NOF CORPORATION

Consolidated Financial Statements

For the years ended March 31, 2015 and 2014

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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, 2015, 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, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 4 to the consolidated financial statements, which describes that NOF CORPORATION and certain domestic subsidiaries changed from the declining-balance method, which was the previously used to calculate depreciation of property, plant and equipment (excluding buildings, other than their attachments, and leased assets), to the straight-line method effective the year ended March 31, 2015. Our opinion is not qualified in respect of this matter.

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 5.

Ernst & Young ShinNihon LLC

June 19, 2015

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet

As of March 31,	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 5) 2015
ASSETS			
Current assets:			
Cash and time deposits (Notes 6 and 8)	¥ 14,539	¥ 11,933	$ 120,989
Notes and accounts receivable (Note 8)	34,215	34,891	284,720
Allowance for doubtful accounts	(206)	(222)	(1,711)
	34,009	34,669	283,009
Inventories (Note 26)	35,126	31,862	292,300
Deferred tax assets (Note 13)	2,338	3,321	19,457
Other current assets (Note 7)	2,869	2,173	23,875
Total current assets	88,881	83,958	739,630
Property, plant and equipment (Notes 9 and 19):			
Land	20,642	19,713	171,773
Buildings and structures	65,101	63,815	541,743
Machinery, equipment and vehicles	97,284	96,888	809,555
Construction in progress	643	1,372	5,353
Leased assets	676	734	5,626
Others	14,484	14,208	120,520
Accumulated depreciation	(140,856)	(139,216)	(1,172,139)
Total property, plant and equipment	57,974	57,514	482,431
Investments and other assets:			
Investments in securities (Notes 7, 8 and 9)	43,237	31,980	359,794
Deferred tax assets (Note 13)	376	479	3,131
Intangible assets (Note 20)	780	839	6,492
Assets for retirement benefits (Notes 3 and 14)	4,074	342	33,899
Other assets	1,544	1,588	12,852
Total investments and other assets	50,011	35,228	416,168
Total assets	¥ 196,866	¥ 176,700	$ 1,638,229

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Balance Sheet (continued)

As of March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Notes 8 and 9)	¥ 2,242	¥ 1,861	$ 18,654
Current portion of long-term debt (Notes 8 and 9)	5,000	156	41,609
Notes and accounts payable (Note 8)	20,362	20,872	169,444
Electronically recorded obligations-operating	1,498	1,539	12,464
Accrued expenses	4,634	4,718	38,562
Income taxes payable	4,128	3,838	34,349
Deposits received	4,076	3,673	33,917
Lease obligations	165	184	1,375
Allowance for loss on litigation	–	2,558	–
Other current liabilities (Notes 13 and 22)	5,015	4,954	41,733
Total current liabilities	47,120	44,353	392,107
Long-term liabilities:			
Long-term debt (Notes 8 and 9)	3,072	8,057	25,563
Deferred tax liabilities (Note 13)	10,173	6,445	84,656
Retirement benefit provisions for directors	23	19	192
Retirement benefit provisions for officers	78	94	652
Lease obligations	135	285	1,126
Liabilities for retirement benefits (Notes 3 and 14)	4,430	4,255	36,859
Other long-term liabilities (Note 22)	522	570	4,345
Total long-term liabilities	18,433	19,725	153,393
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 783,828,000 shares at March 31, 2015 and 2014			
Issued: 183,682,752 shares at March 31, 2015 and 186,682,752 shares at March 31, 2014	17,742	17,742	147,641
Capital surplus	15,113	15,114	125,767
Retained earnings	81,305	72,132	676,585
Treasury stock, at cost	(2,024)	(1,398)	(16,846)
Total shareholders' equity	112,136	103,590	933,147
Accumulated other comprehensive income			
Unrealized gain on other securities	18,379	10,421	152,940
Foreign currency translation adjustments	1,561	510	12,998
Adjustments for retirement benefits	(1,554)	(2,634)	(12,935)
Total accumulated other comprehensive income	18,386	8,297	153,003
Minority interests	791	735	6,579
Total net assets	131,313	112,622	1,092,729
Total liabilities and net assets	¥196,866	¥176,700	$1,638,229

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Income

For the Year Ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Net sales	¥167,698	¥160,963	$1,395,505
Cost of sales (Note 11)	120,435	116,743	1,002,206
Gross profit	47,263	44,220	393,299
Selling, general and administrative expenses (Notes 10 and 11)	30,175	28,872	251,100
Operating income	17,088	15,348	142,199
Other income (expenses):			
Interest and dividend income	936	881	7,790
Interest expenses	(94)	(90)	(781)
Loss on sale of fixed assets (Notes 27 and 28)	(283)	(23)	(2,357)
Loss on retirement of fixed assets (Note 29)	(66)	(53)	(553)
Gain on sale of investments in securities	15	34	122
Impairment loss on investments in securities	(8)	(1)	(65)
Foreign exchange gain, net	437	960	3,633
Impairment loss on fixed assets (Note 25)	(1,015)	(223)	(8,450)
Loss on litigation	–	(2,561)	–
Others, net	671	484	5,599
	593	(592)	4,938
Income before income taxes and minority interests	17,681	14,756	147,137
Income taxes (Note 13)			
Current	5,591	6,126	46,525
Deferred	345	(1,116)	2,872
	5,936	5,010	49,397
Income before minority interests	11,745	9,746	97,740
Minority interests	(41)	(8)	(345)
Net income	¥ 11,704	¥ 9,738	$ 97,395

