

**Consolidated Financial Statements**

**NHK Spring Co., Ltd.  
and Consolidated Subsidiaries**

*For the years ended March 31, 2016 and 2015  
with Independent Auditor's Report*



Building a better  
working world

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## Independent Auditor's Report

The Board of Directors  
NHK Spring Co., Ltd.

We have audited the accompanying consolidated financial statements of NHK Spring Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, 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 NHK Spring Co., Ltd. and its consolidated subsidiaries as at March 31, 2016, 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 24, 2016  
Tokyo, Japan

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Balance Sheets

	At March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
<b>Assets</b>			
Current assets:			
Cash and bank deposits <i>(Notes 5 and 20)</i>	¥ 72,553	¥ 83,701	\$ 644,343
Notes and accounts receivable, trade <i>(Note 20)</i>	133,422	135,433	1,184,923
Allowance for doubtful notes and accounts	(133)	(28)	(1,185)
Inventories <i>(Note 6)</i>	43,287	43,650	384,431
Deferred tax assets <i>(Note 15)</i>	5,135	4,974	45,605
Other current assets	22,570	20,887	200,445
Total current assets	276,834	288,617	2,458,562
Investments and long-term receivables:			
Investment securities <i>(Notes 9 and 20)</i>	46,242	56,048	410,675
Investments in unconsolidated subsidiaries and affiliated companies <i>(Note 20)</i>	19,973	21,446	177,378
Long-term loans receivable <i>(Note 20)</i>	8,831	3,948	78,427
Deferred tax assets <i>(Note 15)</i>	5,438	4,763	48,300
Other investments	3,289	3,337	29,209
Allowance for doubtful receivables	(741)	(564)	(6,580)
Total investments and long-term receivables	83,032	88,978	737,409
Property, plant and equipment:			
Buildings and structures <i>(Note 12)</i>	134,343	134,067	1,193,102
Machinery and transport equipment	223,282	222,488	1,982,966
Jigs, tools and equipment	62,579	61,056	555,759
Land <i>(Note 12)</i>	31,483	31,752	279,604
Construction in progress	12,027	10,138	106,806
	463,714	459,501	4,118,237
Less – Accumulated depreciation	(318,571)	(313,018)	(2,829,229)
Net property, plant and equipment	145,143	146,483	1,289,008
Intangible and other assets			
	4,802	5,821	42,646
Total assets <i>(Note 22)</i>			
	¥509,811	¥529,899	\$ 4,527,625

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
<b>Liabilities and net assets</b>			
Current liabilities:			
Short-term borrowings <i>(Notes 11 and 20)</i>	¥ 1,546	¥ 1,441	\$ 13,729
Current portion of long-term debt <i>(Notes 11 and 20)</i>	27,600	25,622	245,115
Notes and accounts payable, trade <i>(Note 20)</i>	111,222	117,856	987,764
Accrued expenses	19,130	19,278	169,896
Accrued income taxes <i>(Note 20)</i>	3,311	5,862	29,405
Deferred tax liabilities <i>(Note 15)</i>	576	621	5,121
Allowance for directors bonuses	268	301	2,376
Other current liabilities <i>(Note 20)</i>	10,754	13,401	95,504
Total current liabilities	<u>174,407</u>	<u>184,382</u>	<u>1,548,910</u>
Long-term liabilities:			
Long-term debt <i>(Notes 11 and 20)</i>	16,917	25,439	150,244
Convertible bond-type bonds with subscription rights to shares <i>(Notes 11 and 20)</i>	11,268	12,017	100,071
Net defined benefit liability <i>(Note 10)</i>	24,217	15,233	215,069
Accrued retirement benefits for directors and corporate auditors	571	643	5,072
Accrued retirement benefits to corporate officers	644	679	5,720
Deferred tax liabilities <i>(Note 15)</i>	7,968	13,068	70,766
Other long-term liabilities <i>(Notes 13 and 20)</i>	3,981	3,545	35,347
Total long-term liabilities	<u>65,566</u>	<u>70,624</u>	<u>582,289</u>
Guarantees <i>(Note 17)</i>			
Net assets:			
Shareholders' equity			
Common stock:			
Authorized: 600,000,000 shares			
Issued: 244,066,144 shares at March 31, 2016;			
244,066,144 shares at March 31, 2015	17,010	17,010	151,062
Capital surplus	19,405	19,309	172,332
Retained earnings <i>(Notes 16 and 24)</i>	196,478	179,986	1,744,916
Treasury stock	(802)	(800)	(7,116)
Total shareholders' equity	<u>232,091</u>	<u>215,505</u>	<u>2,061,194</u>
Accumulated other comprehensive income:			
Unrealized holding gain on securities	21,513	27,247	191,060
Translation adjustments	9,442	19,063	83,859
Retirement benefit liability adjustments <i>(Note 10)</i>	(5,803)	839	(51,538)
Total accumulated other comprehensive income	<u>25,152</u>	<u>47,149</u>	<u>223,381</u>
Non-controlling interests	12,595	12,239	111,851
Total net assets	<u>269,838</u>	<u>274,893</u>	<u>2,396,426</u>
Total liabilities and net assets	<u>¥509,811</u>	<u>¥529,899</u>	<u>\$4,527,625</u>

*The accompanying notes are an integral part of the financial statements.*

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Income

	Years ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Net sales <i>(Note 22)</i>	¥640,517	¥601,434	\$5,688,425
Cost of sales <i>(Note 14)</i>	561,669	526,436	4,988,174
Gross profit	78,848	74,998	700,251
Selling, general and administrative expenses <i>(Note 14)</i>	43,806	42,295	389,047
Operating income <i>(Note 22)</i>	35,042	32,703	311,204
Other income (expenses):			
Interest income	1,079	1,008	9,580
Dividend income	1,271	981	11,284
Equity in earnings of unconsolidated subsidiaries and affiliated companies	21	235	188
Gain on sales of fixed assets	46	211	411
Interest expenses	(300)	(399)	(2,659)
Real estate rent	590	616	5236
Exchange gain (loss), net	(2,113)	4,329	(18,769)
Loss on sales of fixed assets	(111)	–	(984)
Loss on impairment of long-lived assets <i>(Note 7)</i>	(392)	(601)	(3,482)
Loss on valuation of investment securities <i>(Note 9)</i>	(658)	–	(5,841)
Loss on valuation of shares of subsidiaries and affiliated companies <i>(Note 9)</i>	(538)	–	(4,780)
Loss on valuation of investments in capital of subsidiaries and affiliated companies	(841)	–	(7,471)
Loss on plant closing <i>(Note 8)</i>	–	(1,437)	–
Other, net	476	(455)	4,234
	(1,470)	4,488	(13,053)
Profit before income taxes	33,572	37,191	298,151
Income taxes <i>(Note 15)</i> :			
Current	10,813	11,858	96,032
Deferred	(555)	(99)	(4,934)
	10,258	11,759	91,098
Profit	23,314	25,432	207,053
Profit attributable to non-controlling interests	1,722	1,559	15,291
Profit attributable to owners of parent	¥ 21,592	¥ 23,873	\$ 191,762
	<i>(Yen)</i>		<i>(U.S. dollars)</i>
Earnings per share <i>(Notes 1 (19) and 16)</i>			
– Basic	¥ 88.90	¥ 98.29	\$ 0.7895
– Diluted	85.66	96.39	0.7608
Cash dividends per share	22.00	20.00	0.1954

