085
Tax effect	(1,318)	(1,391)	(12,810)
Unrealized gain on other securities	2,396	2,836	23,275
Foreign currency translation adjustments:			
Amount arising during the year	¥ 1,764	¥ 827	$ 17,135
Total other comprehensive income	¥ 4,160	¥ 3,663	$ 40,410

23. Segment information

(1) The Company’s reportable segments are components for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors in order to determine the allocation of resources and assess segment performance.

The Company’s reportable segments are as follows:

1. Functional chemicals --- fatty acids, fatty acid derivatives, surfactants, ethylene oxide and propylene oxide derivatives, organic peroxides, functional polymers, functional films, electronic materials, materials for anti corrosion
2. Life science --- MPC-related products, raw materials for DDS drug formulation, edible oils, functional foods
3. Explosive & propulsion --- industrial explosives, defense-related explosives, rocket propellant, automotive safety devices, metal manufactured products

The amount of segment income corresponds to that of operating income.

Intersegment sales and transfer prices are calculated mainly based on market value or manufacturing cost.

(Millions of yen)

2014

	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	¥ 100,190	¥ 25,261	¥ 34,034	¥ 159,485	¥ 1,478	¥ 160,963	¥ –	¥ 160,963
Inter-segment	662	3,586	12	4,260	7,361	11,621	(11,621)	–
Total	100,852	28,847	34,046	163,745	8,839	172,584	(11,621)	160,963
Segment income	¥ 8,855	¥ 5,136	¥ 2,327	¥ 16,318	¥ 126	¥ 16,444	¥ (1,096)	¥ 15,348
Assets	¥ 75,010	¥ 20,831	¥ 52,345	¥ 148,186	¥ 3,081	¥ 151,267	¥ 25,433	¥ 176,700
Depreciation	3,047	750	1,654	5,451	63	5,514	182	5,696
Capital expenditures	5,756	754	2,213	8,723	102	8,825	222	9,047

(Millions of yen)

2013

	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	¥ 91,786	¥ 23,471	¥ 32,152	¥ 147,409	¥ 1,451	¥ 148,860	¥ –	¥ 148,860
Inter-segment	87	2,576	16	2,679	7,020	9,699	(9,699)	–
Total	91,873	26,047	32,168	150,088	8,471	158,559	(9,699)	148,860
Segment income	¥ 7,112	¥ 3,825	¥ 2,262	¥ 13,199	¥ 129	¥ 13,328	¥ (986)	¥ 12,342
Assets	¥ 68,331	¥ 20,004	¥ 50,630	¥ 138,965	¥ 3,001	¥ 141,966	¥ 22,042	¥ 164,008
Depreciation	3,042	800	1,606	5,448	67	5,515	353	5,868
Capital expenditures	2,901	452	1,911	5,264	28	5,292	213	5,505

(Thousands of U.S. dollars (Note 4))

2014

	Reportable segments: Functional chemicals	Reportable segments: Life science	Reportable segments: Explosive & propulsion	Reportable segments: Subtotal	Others	Total	Elimination/ Corporate	Consolidated
Sales								
Sales to customers	$ 973,471	$ 245,446	$ 330,681	$ 1,549,598	$ 14,366	$ 1,563,964	$ –	$ 1,563,964
Inter-segment	6,427	34,845	120	41,392	71,518	112,910	(112,910)	–
Total	979,898	280,291	330,801	1,590,990	85,884	1,676,874	(112,910)	1,563,964
Segment income	$ 86,040	$ 49,902	$ 22,611	$ 158,553	$ 1,223	$ 159,776	$ (10,648)	$ 149,128
Assets	$ 728,823	$ 202,396	$ 508,596	$ 1,439,815	$ 29,934	$ 1,469,749	$ 247,120	$ 1,716,869
Depreciation	29,608	7,287	16,071	52,966	611	53,577	1,769	55,346
Capital expenditures	55,927	7,327	21,498	84,752	998	85,750	2,154	87,904

(2) Information related to reportable segments

1) The Group's sales by geographical area for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Japan	¥ 122,901	¥ 117,903	$ 1,194,140
Asia	22,219	17,538	215,891
Others	15,843	13,419	153,933
Total	¥ 160,963	¥ 148,860	$ 1,563,964