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Comprehensive Income

For the Year Ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Income before minority interests	¥11,745	¥ 9,746	$ 97,740
Other comprehensive income (Note 23)			
Unrealized gain on other securities	7,960	2,396	66,237
Foreign currency translation adjustments	1,069	1,764	8,894
Adjustments for retirement benefits	1,078	–	8,971
Total other comprehensive income	10,107	4,160	84,102
Comprehensive income	21,852	13,906	181,842
Comprehensive income attributable to minority interests	60	34	497
Comprehensive income attributable to NOF Corporation	21,792	13,872	181,345

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 March 31, 2015 and 2014

	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, 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
Cumulative effects of changes in accounting policies				1,590		1,590						1,590
Restated balance at April 1, 2014	186,683	¥17,742	¥15,114	¥73,722	¥(1,398)	¥105,180	¥10,421	¥ 510	¥(2,634)	¥ 8,297	¥735	¥114,212
Net income	–	–	–	11,704	–	11,704	–	–	–	–	–	11,704
Cash dividends	–	–	–	(2,364)	–	(2,364)	–	–	–	–	–	(2,364)
Purchase of treasury stock	–	–	–	–	(2,355)	(2,355)	–	–	–	–	–	(2,355)
Disposal of treasury stock	–	–	0	–	2	2	–	–	–	–	–	2
Retirement of treasury stock	(3,000)	–	(1,727)	–	1,727	–	–	–	–	–	–	–
Transfer of loss on disposal of treasury stock	–	–	1,726	(1,726)	–	–	–	–	–	–	–	–
Other	–	–	–	(31)	–	(31)	–	–	–	–	–	(31)
Net changes in items other than shareholders' equity	–	–	–	–	–	–	7,958	1,051	1,080	10,089	56	10,145
Balance at March 31, 2015	183,683	¥17,742	¥15,113	¥81,305	¥(2,024)	¥112,136	¥18,379	¥ 1,561	¥(1,554)	¥18,386	¥791	¥131,313

For the Year Ended March 31, 2015

	Number of shares of common stock (thousands)	Thousands of U.S. dollars (Note 5)										
		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, 2014	186,683	$147,641	$125,772	$600,237	$(11,627)	$862,023	$ 86,717	$ 4,251	$(21,916)	$ 69,052	$6,117	$ 937,192
Cumulative effects of changes in accounting policies				13,238		13,238						13,238
Restated balance at April 1, 2014	186,683	$147,641	$125,772	$613,475	$(11,627)	$875,261	$ 86,717	$ 4,251	$(21,916)	$ 69,052	$6,117	$ 950,430
Net income	–	–	–	97,395	–	97,395	–	–	–	–	–	97,395
Cash dividends	–	–	–	(19,674)	–	(19,674)	–	–	–	–	–	(19,674)
Purchase of treasury stock	–	–	–	–	(19,603)	(19,603)	–	–	–	–	–	(19,603)
Disposal of treasury stock	–	–	5	–	13	18	–	–	–	–	–	18
Retirement of treasury stock	(3,000)	–	(14,371)	–	14,371	–	–	–	–	–	–	–
Transfer of loss on disposal of treasury stock	–	–	14,361	(14,361)	–	–	–	–	–	–	–	–
Other	–	–	–	(250)	–	(250)	–	–	–	–	–	(250)
Net changes in items other than shareholders' equity	–	–	–	–	–	–	66,223	8,747	8,981	83,951	462	84,413
Balance at March 31, 2015	183,683	$147,641	$125,767	$676,585	$(16,846)	$933,147	$152,940	$12,998	$(12,935)	$153,003	$6,579	$1,092,729

The accompanying notes are an integral part of the statements.

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows

For the Year Ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Cash flows from operating activities:			
Income before income taxes and minority interests	¥17,681	¥14,756	$147,137
Adjustments for:			
Depreciation	4,680	5,696	38,941
Impairment loss on fixed assets	1,015	223	8,450
Net changes in retirement benefit liability	742	109	6,171
Interest and dividend income	(936)	(881)	(7,790)
Interest expenses	94	90	781
Loss on sale of fixed assets	283	23	2,357
Impairment loss on investments in securities	8	1	65
Gain on sale of investments in securities	(15)	(34)	(122)
Loss on litigation	–	2,561	–
Decrease (increase) in notes and accounts receivable	570	(834)	4,741
Decrease (increase) in inventories	(2,889)	(1,485)	(24,043)
(Decrease) increase in notes and accounts payable	(1,254)	1,618	(10,438)
Others, net	1,325	(1,515)	11,034
Sub total	21,304	20,328	177,284
Interest and dividends received	938	883	7,803
Interest paid	(101)	(87)	(837)
Loss on litigation	(2,558)	(3)	(21,287)
Income taxes paid	(5,352)	(5,429)	(44,541)
Net cash provided by operating activities	14,231	15,692	118,422
Cash flows from investing activities:			
Payments for purchase of investments in securities	(536)	(996)	(4,457)
Proceeds from sale of investments in securities	92	50	766
Gain on sale of stocks of subsidiaries	536	–	4,458
Payments for purchase of property, plant and equipment	(8,034)	(6,807)	(66,857)
Proceeds from sale of property, plant and equipment	243	26	2,021
Net changes in short-term loans receivable	42	(29)	352
Payments for long-term loans receivable	(7)	(4)	(59)
Proceeds from long-term loans receivable	6	7	52
Others, net	(237)	(303)	(1,972)
Net cash used in investing activities	(7,895)	(8,056)	(65,696)