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

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Comprehensive Income

	<b>Years ended March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
Profit	¥ 23,314	¥ 25,432	\$ 207,053
Other comprehensive income <i>(Note 21)</i> :			
Unrealized holding gain (loss) on securities	(5,767)	10,530	(51,215)
Translation adjustments	(9,025)	14,648	(80,159)
Retirement benefit liability adjustments	(6,751)	3,557	(59,955)
Share of other comprehensive income (loss) of affiliated companies accounted for by the equity method	(1,201)	458	(10,666)
Total other comprehensive income (loss)	(22,744)	29,193	(201,995)
Comprehensive income	¥ 570	¥ 54,625	\$ 5,058
Comprehensive income attributable to:			
Owners of parent	¥ (404)	¥ 51,918	\$ (3,589)
Non-controlling interests	974	2,707	8,647

*The accompanying notes are an integral part of the financial statements.*

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Changes in Net Assets

	Shareholders' equity				Total shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock		
	<i>(Millions of yen)</i>					
Balances as of April 1, 2015	¥17,010	¥19,309	¥179,986	¥(800)	¥215,505	
Cumulative effects of changes in accounting policies			—		—	
Restated balances as of April 1, 2015	17,010	19,309	179,986	(800)	215,505	
Changes during the fiscal year:						
Dividends paid			(5,100)		(5,100)	
Profit attributable to owners of parent			21,592		21,592	
Increase resulting from change in scope of consolidation			—		—	
Purchase of treasury stock				(2)	(2)	
Disposal of treasury stock		0		0	0	
Change in treasury shares of parent arising from transactions with non-controlling shareholders		96			96	
Net changes of items other than shareholders' equity						
Total changes during the fiscal year	—	96	16,492	(2)	16,586	
Balances as of March 31, 2016	¥17,010	¥19,405	¥196,478	¥(802)	¥232,091	
	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
Balances as of April 1, 2015	¥27,247	¥19,063	¥839	¥47,149	¥12,239	¥274,893
Cumulative effects of changes in accounting policies						—
Restated balances as of April 1, 2015	27,247	19,063	839	47,149	12,239	274,893
Changes during the fiscal year:						
Dividends paid						(5,100)
Profit attributable to owners of parent						21,592
Increase resulting from change in scope of consolidation						—
Purchase of treasury stock						(2)
Disposal of treasury stock						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						96
Net changes of items other than shareholders' equity	(5,734)	(9,621)	(6,642)	(21,997)	356	(21,641)
Total changes during the fiscal year	(5,734)	(9,621)	(6,642)	(21,997)	356	(5,055)
Balances as of March 31, 2016	¥21,513	¥9,442	¥(5,803)	¥25,152	¥12,595	¥269,838

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				Total shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock		
	<i>(Millions of yen)</i>					
Balances as of April 1, 2014	¥17,010	¥19,309	¥163,920	¥(797)	¥199,442	
Cumulative effects of changes in accounting policies			(3,138)		(3,138)	
Restated balances as of April 1, 2014	17,010	19,309	160,782	(797)	196,304	
Changes during the fiscal year:						
Dividends paid			(4,858)		(4,858)	
Profit attributable to owners of parent			23,873		23,873	
Increase resulting from change in scope of consolidation			189		189	
Purchase of treasury stock				(3)	(3)	
Disposal of treasury stock		0		0	0	
Change in treasury shares of parent arising from transactions with non-controlling shareholders		–			–	
Net changes of items other than shareholders' equity						
Total changes during the fiscal year	–	0	19,204	(3)	19,201	
Balances as of March 31, 2015	¥17,010	¥19,309	¥179,986	¥(800)	¥215,505	
	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Millions of yen)</i>					
Balances as of April 1, 2014	¥16,740	¥4,783	¥(2,695)	¥18,828	¥11,770	¥230,040
Cumulative effects of changes in accounting policies						(3,138)
Restated balances as of April 1, 2014	16,740	4,783	(2,695)	18,828	11,770	226,902
Changes during the fiscal year:						
Dividends paid						(4,858)
Profit attributable to owners of parent						23,873
Increase resulting from change in scope of consolidation						189
Purchase of treasury stock						(3)
Disposal of treasury stock						0
Change in treasury shares of parent arising from transactions with non-controlling shareholders						–
Net changes of items other than shareholders' equity	10,507	14,280	3,534	28,321	469	28,790
Total changes during the fiscal year	10,507	14,280	3,534	28,321	469	47,991
Balances as of March 31, 2015	¥27,247	¥19,063	¥839	¥47,149	¥12,239	¥274,893



## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Changes in Net Assets (continued)

	Shareholders' equity				Total shareholders' equity	
	Common stock	Capital surplus	Retained earnings	Treasury stock		
	<i>(Thousands of U.S. dollars) (Note 4)</i>					
Balances as of April 1, 2015	\$151,062	\$171,480	\$1,598,454	\$(7,095)	\$1,913,901	
Cumulative effects of changes in accounting policies			-		-	
Restated balances as of April 1, 2015	151,062	171,480	1,598,454	(7,095)	1,913,901	
Changes during the fiscal year:						
Dividends paid			(45,300)		(45,300)	
Profit attributable to owners of parent			191,762		191,762	
Increase resulting from change in scope of consolidation			-		-	
Purchase of treasury stock				(22)	(22)	
Disposal of treasury stock		1		1	2	
Change in treasury shares of parent arising from transactions with non-controlling shareholders		851			851	
Net changes of items other than shareholders' equity						
Total changes during the fiscal year	-	852	146,462	(21)	147,293	
Balances as of March 31, 2016	\$151,062	\$172,332	\$1,744,916	\$(7,116)	\$2,061,194	
	Accumulated other comprehensive income					
	Unrealized holding gain on securities	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 4)</i>					
Balances as of April 1, 2015	\$241,981	\$169,305	\$7,446	\$418,732	\$108,692	\$2,441,325
Cumulative effects of changes in accounting policies						-
Restated balances as of April 1, 2015	241,981	169,305	7,446	418,732	108,692	2,441,325
Changes during the fiscal year:						
Dividends paid						(45,300)
Profit attributable to owners of parent						191,762
Increase resulting from change in scope of consolidation						-
Purchase of treasury stock						(22)
Disposal of treasury stock						2
Change in treasury shares of parent arising from transactions with non-controlling shareholders						851
Net changes of items other than shareholders' equity	(50,921)	(85,446)	(58,984)	(195,351)	3,159	(192,192)
Total changes during the fiscal year	(50,921)	(85,446)	(58,984)	(195,351)	3,159	(44,899)
Balances as of March 31, 2016	\$191,060	\$83,859	\$(51,538)	\$223,381	\$111,851	\$2,396,426