2) The Group's property, plant and equipment by geographical area as of March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Japan	¥ 51,028	¥ 50,044	$ 495,797
Others	6,486	4,199	63,024
Total	¥ 57,514	¥ 54,243	$ 558,821

(3) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Functional chemicals	¥ 33	¥ 391	$ 318
Life science	190	–	1,851
Explosive & propulsion	–	–	–
Others	–	–	–
Total	¥ 223	¥ 391	$ 2,169

(4) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ 85	¥ 73	¥ 82	¥ 122	$ 821	$ 710
Life science	–	–	–	–	–	–
Explosive & propulsion	0	0	0	0	1	0
Others	–	–	–	–	–	–
Total	¥ 85	¥ 73	¥ 82	¥ 122	$ 822	$ 710

Amortization and balance of negative goodwill recognized before April 1, 2011 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 4)	
	2014		2013		2014	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥ –	¥ –	¥ –	¥ –	$ –	$ –
Life science	–	–	–	–	–	–
Explosive & propulsion	0	–	0	0	0	–
Others	–	–	–	–	–	–
Total	¥ 0	¥ –	¥ 0	¥ 0	$ 0	$ –

24. Impairment loss on fixed assets

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended March 31, 2014 and 2013.

2014

Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 4)
Kawasaki City, Kanagawa	Facilities	Machinery and others	¥ 190	$ 1,851
State of Georgia	Facilities	Machinery	33	318

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts and ¥223 million (US$2,169 thousand) of impairment losses was recognized in the consolidated statements of income for the year ended March 31, 2014.

The recoverable amounts of these groups of domestic assets are measured at value in use and foreign assets are measured at the net selling value (fair value less costs to sell). The discounted cash flow is not calculated since the estimated future cash flows are negative. The net selling value is calculated by the estimate based on the cost approach. The impairment loss on fixed assets consisted of ¥7 million (US$64 thousand) for buildings and structures, ¥211 million (US$2,051 thousand) for machinery, equipment and vehicles and ¥5 million (US$54 thousand) for others.

2013

Location	Major use	Asset	Millions of yen
Taketoyo City, Aichi	Facilities	Buildings, machinery and others	¥ 391

The Company and its consolidated subsidiaries have grouped business-use assets according to the operating division and have grouped idle assets on an individual basis.

When there is a decrease in profitability of a business operation and no expectation of recovery in operating earnings, the book value of the assets is written down to the recoverable amount. The assets listed in the above table were written down to their respective recoverable amounts and ¥391 million of impairment losses was recognized in the consolidated statements of income for the year ended March 31, 2013.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow is not calculated since the estimated future cash flows are negative. The impairment loss on fixed assets consisted of ¥236 million for buildings and structures, ¥153 million for machinery, equipment and vehicles and ¥2 million for others.

25. Inventories

Inventories at March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Merchandise and finished goods	¥ 18,812	¥ 17,297	$ 182,785
Work in process	3,773	3,810	36,657
Raw materials and supplies	9,277	8,580	90,134
Total	¥ 31,862	¥ 29,687	$ 309,576

26. Notes receivable and payable

The balance sheets date for the year ended March 31, 2013 fell on a bank holiday. Consequently, notes receivable of ¥70 million and notes payable of ¥52 million and electronically recorded obligations-operating of ¥194 million with a due date of March 31, 2013 were still included in the respective accounts in the accompanying consolidated balance sheet and were settled on the business day.

27. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Machinery, equipment and vehicles	¥ 13	¥ 9	$ 128
Other	0	0	2
Total	¥ 13	¥ 9	$ 130

28. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2014	2013	2014
Buildings and structures	¥ 24	¥ 17	$ 241
Machinery, equipment and vehicles	17	42	162
Other	12	19	112
Total	¥ 53	¥ 78	$ 515

29. Loss on litigation

Loss on litigation mainly consisted of the provision for the settlement of ¥2,400 million ($23,319 thousand) as to the soil restoration for the site of the factory that the company sold previously, soil investigation expense of ¥114 million ($1,110 thousand) and legal fee of ¥47 million ($458 thousand).

30. Subsequent events

At meeting of the Board of Directors of the Company held on May 8, 2014, the Company approved a purchase of up to 3,000,000 shares of treasury stock for an aggregate acquisition cost not exceeding 3,000 million($29,149thousand) for the purpose of strategic financial position during the period from May 9, 2014 to June 11, 2014.