NOF CORPORATION and Subsidiaries

Consolidated Statement of Cash Flows (continued)

For the Year Ended March 31,	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Cash flows from financing activities:			
Net changes in short-term bank loans	207	(1,506)	1,719
Proceeds from long-term debt	–	150	–
Repayments of long-term debt	(156)	(463)	(1,302)
Repayments of lease obligations	(180)	(143)	(1,497)
Payments for purchase of treasury stock	(2,356)	(135)	(19,602)
Proceeds from sale of treasury stock	3	2	24
Cash dividends paid	(2,359)	(2,194)	(19,629)
Cash dividends paid to minority shareholders	(5)	(3)	(40)
Others, net	–	(1)	–
Net cash used in financing activities	(4,846)	(4,293)	(40,327)
Effect of exchange rate changes on cash and cash equivalents	545	1,107	4,538
Net increase in cash and cash equivalents	2,035	4,450	16,937
Cash and cash equivalents at beginning of year	11,788	6,849	98,098
Increase in cash and cash equivalents from newly consolidated subsidiaries	818	489	6,798
Cash and cash equivalents at end of year (Note 6)	¥14,641	¥11,788	$121,833

The accompanying notes are an integral part of these statements.

NOF CORPORATION and Subsidiaries

Notes to Consolidated Financial Statements
For the years ended March 31, 2015 and 2014

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, 2015 (35 for 2014). The accompanying consolidated financial statements include the accounts of the Company and 26 of its subsidiaries (collectively, the "Group") for the year ended March 31, 2015 (25 for 2014).

NOF (Shanghai) Co.,Ltd. whose materiality increased, and NOF EUROPE GmbH, which was newly established, were newly included in the scope of consolidation from the year ended March 31, 2015.

The remaining 9 (10 for 2014) 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 26 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
NiGK Corporation	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.	93.5
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 (Shanghai) Co., Ltd.	100.0
NOF EUROPE GmbH	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
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 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 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) Leased assets

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.

(12) 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 the balance sheet date.

The retirement benefit obligation for employees is attributed to each period by the benefit formula method.

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. The retirement benefit liability calculated using the simplified method is determined to be equal to the required amount if all the employees retired voluntarily at the balance sheet date.

(13) 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 retired at the balance sheet dates, and accounts for it as retirement benefit provisions for directors, which was presented as retirement benefit provisions for directors.

(14) 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 retired at the balance sheet date, and accounts for it as retirement benefit provisions for officers, which was presented as retirement benefit provisions for officers.

(15) 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.

(16) 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.”

(17) Reclassification of accounts

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

(18) Standards issued but not yet effective

Accounting standards for business combinations

On September 13, 2013, the ASBJ issued “Revised Accounting Standard for Business Combinations” (ASBJ Statement No. 21), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7), “Revised Accounting Standard for Earnings Per Share” (ASBJ Statement No. 2), “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10), and “Revised Guidance on Accounting Standard for Earnings Per Share” (ASBJ Guidance No. 4).

(a) Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent’s ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to “minority interests” was changed to “non-controlling interests,” and accounting treatment for adjustments to provisional amounts during measurement period was also changed.

(b) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

(c) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

3. Change in accounting policy

Application of accounting standards for retirement benefit

The Company and its domestic subsidiaries adopted Section 35 of “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26 of May 17, 2012) and the main clause of Section 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25 of May 17, 2012) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respects: the method for attributing projected benefits to each period has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed to use a single weighted-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effect of changing the methods for calculating the retirement benefit obligation and service cost was recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Section 37 of Accounting Standard for Retirement Benefits.

As a result, the assets for retirement benefits increased by ¥2,517 million ($20,945 thousand), the liabilities for retirement benefits increased by ¥31 million ($256 thousand) and retained earnings increased by ¥1,591 million ($13,238 thousand) at April 1, 2014, and consolidated operating income, and income before income taxes and minority interests for the year ended March 31, 2015 decreased by ¥205 million ($1,705 thousand), respectively. Also, net assets per share at March 31, 2015 decreased by ¥8.04 ($0.07), while basic net income per share and diluted net income per share for the year ended March 31, 2015 decreased by ¥4.34 ($0.04), respectively.

4. Change in accounting policy that is difficult to distinguish from change in accounting estimate

The Company and certain domestic subsidiaries changed from the declining-balance method, which was previously used to calculate depreciation of property, plant and equipment (excluding buildings, other than their attachments, and leased assets), to the straight-line method effective the year ended March 31, 2015.

Thus far, the Group has made capital investments towards ramping up production of new and existing products in order to capture demand mainly in domestic and overseas growth sectors. Domestically, these capital investments have abated, and demand is trending stably while maintaining a steady growth rate following the economic downturn precipitated by the Lehman Brothers bankruptcy. Going forward, the Group's domestic capital investment will be focused on enhancing business efficiency and stability.