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

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

## Consolidated Statements of Cash Flows

	Years ended March 31,		
	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i> <i>(Note 4)</i>
<b>Cash flows from operating activities:</b>			
Profit before income taxes	¥ 33,572	¥ 37,191	\$ 298,151
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation and amortization	23,582	21,449	209,433
Increase (decrease) in net defined benefit liability	217	(484)	1,928
Exchange loss (gain)	381	(1,755)	3,384
Equity in earnings of unconsolidated subsidiaries and affiliated companies	(21)	(235)	(188)
Loss on disposal of property, plant and equipment	472	201	4,197
Loss on impairment of long-lived assets	392	601	3,481
Loss on write-down of investment securities	658	1,176	5,841
Changes in operating assets and liabilities:			
Increase in notes and accounts receivable, trade	(1,434)	(2,920)	(12,733)
Increase in inventories	(948)	(3,639)	(8,420)
Increase (decrease) in notes and accounts payable, trade	(4,300)	5,624	(38,189)
Other, net	(9,897)	(12,356)	(87,895)
Net cash provided by operating activities	42,674	44,853	378,990
<b>Cash flows from investing activities:</b>			
Proceeds from sales of property, plant and equipment	692	769	6,143
Purchase of property, plant and equipment	(26,340)	(18,965)	(233,923)
Purchase of intangible assets	(465)	(748)	(4,127)
Purchase of investment securities	(2,136)	(3,489)	(18,973)
Proceeds from sales of investment securities	548	0	4,872
Increase (decrease) in time deposits	(79)	127	(705)
Disbursements for loans receivable	(9,282)	(2,911)	(82,434)
Collection of loans receivable	1,933	681	17,164
Other, net	1	103	14
Net cash used in investing activities	(35,128)	(24,433)	(311,969)
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of long-term debt	10,000	2,000	88,810
Repayment of long-term debt	(8,546)	(10,541)	(75,900)
Decrease in short-term borrowings	157	1,099	1,395
Proceeds from commercial paper	52,000	38,000	461,812
Repayment of commercial paper	(50,000)	(40,000)	(444,050)
Redemption of bonds	(10,000)	-	(88,810)
Proceeds from issuance of convertible bond-type bonds with subscription rights to shares	-	10,945	-
Payment for purchase of treasury stock	(2)	(3)	(22)
Proceeds from sales of treasury stock	0	0	2
Cash dividends paid	(5,101)	(4,858)	(45,300)
Cash dividends paid to non-controlling shareholders	(523)	(1,081)	(4,648)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(1,284)	-	(11,404)
Other, net	(373)	(826)	(3,307)
Net cash used in financing activities	(13,672)	(5,265)	(121,422)
Effect of exchange rate changes on cash and cash equivalents	(5,075)	5,906	(45,074)
Net increase (decrease) in cash and cash equivalents	(11,201)	21,061	(99,475)
Cash and cash equivalents at beginning of year	83,439	61,993	741,024
Increase in cash and cash equivalents resulting from subsidiaries newly included in consolidation	-	385	-
Cash and cash equivalents at end of year <i>(Note 5)</i>	¥ 72,238	¥ 83,439	\$ 641,549
<b>Supplemental disclosures of cash flow information:</b>			
Cash paid during the year for:			
Interest	¥ (311)	¥ (439)	\$ (2,758)
Income taxes	(13,172)	(14,449)	(116,981)

*The accompanying notes are an integral part of the financial statements.*

## NHK Spring Co., Ltd. and Consolidated Subsidiaries

### Notes to the Consolidated Financial Statements

#### **1. Summary of Significant Accounting Policies**

##### **(1) Basis of presentation of consolidated financial statements**

The accompanying consolidated financial statements of NHK Spring Co., Ltd. (the “Company”) and consolidated subsidiaries (collectively, the “Group”) have been prepared by the Company in conformity with accounting principles and practices generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards. The accounts of the Company and its consolidated subsidiaries in Japan are maintained in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and in conformity with generally accepted accounting principles and practices prevailing in Japan.

Foreign consolidated subsidiaries of the Company maintain their accounts and records in conformity with the requirements of their respective countries of domicile.

Certain items presented in the consolidated financial statements filed with the Director of the Kanto Local Finance Bureau in Japan have been reclassified for the convenience of readers outside Japan.

##### **(2) Scope of consolidation and application of equity method**

The Company had 71 subsidiaries at March 31, 2016 (69 at March 31, 2015). The accompanying consolidated financial statements for the year ended March 31, 2016 include the accounts of the Company and its 35 significant subsidiaries (35 in 2015).

The accounts of the remaining 36 unconsolidated subsidiaries for the year ended March 31, 2016 (34 in 2015) were excluded from consolidation since the aggregate amounts of these subsidiaries’ combined assets, net sales, profit and retained earnings were immaterial in relation to those of the consolidated financial statements of the Group.

## **1. Summary of Significant Accounting Policies (continued)**

### **(2) Scope of consolidation and application of equity method (continued)**

The Company had 13 (13 in 2015) affiliated companies at March 31, 2016. For the year ended March 31, 2016, the equity method has been applied to the investments in 4 of the major unconsolidated subsidiaries (4 in 2015) and 5 of the major affiliated companies (5 in 2015). The investments in the remaining unconsolidated subsidiaries and affiliated companies were stated at cost or less because they did not have a material effect on the consolidated financial statements.

For the purposes of preparing the consolidated financial statements, all significant inter-company transactions, account balances and unrealized profits among the Group have been eliminated.

The difference between the cost of an investment in a consolidated subsidiary and the amount of the underlying equity in the net assets of the subsidiary is allocated to identifiable assets acquired and liabilities assumed based on their fair value at the date of acquisition.

Goodwill is amortized on a straight-line basis over a period within five years.

### **(3) Foreign currency translation**

All asset and liability accounts of foreign subsidiaries and affiliated companies are translated into Japanese yen at the exchange rates prevailing at the year end. The components of net assets excluding non-controlling interests of foreign subsidiaries and affiliated companies are translated at historical rates. All income and expense accounts are translated at rates prevailing at the time of the transactions. The resulting translation differences are debited or credited to translation adjustments, or non-controlling interests in the consolidated balance sheets. Monetary assets and liabilities denominated in foreign currencies are translated into Japanese yen at the exchange rates prevailing at the year end and the resulting gains and losses are included in profit or loss for the year.

### **(4) Cash and cash equivalents**

Cash and cash equivalents include cash on hand, demand deposits and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

### **(5) Inventories**

Inventories are mainly stated at the lower of cost, determined by average cost, or market.

## **1. Summary of Significant Accounting Policies (continued)**

### **(6) Investment securities**

Available-for-sale securities categorized as “other securities” under applicable Japanese accounting standards for which market values are readily available are stated at fair market value at the balance sheet date, with unrealized gains or losses reported as a separate component of net assets, net of applicable income taxes. Available-for-sale securities for which market values are not readily available are stated at weighted average cost.

The amortized cost (straight-line) method has been used for held-to-maturity securities.