Given these changes in the business and investment environment, the Group used the formulation of its new mid-term management plan as an opportunity to conduct a detailed examination of its future business activities and the usage of its property, plant and equipment. This resulted in the Group's determination that since there is little risk that the economic or technological value of its domestic production facilities will rapidly deteriorate, and the Group's policy going forward is to basically continue long-term, stable production and sales activities, in order to reflect a stable utilization rate, adopting the straight-line method, which spreads out the cost of an asset equally over its lifetime, as the Group's depreciation method for property, plant and equipment is the most appropriate way of accounting for periodic profit and loss.

This change in accounting policy resulted in ¥834 million ($6,937 thousand) increases in both operating income and income before income taxes and minority interests.

5. United States dollar amounts

The Company maintains its accounting records in yen by rounding to the nearest million. 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 ¥120.17 = U.S.$1, the approximate rate of exchange prevailing on the latest balance sheet date of March 31, 2015, and were then rounded to the nearest thousand. 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 ¥120.17 = U.S.$1 or at any other rate.

6. Supplementary cash flow information

Cash and cash equivalents as of March 31, 2015 and 2014 are reconciled to cash and deposits in the consolidated balance sheet as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Cash and time deposits	¥14,539	¥11,933	$120,989
Time deposits with maturity of more than three months	(875)	(412)	(7,278)
Money Market Fund	977	267	8,122
Cash and cash equivalents	¥14,641	¥11,788	$121,833

7. 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, 2015 and 2014 are as follows:

	Millions of yen		
	2015		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	¥13,881	¥40,746	¥26,865
Others	37	44	7
Sub total	¥13,918	¥40,790	¥26,872
Fair market value does not exceed acquisition cost			
Stocks	¥ 1,300	¥ 1,240	¥ (60)
Bonds	10	10	0
Others	977	976	(1)
Sub total	¥ 2,287	¥ 2,226	¥ (61)
Total	¥16,205	¥43,016	¥26,811

	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

	Thousands of U.S. dollars (Note 5)		
	2015		
Description	Acquisition cost	Book value (fair market value)	Unrealized gain or loss
Fair market value exceeds acquisition cost			
Stocks	$115,513	$339,072	$223,559
Others	308	363	55
Sub total	$115,821	$339,435	$223,614
Fair market value does not exceed acquisition cost			
Stocks	$ 10,821	$ 10,323	$ (498)
Bonds	83	83	(0)
Others	8,123	8,123	–
Sub total	$ 19,027	$ 18,529	$ (498)
Total	$134,848	$357,964	$223,116

The Company recorded impairment losses on investments in securities in the amounts of ¥8 million (US$65 thousand) and ¥1 million for the years ended March 31, 2015 and 2014, respectively.

Impairment losses are recorded for securities whose fair values have declined by 50% or more or for those that have declined in a 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, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Proceeds from sale of available-for-sale securities	¥92	¥50	$766
Realized gain	15	34	122
Realized loss	–	–	–

(3) The book value of major securities without fair value as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Unlisted stocks	¥746	¥746	$6,211
Fund certificates	5	5	45

8. 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 16 “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 16 "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 sheet as of March 31, 2015 and 2014 are as follows. Fair values that are not readily determinable are not included in the following table.

	Millions of yen		
	2015		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	¥14,539	¥14,539	¥ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	¥34,009	¥34,009	¥ –
Available-for-sale securities	¥43,016	¥43,016	¥ –
Liabilities			
Notes and accounts payable	¥20,362	¥20,362	¥ –
Short-term bank borrowings	¥ 2,242	¥ 2,242	¥ –
Long-term borrowings from banks and other financial institutions	¥ 8,072	¥ 8,060	¥(12)
Derivative transactions	¥ –	¥ –	¥ –

	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	¥ –	¥ –	¥ –

	Thousands of U.S. dollars (Note 5)		
	2015		
	Carrying value	Estimated fair value	Difference
Assets			
Cash and time deposits	$120,989	$120,989	$ –
Trade notes and accounts receivable (less allowance for doubtful accounts)	$283,009	$283,009	$ –
Available-for-sale securities	$357,964	$357,964	$ –
Liabilities			
Notes and accounts payable	$169,444	$169,444	$ –
Short-term bank borrowings	$ 18,654	$ 18,654	$ –
Long-term borrowings from banks and other financial institutions	$ 67,172	$ 67,074	$(98)
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 7 "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 16 “Derivative financial instruments.”

Financial instruments for which it is extremely difficult to determine the fair value as of March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Unlisted stock	¥1,191	¥1,267	$9,909
Fund certificate	¥ 5	¥ 5	$ 45

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, 2015 and 2014 is as follows:

	Millions of yen			
	2015			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	¥14,535	¥ –	¥ –	¥ –
Notes and accounts Receivable	¥34,215	¥ –	¥ –	¥ –
Available-for-sale securities				
Government and municipal bonds	¥ 10	¥ –	¥ –	¥ –

	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	¥ –	¥ –	¥ –

	Thousands of U.S. dollars (Note 5)			
	2015			
	Within a year	1 to 5 years	5 to 10 years	Over 10 years
Cash and time deposits	$120,953	$ –	$ –	$ –
Notes and accounts receivable	$284,721	$ –	$ –	$–
Available-for-sale securities				
Government and municipal bonds	$ 83	$ –	$ –	$ –

9. 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 0.90% at March 31, 2015, and 0.95% at March 31, 2014.