### **(7) Derivative financial instruments and hedge accounting**

In accordance with applicable Japanese accounting standards, gains or losses arising from changes in the fair value of derivative financial instruments designated as “hedging instruments” are deferred as an asset or a liability until the gains or losses on the underlying hedged items or transactions are recognized.

In accordance with the exceptional treatment permitted under the Japanese accounting standard for foreign currency translation, the Company does not record certain forward foreign exchange contracts, foreign currency option contracts and certain foreign currency interest arrangements at market value but translates the underlying foreign currency denominated assets and liabilities hedged by derivative transactions into yen using the contractual rates under these arrangements, provided that such arrangements meet the hedging criteria specified under applicable Japanese accounting standards.

In addition, in accordance with the special treatment permitted under applicable Japanese accounting standards, the Company does not record certain interest-rate swap arrangements at market value but charges or credits net cash flows arising from the interest-rate swap arrangements, which satisfy the hedging criteria specified under the standard, to interest expenses arising from the hedged interest-bearing debt.

### **(8) Property, plant and equipment (excluding leased assets)**

Depreciation is principally computed by the declining-balance method at rates based on the estimated useful lives of the respective assets as prescribed by the Income Tax Act of Japan.

Buildings and structures at the Company’s headquarters are depreciated by the straight-line method.

**1. Summary of Significant Accounting Policies (continued)**

**(8) Property, plant and equipment (excluding leased assets) (continued)**

The Company and its domestic consolidated subsidiaries compute depreciation for buildings (excluding leasehold improvements and auxiliary facilities attached to buildings) acquired on or after April 1, 1998 by the straight-line method.

The cost of property, plant and equipment retired or otherwise disposed of and accumulated depreciation in respect thereof are eliminated from the related accounts, and the resulting gains or losses are reflected in income as incurred.

Normal repairs and maintenance, including minor renewals and improvements, are charged to expenses as incurred.

**(9) Intangible assets (excluding leased assets)**

Intangible assets are amortized on a straight-line basis.

Expenditure related to computer software development for internal use is capitalized as an intangible asset and amortized on a straight-line basis over the estimated useful life (five years) of the software.

**(10) Leases**

Leased assets under finance lease contracts that transfer ownership to the lessee are depreciated by the same depreciation methods as applied to equivalent assets owned by the Group using the economic useful lives of the leased assets.

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated with the residual value of zero by the straight-line method using the terms of the contracts as the useful lives.

Those finance lease transactions, other than those deemed to transfer ownership, whose lease commencement date was on or before March 31, 2008 are accounted for by the method applicable to ordinary operating leases.

**(11) Allowance for doubtful accounts**

The Group provides an allowance for doubtful accounts at an amount calculated using a bad debt loss ratio primarily based on historical experience, plus the estimated uncollectible amount of individual receivables.

**(12) Allowance for directors bonuses**

Bonuses to directors are recorded on an accrual basis with a related charge to income.

## **1. Summary of Significant Accounting Policies (continued)**

### **(13) Retirement benefits for employees**

The retirement benefit obligations for employees are attributed to each period by the benefit formula method over the estimated years of service of the eligible employees.

Prior service costs are amortized as incurred by the straight-line method over a certain period (15 to 16 years), which is within the average remaining years of service of the eligible employees.

Actuarial gains and losses are amortized in the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (10 to 16 years), which is within the average remaining years of service of the eligible employees.

Certain consolidated subsidiaries apply the simplified method where the amount required for voluntary early retirement at the fiscal year end is treated as retirement benefit obligations for calculating net defined benefit liability and retirement benefit expenses.

### **(14) Accrued retirement benefits for directors and corporate auditors**

As is customary practice in Japan, the Company and its domestic consolidated subsidiaries pay lump-sum retirement benefits to retiring directors or corporate auditors, the amounts of which are determined by internal rules. Although the payment of such retirement benefits is subject to approval by shareholders at the time of retirement/resignation, the Company and its domestic consolidated subsidiaries recognize 100% of the liabilities they would be required to pay upon retirement of all directors and corporate auditors at the year-end date.

### **(15) Accrued retirement benefits for corporate officers**

The Company and its domestic consolidated subsidiaries recognize 100% of the liabilities they would be required to pay upon retirement of all corporate officers at the fiscal year end.

### **(16) Income taxes**

The asset and liability method is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities.

### **(17) Consumption taxes**

In Japan, consumption taxes are imposed at a flat rate of 8% (raised from 5% in April 2014) on all domestic consumption of goods and services (with certain exceptions). Consumption taxes imposed on the Group's domestic sales to customers are withheld by the Group at the time of sale and are paid to the national government subsequently. Consumption taxes withheld upon sale and consumption taxes paid by the Group on purchases of goods and services are not included in the related amounts in the accompanying consolidated statements of income.

## **1. Summary of Significant Accounting Policies (continued)**

### **(18) Reclassifications**

Certain reclassifications have been made to the prior year's consolidated financial statements in order to make them consistent with the current year's presentation.

### **(19) Earnings per share**

Basic earnings per share is computed based on the weighted average number of shares of common stock outstanding during each year. Diluted earnings per share reflects the potential dilution that could occur if securities were exercised or converted into common stock, assuming the full exercise of the outstanding subscription rights to shares.

## **2. Accounting Changes**

Adoption of Accounting Standard for Business Combinations, etc.

The Company has adopted the "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21, issued on September 13, 2013 (hereinafter, "Statement No. 21")), the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013 (hereinafter, "Statement No. 22")) and the "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013 (hereinafter, "Statement No. 7")) (together, the "Business Combination Accounting Standards") from the year ended March 31, 2016. Under these revised accounting standards, the accounting treatment for any changes in the Company's ownership interest in a subsidiary when the Company retains control over the subsidiary is recognized in capital surplus and acquisition-related costs are recorded as expenses in the year in which the costs are incurred. The Company also changed its accounting treatment for the reallocation of acquisition costs due to completion of provisional accounting procedures to reflect such reallocation in the consolidated financial statements for the year in which the business combination took place. In addition, the presentation of net income was changed and the reference to "minority interests" was changed to "non-controlling interests." Certain amounts in the prior year's comparative information were reclassified to conform to such changes in the current year's presentation.

With regard to the application of the Business Combination Accounting Standards, the Company follows the provisional treatments in Section 58-2 (4) of Statement No. 21, Section 44-5 (4) of Statement No. 22 and Section 57-4 (4) of Statement No. 7 and prospectively applied these standards from the beginning of the year ended March 31, 2016.

The effects on operating income and profit before income taxes for the year ended March 31, 2016 and capital surplus as of March 31, 2016 were immaterial.

In the consolidated statement of cash flows, cash flows from the acquisition or disposal of shares of subsidiaries without changes in the scope of consolidation are included in "Cash flows from financing activities" and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or expenses incurred for the acquisition or disposal of shares of subsidiaries without changes in the scope of consolidation are included in "Cash flows from operating activities."



## **2. Accounting Changes (continued)**

Capital surplus as of March 31, 2016 in the consolidated statements of changes in net assets increased by ¥96 million (\$851 thousand).

In addition, the effects on net assets per share as of March 31, 2016 and basic and diluted earnings per share for the year ended March 31, 2016 were immaterial.