Long-term debt as of March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Loans, principally from banks and insurance companies, due April 2015 to September 2022 with average interest rates of 0.52% at March 31, 2015, and 0.52% at March 31, 2014	¥8,072	¥8,213	$67,172
Less: Current maturities of:			
Long-term loans	5,000	156	41,609
	¥3,072	¥8,057	$25,563

Aggregate annual maturities of long-term debt subsequent to March 31, 2015 are as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars (Note 5)
2017	¥ 121	$ 1,005
2018	2,800	23,302
2019	150	1,250
2020	0	2
2021 and thereafter	1	4
	¥3,072	$25,563

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 ¥13 million (US$107 thousand) at March 31, 2015, and ¥172 million at March 31, 2014 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Investments in securities	¥ 12	¥ 12	$ 98
Property, plant and equipment at book value	134	15,161	1,119
	¥146	¥15,173	$1,217

10. Selling, general and administrative expenses

Major elements of selling, general and administrative expenses for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Delivery and storage charges	¥4,968	¥4,708	$41,340
Salaries and bonuses	7,572	7,381	63,013
Retirement benefit expenses	645	452	5,371
Retirement benefit costs for officers	28	31	232
Research and development costs	5,576	5,588	46,398
Amortization of goodwill	47	85	393
Accrued bonuses	1,051	1,053	8,744
Allowance for doubtful accounts	1	39	8

11. Research and development costs

Research and development costs for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Research and development costs	¥6,795	¥6,674	$56,548

12. Net assets

Information regarding changes in net assets for the years ended March 31, 2015 and 2014 are as follows:

(1) Shares issued and outstanding / Treasury stock

	Thousands of shares			
	2015			
	Number of shares at March 31, 2014	Increase	Decrease	Number of shares at March 31, 2015
Common stock	186,683	–	3,000	183,683
Treasury stock	3,423	3,096	3,003	3,516

The increase in treasury stock during the year ended March 31, 2015 was due to the purchase of odd-lot shares (96 thousand shares) and the market purchases (3,000 thousand shares).

The decrease in treasury stock during the year ended March 31, 2015 was due to the disposal of odd-lot shares (3 thousand shares) and retirement of treasury stock (3,000 thousand shares).

	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).

(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, 2015:

		Millions of yen	Thousands of U.S. dollars (Note 5)	Yen	U.S. dollars (Note 5)
	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	$10,675	¥7	$0.06
Meeting of the Board of Directors on November 1, 2014	Common stock	¥1,081	$ 8,999	¥6	$0.05

Dividends paid for the year ended March 31, 2014:

		Millions of yen	Yen
	Type of shares	Total dividends	Dividends per share
The General Meeting of Stockholders on June 27, 2013	Common stock	¥1,101	¥6
Meeting of the Board of Directors on November 1, 2013	Common stock	¥1,101	¥6

Dividends with the cut-off date in the year ended March 31, 2015 and the effective date in the year ending March 31, 2016:

		Millions of yen	Thousands of U.S. dollars (Note 5)	Yen	U.S. dollars (Note 5)
	Type of shares	Total dividends	Total dividends	Dividends per share	Dividends per share
The General Meeting of Stockholders on June 26, 2015	Common stock	¥1,621	$13,493	¥9	$0.07

13. Income taxes

(1) Significant components of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Deferred tax assets:			
Accrued bonus	¥ 1,023	¥ 1,100	$ 8,509
Liabilities for retirement benefits	1,592	3,416	13,247
Elimination of intercompany profits	615	567	5,117
Accrued enterprise tax	300	291	2,498
Retirement benefit provisions for directors and officers	28	72	229
Impairment loss on fixed assets	569	341	4,734
Impairment loss on investment securities	341	380	2,837
Valuation difference	–	40	–
Valuation loss on inventories	242	212	2,014
Others	1,847	2,512	15,380
	6,557	8,931	54,565
Valuation allowance	(1,113)	(1,269)	(9,264)
Total deferred tax assets	5,444	7,662	45,301
Deferred tax liabilities:			
Unrealized gain on investments in securities	(8,431)	(5,585)	(70,161)
Reserve for advanced depreciation of property, plant and equipment	(1,776)	(2,037)	(14,781)
Valuation differences	(1,595)	(1,762)	(13,272)
Gain on revaluation of assets trusted for retirement benefit	(654)	(736)	(5,446)
Others	(447)	(187)	(3,709)
Total deferred tax liabilities	(12,903)	(10,307)	(107,369)
Net deferred tax liabilities	¥ (7,459)	¥ (2,645)	$ (62,068)

Note: Deferred tax assets and liabilities as of March 31, 2015 and 2014 are reflected in the following accounts in the consolidated balance sheet:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Current assets—deferred tax assets	¥ 2,338	¥ 3,321	$ 19,457
Investments and other assets—deferred tax assets	376	479	3,131
Current liabilities—deferred tax liabilities	–	–	–
Long-term liabilities—deferred tax liabilities	(10,173)	(6,445)	(84,656)

(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 statutory rates of approximately 36.0% and 38.0% for the years ended March 31, 2015 and 2014, 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, 2015 and 2014 is summarized as follows:

	2015	2014
Statutory tax rate	36.0%	38.0%
Non-deductible expenses	0.4	0.5
Tax credits	(2.5)	(3.4)
Valuation allowance	(0.9)	1.0
Inhabitants' per capita taxes	0.2	0.3
Deduction of loss carryforward	(0.3)	(0.4)
Deduction of dividends received	(0.8)	(1.1)
Effects of Japanese tax law changes	(0.7)	1.2
Different tax rates applied to foreign subsidiaries	(1.0)	(0.7)
Other	3.1	(1.4)
Effective tax rates	33.5%	34.0%

Change in statutory effective tax rate

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 36.0% to 33.0% and 32.0% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and for the temporary differences expected to be realized or settled from April 1, 2016, respectively. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥1,080 million ($8,985 thousand), deferred income tax expense by ¥118 million ($985 thousand) and adjustments for retirement benefits by ¥81 million ($675 thousand) and increase unrealized gain on other securities by ¥1,042 million ($8,675 thousand) as of and for the year ended March 31, 2015.