## **3. Changes in Presentation**

### Consolidated Statements of Income

“Real estate rent,” which was included in “Other, net” under “Other income (expenses)” in the previous year, has been separately presented from the current fiscal year since the amount became significant. As a result, “real estate rent” of ¥616 million for the year ended March 31, 2015 was reclassified from “Other, net” and separately presented in the consolidated statements of income for the year ended March 31, 2016.

“Provision of allowance for doubtful accounts” and “Loss on disposals of fixed assets,” which were presented separately within “Other income (expenses)” for the year ended March 31, 2015, are included in “Other, net” from the year ended March 31, 2016 since the amounts became insignificant. In order to reflect the change in the presentation, “Provision of allowance for doubtful accounts” of ¥(484) million and “Loss on disposals of fixed assets” of ¥(395) million, which were separately presented for the year ended March 31, 2015 have been reclassified to “Other, net” in the consolidated financial statements for the year ended March 31, 2016.

## **4. United States Dollar Amounts**

The accompanying consolidated financial statements are prepared in Japanese yen. The U.S. dollar amounts included in the consolidated financial statements and the notes thereto represent the arithmetical results of translating Japanese yen to U.S. dollars on the basis of ¥112.6 = U.S.\$1, the approximate rate of exchange prevailing at March 31, 2016. The inclusion of such U.S. 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 U.S. dollars at that or any other rate.

## 5. Cash and Cash Equivalents

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

A reconciliation of cash and bank deposits in the consolidated balance sheets to cash and cash equivalents in the consolidated statements of cash flows at March 31, 2016 and 2015 are as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Cash and bank deposits	¥ 72,553	¥ 83,701	\$ 644,343
Bank deposits with maturity of over three months included in cash and bank deposits	(315)	(262)	(2,794)
Cash and cash equivalents	<u>¥ 72,238</u>	<u>¥ 83,439</u>	<u>\$ 641,549</u>

## 6. Inventories

Inventories at March 31, 2016 and 2015 are as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Merchandise and finished products	¥ 16,788	¥ 16,547	\$ 149,093
Work in process	7,554	9,423	67,089
Raw materials and supplies	14,336	13,441	127,321
Other	4,609	4,239	40,928
Total	<u>¥ 43,287</u>	<u>¥ 43,650</u>	<u>\$ 384,431</u>

## 7. Loss on Impairment of Long-Lived Assets

Year ended March 31, 2016

The Group has recorded impairment losses for the following assets.

<b>2016</b>				
<b>Location</b>	<b>Applications</b>	<b>Type</b>	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Ota, Gunma Prefecture	Idle real estate	Land and Buildings	¥ 21	\$ 186
Yasu, Shiga Prefecture	Idle real estate	Land	69	610
Omaezaki, Shizuoka Prefecture	Idle real estate	Land	38	340
Kentucky, the United States	Idle production facilities	Machinery	264	2,346

[Background of recognition of impairment losses]

The book value of the above assets was written down to the recoverable value and the difference was recorded as an impairment loss since the land and buildings are idle and the market value of these assets has been declining. In addition, the machinery is not expected to be used in the future and has become idle.

[Method of calculating recoverable value]

The recoverable value was determined as the net realizable value based on reasonable estimates using the real estate appraisal value or the value in use.

Year ended March 31, 2015

The Group has recorded impairment losses for the following assets.

<b>2015</b>			
<b>Location</b>	<b>Applications</b>	<b>Type</b>	<i>(Millions of yen)</i>
Toyokawa, Aichi Prefecture	Idle real estate	Land	¥ 601

[Background of recognition of impairment losses]

As a decision was made to sell the above asset, the difference between the book value and the expected sales price has been written off.

## 8. Loss on Plant Closing

The expected loss due to the closure of a plant owned by a foreign affiliated company (unconsolidated subsidiary) was recognized for the year ended March 31, 2015. No such loss was recognized for the year ended March 31, 2016.

## 9. Investment Securities

The aggregate cost, fair value and net unrealized gains or losses of investment securities at March 31, 2016 and 2015 for which market value was readily available are summarized as follows:

### *Other securities with market value*

	<b>At March 31, 2016</b>		
	<b>Cost</b>	<b>Fair value (carrying amount)</b>	<b>Unrealized gains (losses)</b>
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their cost:			
Equity securities	¥11,383	¥43,017	¥31,634
Securities whose fair value does not exceed their cost:			
Equity securities	1,860	1,541	(319)
<b>Total</b>	<b>¥13,243</b>	<b>¥44,558</b>	<b>¥31,315</b>
	<b>At March 31, 2015</b>		
	<b>Cost</b>	<b>Fair value (carrying amount)</b>	<b>Unrealized gains (losses)</b>
	<i>(Millions of yen)</i>		
Securities whose fair value exceeds their cost:			
Equity securities	¥13,923	¥54,389	¥40,466
Securities whose fair value does not exceed their cost:			
Equity securities	70	60	(10)
<b>Total</b>	<b>¥13,993</b>	<b>¥54,449</b>	<b>¥40,456</b>

**9. Investment Securities (continued)**

<b>At March 31, 2016</b>			
	<b>Cost</b>	<b>Fair value (carrying amount)</b>	<b>Unrealized gains (losses)</b>
<i>(Thousands of U.S. dollars)</i>			
Securities whose fair value exceeds their cost:			
Equity securities	\$101,098	\$382,036	\$280,938
Securities whose fair value does not exceed their cost:			
Equity securities	16,516	13,688	(2,828)
<b>Total</b>	<b>\$117,614</b>	<b>\$395,724</b>	<b>\$278,110</b>

(Note) Impairment is recognized in case the fair market value decreases by 50% or more compared with the acquisition cost, except if a recovery is expected. If the fair value decreases by 30% or more but less than 50%, the possibility of recovery is assessed. If the Company determines that there is no possibility of recovery, an impairment loss is recognized.

Equity securities of ¥428 million (\$3,802 thousand) included in other securities were sold and gain on sales of securities of ¥295 million (\$2,617 thousand) was recorded during the year ended March 31, 2016. There were no securities sold during the year ended March 31, 2015.

Impairment loss of ¥1,196 million (\$10,621 thousand) (shares of subsidiaries and affiliated companies of ¥538 million (\$4,780 thousand) and other securities of ¥658 million (\$5,841 thousand)) was recognized during the year ended March 31, 2016. There was no impairment loss recognized during the year ended March 31, 2015.

***Held-to-maturity securities with market value***

<b>At March 31, 2016</b>			
	<b>Cost</b>	<b>Fair value</b>	<b>Net unrealized gains</b>
<i>(Millions of yen)</i>			
Corporate debt securities	¥500	¥505	¥ 5
Other	-	-	-
	<b>¥500</b>	<b>¥505</b>	<b>¥ 5</b>
<b>At March 31, 2015</b>			
	<b>Cost</b>	<b>Fair value</b>	<b>Net unrealized gains</b>
<i>(Millions of yen)</i>			
Corporate debt securities	¥500	¥508	¥ 8
Other	-	-	-
	<b>¥500</b>	<b>¥508</b>	<b>¥ 8</b>

**9. Investment Securities (continued)**

	<b>At March 31, 2016</b>		
	<b>Cost</b>	<b>Fair value</b>	<b>Net unrealized gains</b>
	<i>(Thousands of U.S. dollars)</i>		
Corporate debt securities	\$4,440	\$4,481	\$ 41
Other	—	—	—
	<u>\$4,440</u>	<u>\$4,481</u>	<u>\$ 41</u>

The aggregate carrying amount of the securities for which market value was not readily available at March 31, 2016 and 2015 is summarized as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Equity securities of non-listed companies	¥1,184	¥1,099	\$ 10,511
	<u>¥1,184</u>	<u>¥1,099</u>	<u>\$ 10,511</u>

**10. Retirement Benefits for Employees**

The Group has defined benefit plans and defined contribution plans such as corporate pension fund plans and lump-sum payment plans. The Group primarily introduced cash balance plans, in which a hypothetical individual account is established for each participant. In addition to monthly contribution credits, interest credits based on market interest rates are also accumulated in the hypothetical individual accounts.

Certain domestic consolidated subsidiaries apply the simplified method in computing net defined benefit liability and retirement benefit expenses.

In addition to the above, certain domestic consolidated subsidiaries participate in multi-employer pension plans. These plans are accounted for in the same manner as a defined contribution plan when reasonable estimates for pension assets of the participating companies cannot be obtained.

**10. Retirement Benefits for Employees (continued)****Defined Benefit Plans**

(1) The reconciliation between retirement benefit obligations at the beginning of the year and the end of the year (excluding plans applying the simplified method) is as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Retirement benefit obligations at beginning of year	¥56,065	¥48,059	\$497,911
Cumulative effects of changes in accounting policies	–	4,850	–
Restated balance of retirement benefit obligations at beginning of year	¥56,065	¥52,909	\$497,911
Service costs	2,766	2,470	24,565
Interest costs	590	680	5,244
Actuarial gains or losses	5,245	1,337	46,581
Retirement benefits paid	(2,087)	(2,240)	(18,538)
Prior service costs	120	111	1,069
Other	(834)	798	(7,408)
Retirement benefit obligations at end of year	<u>¥61,865</u>	<u>¥56,065</u>	<u>\$549,424</u>

(2) The reconciliation between plan assets at the beginning of the year and the end of the year (excluding plans applying simplified method) is as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Plan assets at beginning of year	¥44,499	¥36,219	\$395,194
Expected return on plan assets	1,017	847	9,031
Actuarial gains or losses	(4,928)	5,527	(43,766)
Contributions from employer	1,454	3,111	12,914
Retirement benefits paid	(1,112)	(1,209)	(9,876)
Other	(5)	4	(45)
Plan assets at end of year	<u>¥40,925</u>	<u>¥44,499</u>	<u>\$363,452</u>

(3) The reconciliation between defined benefit liability of plans applying the simplified method at the beginning of the year and the end of the year is as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Defined benefit liability at beginning of year	¥ 3,667	¥ 3,605	\$ 32,568
Retirement benefit expenses	293	354	2,600
Retirement benefits paid	(281)	(292)	(2,496)
Other	(402)	–	(3,575)
Defined benefit liability at end of year	<u>¥ 3,277</u>	<u>¥ 3,667</u>	<u>\$ 29,097</u>

**10. Retirement Benefits for Employees (continued)**

(4) The reconciliation between retirement benefit obligations and plan assets at the end of the year and defined benefit liability and defined benefit asset on the consolidated balance sheet is as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Funded retirement benefit obligations	¥51,567	¥48,266	\$ 457,961
Plan assets	(40,925)	(44,499)	(363,452)
	10,642	3,767	94,509
Unfunded retirement benefit obligations	13,575	11,466	120,560
Net defined benefit liability (asset) recorded on the consolidated balance sheet	<u>¥24,217</u>	<u>¥15,233</u>	<u>\$ 215,069</u>
Net defined benefit liability	<u>¥24,217</u>	<u>¥15,233</u>	<u>\$ 215,069</u>
Net defined benefit liability (asset) recorded on the consolidated balance sheet	<u>¥24,217</u>	<u>¥15,233</u>	<u>\$ 215,069</u>

(Note) The amounts in above table include plans applying the simplified method.

(5) The breakdown of retirement benefit expenses for the years ended March 31, 2016 and 2015 is as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Service costs	¥ 2,766	¥ 2,470	\$ 24,565
Interest costs	590	680	5,244
Expected return on plan assets	(1,017)	(847)	(9,031)
Amortization of actuarial gains or losses	762	1,025	6,761
Amortization of prior service costs	109	81	968
Retirement benefit expenses calculated using the simplified method	363	469	3,222
Retirement benefit expenses on defined benefit plans	<u>¥ 3,573</u>	<u>¥ 3,878</u>	<u>\$ 31,729</u>

(6) The components of retirement benefit liability adjustments for the years ended March 31, 2016 and 2015 in other comprehensive income (before income tax effect) are as follows:

	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Prior service costs	¥ 19	¥ 18	\$ 163
Actuarial gains or losses	9,418	(5,161)	83,643
Total	<u>¥ 9,437</u>	<u>¥(5,143)</u>	<u>\$ 83,806</u>



**10. Retirement Benefits for Employees (continued)**

(7) The components of retirement benefit liability adjustments as of March 31, 2016 and 2015 in accumulated other comprehensive income (before income tax effect) are as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized prior service costs	¥ (52)	¥ (71)	\$ (466)
Unrecognized actuarial gains or losses	8,504	(914)	75,527
Total	<u>¥ 8,452</u>	<u>¥ (985)</u>	<u>\$ 75,061</u>

(8) Plan assets

(i) Breakdown of plan assets

The percentages of various assets to total plan assets by major category as of March 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Equity securities	50%	62%
Debt securities	25	21
General accounts	16	12
Other	9	5
Total	<u>100%</u>	<u>100%</u>

(Note) 37% and 46% of the total plan assets are held by retirement benefit trusts, which are established for corporate pension plans, as of March 31, 2016 and 2015, respectively.

(ii) Determination of long-term expected rate of return

The long-term expected rate of return on plan assets is determined based on the current and the expected allocation of plan assets and the current and the long-term expected rates of return from various assets constituting the plan assets.

(9) Actuarial assumptions

The major actuarial assumptions for the years ended March 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Discount rates		
Domestic plans	0.0 – 0.3%	0.4 – 1.0%
Foreign plans	3.5 – 8.0%	3.8 – 8.0%
Long-term expected rates of return on plan assets		
Domestic plans	2.2 – 3.0%	1.4 – 3.0%
Foreign plans	–	–

(Note) The benefit formula method is primarily applied (this does not reflect estimated future increases in points due to salary increases).

## **10. Retirement Benefits for Employees (continued)**

### **Defined Contribution Plans**

The required contributions to defined contribution plans of the Group, including multi-employer pension plans which are accounted for in the same manner as a defined contribution plan, were ¥940 million (\$8,352 thousand) and ¥1,099 million for the years ended March 31, 2016 and 2015, respectively.