14. 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 plans, the 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 a smaller enterprise retirement allowance mutual plan and defined contribution pension plans.

Defined benefit plan

(1) The changes in retirement benefit obligation during the years ended March 31, 2015 and 2014 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Beginning balance of retirement benefit obligation	¥20,962	¥20,348	$174,434
Cumulative effects of changes in accounting policies	(2,486)	–	(20,689)
Restated balance at the beginning of the year	18,476	20,348	153,745
Service cost	1,322	1,022	11,000
Interest cost	190	249	1,585
Actuarial loss	24	176	197
Retirement benefits paid	(719)	(880)	(5,980)
Other	9	47	73
Ending balance of retirement benefit obligation	¥19,302	¥20,962	$160,620

(2) The changes in plan assets during the years ended March 31, 2015 and 2014 are as follows (excluding plans using the simplified method):

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Beginning balance of plan assets	¥18,239	¥17,052	$151,781
Expected return on plan assets	326	304	2,715
Actuarial loss	1,195	528	9,946
Contributions by the Company	989	994	8,228
Retirement benefits paid	(616)	(643)	(5,125)
Other	4	4	29
Ending balance of plan assets	¥20,137	¥18,239	$167,574

(3) The changes in liabilities for retirement benefits calculated by using the simplified method during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Beginning balance of net defined benefit liability	¥1,190	¥1,130	$ 9,910
Retirement benefit expenses	232	217	1,929
Retirement benefits paid	(144)	(78)	(1,194)
Contributions by the Company	(87)	(79)	(731)
Ending balance of net defined benefit liability	¥1,191	¥1,190	$ 9,914

(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, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Funded retirement benefit obligation	¥ 17,289	¥ 19,010	$ 143,874
Plan assets	(21,067)	(19,079)	(175,312)
	(3,778)	(69)	(31,438)
Unfunded retirement benefit obligation	4,134	3,982	34,398
Net liabilities in consolidated balance sheet	356	3,913	2,960
Assets for retirement benefits	4,074	342	33,899
Liabilities for retirement benefits	4,430	4,255	36,859
Net liabilities in consolidated balance sheet	¥ (356)	¥ 3,913	$ (2,960)

(5) The components of retirement benefit expense for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Service cost	¥1,322	¥1,022	$11,000
Interest cost	190	249	1,585
Expected return on plan assets	(326)	(304)	(2,715)
Amortization of actuarial loss	662	335	5,509
Amortization of prior service cost	(9)	(34)	(76)
Retirement benefit expenses for simplified method	232	217	1,928
Retirement benefit expenses for defined benefit plans	¥2,071	¥1,485	$17,231

(6) The components of adjustments for retirement benefits included in other comprehensive income (before tax effect) for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Prior service cost	¥ 10	¥ –	$ 83
Actuarial loss	(1,826)	–	(15,191)
Total	¥(1,816)	¥ –	$(15,108)

(7) The components of adjustments for retirement benefits included in accumulated other comprehensive income(before tax effect) as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Unrecognized prior service cost	¥ 1	¥ (10)	$ 4
Unrecognized actuarial loss	2,300	4,127	19,144
Total	¥2,301	¥4,117	$19,148

(8) ① The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 is as follows:

	2015	2014
Debt securities	30%	26%
Equity securities	29%	31%
General accounts	31%	33%
Other	10%	10%
Total	100%	100%

NOTE:

The plan assets include 10% and 11% of the retirement pension trusts for corporate pension plans as of March 31, 2015 and 2014, respectively.

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.

(9) The assumptions used in accounting for the above plans are as follows:

	2015	2014
Discount rate	1.06%	1.06%
Long-term expected rate of return on plan assets	2.00%	2.00%
Expected rate of salary increase	1.00 ~ 5.86%	1.00 ~ 5.86%

Defined contribution plans

The required contributions to the defined contribution plan for certain consolidated subsidiaries for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Defined contribution plans	¥99	¥97	$826

15. Leases

The Group leases certain machinery, equipment and vehicles, software and other assets.

Obligations under non-cancelable operating leases as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Due within one year	¥127	¥172	$1,056
Due after one year	285	429	2,375
Total	¥412	¥601	$3,431

16. 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		
	2015		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	¥5,400	¥400	¥–

	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	¥–

	Thousands of U.S. dollars (Note 5)		
	2015		
	Contract amounts		
	Total	Settled over one year	Estimated fair value
Interest swap contracts:			
To receive variable/to pay fixed	$44,936	$3,329	$–

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.

17. Commitments and contingencies

(1) As of March 31, 2015 and 2014, the Group was contingently liable for guarantees of loans as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
As a guarantor of indebtedness of:			
Amagasaki Utility Services	¥25	¥35	$208
NOF METAL COATINGS SHANGHAI Co., Ltd.	55	55	458
	¥80	¥90	$666

(2) As of March 31, 2015 and 2014, the Company was contingently liable for the conditional assignment of ¥1,806 million (US$15,025 thousand) and ¥1,865 million, respectively, of trade notes and accounts receivable with recourse obligations.