## 11. Short-Term Borrowings and Long-Term Debt

The components of short-term borrowings, long-term debt, other interest-bearing debt and lease obligations due within one year as of March 31, 2016 and 2015 are as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Short-term borrowings:			
Loans from banks and other financial institutions with weighted average interest rates of 1.335% and 1.127% at March 31, 2016 and 2015, respectively	¥ 1,546	¥ 1,441	\$ 13,729
Current portion of long-term loans from banks and other financial institutions	7,600	7,622	67,495
0.544% unsecured bonds due 2016	10,000	–	88,810
0.789% unsecured bonds due 2015	–	10,000	–
Other interest-bearing debt (commercial paper)	10,000	8,000	88,810
Current portion of lease obligations	305	367	2,710
	<u>¥29,451</u>	<u>¥27,430</u>	<u>\$261,554</u>

### *Long-term debt and lease obligations*

Long-term debt and lease obligations at March 31, 2016 and 2015 are comprised of the following:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Bonds:			
0.544% unsecured bonds due 2016	¥ –	¥ 10,000	\$ –
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares due 2019	11,268	12,017	100,071
Loans from banks and other financial institutions with weighted average interest rates of 0.443% and 0.714% at March 31, 2016 and 2015, respectively	24,517	23,061	217,739
Lease obligations (excluding current portion)	482	750	4,278
	<u>36,267</u>	<u>45,828</u>	<u>322,088</u>
Less: current portion	(7,600)	(7,622)	(67,495)
	<u>¥28,667</u>	<u>¥38,206</u>	<u>\$254,593</u>

## 11. Short-Term Borrowings and Long-Term Debt (continued)

Details of the convertible bond-type bonds with subscription rights to shares are as follows:

Description	U.S. dollar denominated convertible bond-type bonds with subscription rights to shares due 2019
Shares to be issued	Common stock
Issue price of subscription rights to shares	No consideration
Issue price of shares	\$10.90
Total issue amount	\$100,000 thousand
Total issue amount of shares as a result of exercise of subscription rights to shares	–
Percentage of vested subscription rights to shares	100%
Exercise period of subscription rights to shares	From October 6, 2014 to September 6, 2019
Matters related to substitute payments	Upon exercise of each subscription right to shares, the corresponding bond shall be redeemed as a capital contribution in kind at the price equal to the face value of the bond.

The aggregate annual maturities of long-term debt at March 31, 2016 are summarized as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2018	¥ 9,911	\$ 88,021
2019	3,515	31,217
2020	2,671	23,723
2021 and thereafter	820	7,283
	¥16,917	\$150,244

The year-by-year breakdown of lease obligations due as of March 31, 2016 is as follows:

Year ending March 31,	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
2018	¥190	\$1,685
2019	122	1,086
2020	82	726
2021 and thereafter	88	781
	¥482	\$4,278

## 12. Pledged Assets

Assets pledged as collateral primarily for short-term borrowings and long-term debt at March 31, 2016 and 2015 are summarized as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Buildings and structures	¥ 246	¥ 268	\$ 2,191
Land	982	982	8,719
	<u>¥ 1,228</u>	<u>¥ 1,250</u>	<u>\$ 10,910</u>

Long-term debt secured by buildings and structures and land totaled ¥53 million (\$471 thousand) and ¥265 million at March 31, 2016 and 2015, respectively.

## 13. Asset Retirement Obligations

### (1) Summary of relevant asset retirement obligations

Asset retirement obligations include obligations associated with the removal of asbestos used in certain property, plant and equipment required under the “Ordinance on Prevention of Health Impairment due to Asbestos of Japan” at the time of their retirement.

### (2) Calculation of the amount of relevant asset retirement obligations

Asset retirement obligations are calculated with the remaining useful lives of the relevant assets as the basis for the estimated period until expenditure and a discount rate of 2.1%.

### (3) The changes in asset retirement obligations at March 31, 2016 and 2015 are as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Balance at beginning of year	¥307	¥306	\$2,724
Accretion expense	0	1	4
Decrease due to settlement of asset retirement obligations	(2)	—	(20)
Balance at end of year	<u>¥305</u>	<u>¥307</u>	<u>\$2,708</u>

#### 14. Research and Development Expenses

Research and development expenses included in “Cost of sales” and “Selling, general and administrative expenses” amounted to ¥16,329 million (\$145,016 thousand) and ¥15,703 million for the years ended March 31, 2016 and 2015, respectively.

#### 15. Income Taxes

The statutory tax rates in Japan for the years ended March 31, 2016 and 2015 were 32.8% and 35.3%, respectively.

At March 31, 2016 and 2015, significant components of deferred tax assets and liabilities are summarized as follows:

	<b>At March 31,</b>		
	<b>2016</b>	<b>2015</b>	<b>2016</b>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
<b>Deferred tax assets:</b>			
Accrued employees' bonuses	¥ 2,907	¥ 3,044	\$ 25,816
Accrued enterprise taxes	261	435	2,314
Net defined benefit liability	8,262	5,688	73,373
Depreciation	1,628	1,859	14,457
Allowance for doubtful receivables	305	293	2,708
Accrued retirement benefits for directors and corporate auditors	370	436	3,291
Unrealized inter-company profit	311	248	2,766
Accumulated impairment losses	1,020	698	9,058
Tax losses carried forward	4,795	4,454	42,584
Loss from securities revaluation	597	677	5,304
Other	3,967	2,203	35,230
Total gross deferred tax assets	24,423	20,035	216,901
Valuation allowance	(5,489)	(3,776)	(48,746)
Total deferred tax assets	¥ 18,934	¥ 16,259	\$ 168,155
<b>Deferred tax liabilities:</b>			
Reserved profit of subsidiaries	¥ (500)	¥ (606)	\$ (4,439)
Special tax purpose reserve	(2,857)	(3,093)	(25,376)
Unrealized holding gain on securities	(10,292)	(13,708)	(91,405)
Other	(3,256)	(2,804)	(28,917)
Total deferred tax liabilities	¥(16,905)	¥(20,211)	\$ (150,137)
Net deferred tax assets (liabilities)	¥ 2,029	¥ (3,952)	\$ 18,018

**15. Income Taxes (continued)**

At March 31, 2016 and 2015, reconciliations of the statutory tax rate and the effective tax rate were as follows:

	<u>2016</u>	<u>2015</u>
Statutory tax rate	32.8%	35.3%
Different tax rates applied to subsidiaries	(3.7)	(4.2)
Permanent differences	(4.2)	(6.4)
Foreign tax credit	(0.4)	(0.5)
Investment tax credit	(1.2)	(1.6)
Remeasurement of deferred tax assets resulting from the change in statutory tax rate	0.9	1.6
Dividend income from the consolidated subsidiaries	6.7	8.8
Special deduction for research and development expenses	(1.1)	(0.8)
Other	0.6	(0.6)
Effective income tax rate	<u>30.6%</u>	<u>31.6%</u>

The “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 15 of 2016) and the “Act on Partial Revision of the Local Tax Act, etc.” (Act No. 13 of 2016) were enacted in the Japanese National Diet session on March 29, 2016. Accordingly, the effective statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from 32.0% to 30.6% for the temporary differences expected to be reversed in the years beginning on April 1, 2016 and 2017, and to 30.4% for the temporary differences expected to be reversed in the year beginning on April 1, 2018 and thereafter.