(3) As of March 31, 2015 and 2014, the Company had contingent liabilities for notes receivable endorsed in the aggregate amount of ¥9 million (US$74 thousand) and ¥49 million, respectively.

(4) As of March 31, 2015 and 2014, the Company had unused commitment agreements amounting to ¥5,000 million (US$41,608 thousand) and ¥5,000 million, respectively, with banks and other financial institutions.

18. 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 5)
	2015	2014	2015
Per share:			
Net income – basic	¥ 64.7	¥ 53.1	$0.54
Net income – diluted	–	–	–
Cash dividends applicable to the year	15.0	13.0	0.12
Net assets	724.46	610.54	6.03

Net income – diluted for the years ended March 31, 2015 and 2014 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 5)
	2015	2014	2015
Net income per share			
Net income	¥11,704	¥9,738	$97,395
Amount not available to shareholders	–	–	–
Net income applicable to common stock	¥11,704	¥9,738	$97,395
Average number of shares outstanding (1,000 shares)	180,776	183,386	

19. Deferred income taxes on property, plant and equipment

Deferred income taxes on property, plant and equipment for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Buildings and structures	¥522	¥543	$4,346
Machinery, equipment and vehicles	394	371	3,276
Other	23	24	192
Total	¥939	¥938	$7,814

20. Goodwill

As of March 31, 2015 and 2014, goodwill included in “Intangible assets” amounted to ¥30 million (US$246 thousand) and ¥73 million, respectively.

21. Investments in unconsolidated subsidiaries and affiliates

Investments in unconsolidated subsidiaries and affiliates for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Investments in securities	¥444	¥521	$3,698
Capital contribution	61	220	504
Total	¥505	¥741	$4,202

22. Asset retirement obligations

Information on the asset retirement obligations recorded on the consolidated balance sheet at March 31, 2015 and 2014 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, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Balance at beginning of year	¥247	¥244	$2,055
Increase due to acquisition of property, plant and equipment	2	3	15
Accretion expenses	0	1	4
Decrease due to fulfillment of asset retirement obligations	(24)	(1)	(200)
Others	(1)	–	(12)
Balance at end of year	¥224	¥247	$1,862

23. Other comprehensive income

Reclassification adjustments and tax effects of each component of other comprehensive income for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Unrealized gain on other securities:			
Amount arising during the year	¥10,806	¥ 3,748	$ 89,921
Reclassification adjustments for gains and losses included in net income	–	(34)	–
Amount before tax effect	10,806	3,714	89,921
Tax effect	(2,846)	(1,318)	(23,684)
Unrealized gain on other securities	7,960	2,396	66,237
Foreign currency translation adjustments:			
Amount arising during the year	¥ 1,069	¥ 1,764	$ 8,894
Adjustments for retirement benefits:			
Amount arising during the year	¥ 1,163	¥ –	$ 9,681
Reclassification adjustments for gains and losses included in net income	653	–	5,427
Amount before tax effect	1,816	–	15,108
Tax effect	(738)	–	(6,137)
Adjustments for retirement benefits	1,078	–	8,971
Total other comprehensive income	¥10,107	¥ 4,160	$ 84,102

24. 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 accounting policies of the reportable segments are mostly the same as those in Note 2 “Summary of significant accounting policies”

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.

(2) Application of accounting standard for retirement benefits

As mentioned in Note 3 “Change in accounting policy,” the method of calculating retirement benefit obligation and service cost has been revised from the year ended March 31, 2015, as a result, segment information has been revised in the same manner.

The effects of this change on segment income for the year ended March 31, 2015 decreased ¥88 million ($730 thousand) for Functional chemicals, ¥31 million ($254 thousand) for Life science, ¥65 million ($544 thousand) for Explosive & propulsion, and ¥21 million ($177 thousand) for Adjustments, respectively.

(3) Change of depreciation method of tangible fixed assets

As mentioned in Note 4 “Change in accounting policy that is difficult to distinguish from change in accounting estimate,” the Company and certain domestic subsidiaries changed from the declining-balance method, which was the previously used to calculate depreciation of property, plant and equipment (excluding buildings, other than their attachments, and leased assets), to the straight-line method effective the year ended March 31, 2015.

As a result of this change, segment income in the year under review increased ¥452 million ($3,764 thousand) for Functional chemicals, ¥164 million ($1,362 thousand) for Life science, ¥191 million ($1,588 thousand) for Explosive & propulsion, ¥8 million ($65 thousand) for other segments, and ¥19 million ($158 thousand) for Adjustments, respectively.

	Millions of yen							
	2015							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	¥105,232	¥25,403	¥35,747	¥166,382	¥1,316	¥167,698	¥ –	¥167,698
Inter-segment	998	2,536	14	3,548	7,627	11,175	(11,175)	–
Total	106,230	27,939	35,761	169,930	8,943	178,873	(11,175)	167,698
Segment income	¥ 10,191	¥ 4,824	¥ 2,715	¥ 17,730	¥ 170	¥ 17,900	¥ (812)	¥ 17,088
Assets	¥ 78,380	¥22,093	¥54,136	¥154,609	¥3,203	¥157,812	¥ 39,054	¥196,866
Depreciation	2,378	528	1,573	4,479	54	4,533	147	4,680
Capital expenditures	3,177	402	1,982	5,561	67	5,628	1,251	6,879

	Millions of yen							
	2014							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	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

	Thousands of U.S. dollars (Note 5)							
	2015							
	Reportable segments							
	Functional chemicals	Life science	Explosive & propulsion	Subtotal	Others	Total	Adjustments	Consolidated
Sales								
Sales to customers	$875,696	$211,390	$297,468	$1,384,554	$10,951	$1,395,505	$ –	$1,395,505
Inter-segment	8,305	21,104	120	29,529	63,465	92,994	(92,994)	–
Total	884,001	232,494	297,588	1,414,083	74,416	1,488,499	(92,994)	1,395,505
Segment income	$ 84,810	$ 40,141	$ 22,590	$ 147,541	$ 1,412	$ 148,953	$ (6,754)	$ 142,199
Assets	$652,245	$183,844	$450,498	$1,286,587	$26,655	$1,313,242	$324,987	$1,638,229
Depreciation	19,793	4,393	13,088	37,274	443	37,717	1,224	38,941
Capital expenditures	26,439	3,346	16,493	46,278	559	46,837	10,404	57,241

(4) Information related to reportable segments

1) The Group’s sales by geographical area for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Japan	¥122,761	¥122,901	$1,021,564
Asia	24,924	22,219	207,404
Others	20,013	15,843	166,537
Total	¥167,698	¥160,963	$1,395,505

2) The Group's property, plant and equipment by geographical area as of March 31, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Japan	¥51,440	¥51,028	$428,058
Others	6,534	6,486	54,373
Total	¥57,974	¥57,514	$482,431

(5) Impairment losses on fixed assets by reportable segments for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Functional chemicals	¥ 916	¥ 33	$7,623
Life science	–	190	–
Explosive & propulsion	99	–	827
Others	–	–	–
Total	¥1,015	¥223	$8,450

(6) Amortization and balance of goodwill by reportable segment as of and for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen				Thousands of U.S. dollars (Note 5)	
	2015		2014		2015	
	Amortization	Ending balance	Amortization	Ending balance	Amortization	Ending balance
Functional chemicals	¥47	¥30	¥85	¥73	$393	$246
Life science	–	–	–	–	–	–
Explosive & propulsion	0	0	0	0	0	0
Others	–	–	–	–	–	–
Total	¥47	¥30	¥85	¥73	$393	$246

Amortization and balance of negative goodwill recognized before April 1, 2011 as of and for the year ended March 31, 2014 is as follows:

	Millions of yen	
	2014	
	Amortization	Ending balance
Functional chemicals	¥–	¥–
Life science	–	–
Explosive & propulsion	0	–
Others	–	–
Total	¥0	¥–

25. 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, 2015 and 2014.

2015

Location	Major use	Asset	Millions of yen	Thousands of U.S. dollars (Note 5)
Taketoyo City, Aichi	Facilities	Buildings, machinery and others	¥1,015	$8,450

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 ¥1,015 million (US$8,450 thousand) of impairment loss on fixed assets was recognized in the consolidated statement of income for the year ended March 31, 2015.

The recoverable amounts of these groups of assets are measured at value in use. The discounted cash flow was not calculated since the estimated future cash flows are negative. The impairment loss on fixed assets consisted of ¥576 million (US$4,793 thousand) for buildings and structures, ¥410 million (US$3,410 thousand) for machinery, equipment and vehicles and ¥29 million (US$247 thousand) for others.

2014

Location	Major use	Asset	Millions of yen
Kawasaki City, Kanagawa	Facilities	Machinery and others	¥190
State of Georgia	Facilities	Machinery	33

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 of impairment loss on fixed assets was recognized in the consolidated statement 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 for buildings and structures, ¥211 million for machinery, equipment and vehicles and ¥5 million for others.

26. Inventories

Inventories at March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Merchandise and finished goods	¥20,789	¥18,812	$172,999
Work in process	3,998	3,773	33,267
Raw materials and supplies	10,339	9,277	86,034
Total	¥35,126	¥31,862	$292,300

27. Gain on sales of fixed assets

Gain on sales of fixed assets for the years ended March 31, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Machinery, equipment and vehicles	¥3	¥13	$22
Other	4	0	38
Total	¥7	¥13	$60

28. Loss on sales of fixed assets

Loss on sales of fixed assets for the years ended March 31, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Buildings and structures	¥137	¥ –	$1,143
Machinery, equipment and vehicles	0	–	1
Lands	153	36	1,273
Total	¥290	¥36	$2,417

29. Loss on retirement of fixed assets

Loss on retirement of fixed assets for the years ended March 31, 2015 and 2014 is as follows:

	Millions of yen		Thousands of U.S. dollars (Note 5)
	2015	2014	2015
Buildings and structures	¥37	¥24	$310
Machinery, equipment and vehicles	25	17	205
Other	4	12	38
Total	¥66	¥53	$553

30. Subsequent events

At meeting of the Board of Directors of the Company held on May 8, 2015, the Company approved a purchase of up to 3,000,000 shares of treasury during the period from May 11, 2015 to September 30, 2015 stock for an aggregate acquisition cost not exceeding ¥3,000 million ($24,965 thousand) for the purpose of maintaining the Company's strategic financial position.