As a result of this change, deferred tax liabilities, net of deferred tax assets, and retirement benefit liability adjustments decreased by ¥59 million (\$520 thousand) and ¥123 million (\$1,089 thousand), respectively, and income taxes – deferred and unrealized holding gain on securities increased by ¥319 million (\$2,832 thousand) and ¥500 million (\$4,441 thousand), respectively, as of and for the year ended March 31, 2016.

**16. Distributions of Retained Earnings**

Under the Companies Act of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period or by resolution of the Board of Directors if certain conditions are met. The accounts for that period do not, therefore, reflect such distributions.

## 17. Guarantees

As of March 31, 2016 and 2015, the Group had the following guarantees:

	<b>At March 31,</b>		
	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Borrowings from financial institutions by unconsolidated subsidiaries and employees	¥ 2,140	¥ 2,373	\$ 19,009

## 18. Leases

Finance lease transactions are depreciated by the straight-line method using the lease term as the useful life and a residual value of zero.

Non-cancellable operating lease commitments are as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Due within one year	¥209	¥206	\$1,855
Due over one year	554	608	4,919
Total	<u>¥763</u>	<u>¥814</u>	<u>\$6,774</u>

## 19. Derivative Financial Instruments

In the normal course of business, the Group utilizes derivative financial instruments, including forward foreign exchange contracts, foreign currency options and foreign currency swap contracts, to manage its exposure to adverse fluctuations in foreign exchange rates relating to receivables, payables and short/long-term debt denominated in foreign currencies. In addition, the Group uses interest-rate swap contracts to limit its exposure to losses in relation to short-term investments and debt with floating interest rates, resulting from adverse fluctuations in interest rates. The Group does not use derivatives for speculative or trading purposes.

[Derivatives not meeting the criteria for hedge accounting]

There were no outstanding derivative transactions at March 31, 2016 and 2015.



**19. Derivative Financial Instruments (continued)**

[Derivatives meeting the criteria for hedge accounting]

The contract amount (notional principal amount) and estimated fair value of the outstanding contracts at March 31, 2016 and 2015 are summarized as follows:

		<b>At March 31, 2016</b>		
		<b>Contract amount (notional principal amount)</b>		
<b>Hedged items</b>		<b>Total</b>	<b>Over one year</b>	<b>Fair value</b>
		<i>(Millions of yen)</i>		
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	¥11,981	¥7,240	(Note 2)
Interest rate and currency swap contracts:				
To receive Japanese yen floating/ to pay U.S. dollar fixed	Long-term debt	4,546	4,546	(Note 2)
		<b>At March 31, 2015</b>		
		<b>Contract amount (notional principal amount)</b>		
<b>Hedged items</b>		<b>Total</b>	<b>Over one year</b>	<b>Fair value</b>
		<i>(Millions of yen)</i>		
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	¥8,131	¥4,751	(Note 2)
Interest rate and currency swap contracts:				
To receive Japanese yen floating/ to pay U.S. dollar fixed	Long-term debt	4,546	4,546	(Note 2)

**19. Derivative Financial Instruments (continued)**

	<b>Hedged items</b>	<b>At March 31, 2016</b>		<b>Fair value</b>
		<b>Contract amount (notional principal amount)</b>		
		<b>Total</b>	<b>Over one year</b>	
<i>(Thousands of U.S. dollars)</i>				
Interest rate swap contracts:				
To receive floating/ to pay fixed	Long-term debt	\$106,403	\$64,298	(Note 2)
Interest rate and currency swap contracts:				
To receive Japanese yen floating/ to pay U.S. dollar fixed	Long-term debt	40,375	40,375	(Note 2)

(Note 1) Fair value is measured based on quotes and others provided by financial institutions and others.

(Note 2) The fair values of interest rate swap contracts and interest rate and currency swap contracts meeting certain conditions for hedge accounting are included in that of the corresponding long-term debt because interest rate swap contracts and interest rate and currency swap contracts are treated together with the long-term debt as the hedged item.

## 20. Financial Instruments

### 1. Outline of financial instruments

#### (1) Policy for financial instruments

The Group invests only in short-term bank deposits and obtains financing through borrowings from banks or the issuance of bonds. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described herein.

#### (2) Type of financial instruments and related risk

Receivables such as notes and accounts receivable, trade are exposed to customer credit risk. Receivables denominated in foreign currencies arising from global business transactions are exposed to foreign currency exchange fluctuation risk; however, the risk associated with principal export transactions is constantly maintained within the limits established based on historical experience and the exposures are hedged by forward exchange rate contracts. Equity investments are exposed to the risk of market price fluctuations; nevertheless, they mainly consist of equity of companies with which the Company has business relationships, and their fair values are evaluated quarterly and reported to the Board of Managing Directors. Payment terms of payables, such as notes and accounts payable, trade are mostly less than one year. Although payables in foreign currencies are exposed to foreign currency exchange fluctuation risk, those risks are constantly netted against the balance of receivables denominated in the same foreign currency. Borrowings and commercial papers are used to raise necessary funds for working capital and capital expenditures. Although some borrowings with floating interest rates are exposed to interest rate fluctuation risk, such exposure is hedged by using derivatives (interest rate swaps).

#### (3) Risk management for financial instruments

##### 1) Monitoring of credit risk (the risk that customer or counterparties may default)

The Group monitors payment terms and the balances of receivables by individual customer in accordance with internal rules on management of accounts receivable and has a system to periodically assess the credit risk of the customers.

##### 2) Monitoring of market risks (the risk arising from fluctuations in foreign exchange rates and interest others)

The Group mitigates foreign currency exchange fluctuation risks in connection with receivables and short/long-term debt denominated in foreign currencies by using exchange rate contracts for a certain proportion of such receivables and debt. In addition, the Company uses interest rate swap contracts for long-term debt to fix interest payments on borrowings with floating interest rates; therefore, there is no interest rate fluctuation risk exposure for interest payments on long-term debt.

**20. Financial Instruments (continued)**

(3) Risk management for financial instruments (continued)

- 3) Monitoring of liquidity risk (the risk that the group may not be able to meet its obligations on scheduled due dates)

The Group manages liquidity risk by timely projection and revision of cash flow plans by the department in charge of finance based on reports of each relevant department.

(4) Supplementary explanation of estimated fair value of financial instruments

Not applicable

2. Fair values of financial instruments

Carrying amount, fair value and unrealized gain/loss of the financial instruments as of March 31, 2016 and 2015 are as follows:

**20. Financial Instruments (continued)**

<b>At March 31, 2016</b>			
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Unrealized gain (loss)</b>
<i>(Millions of yen)</i>			
(1) Cash and bank deposits	¥ 72,553	¥ 72,553	¥ –
(2) Notes and accounts receivable, trade	133,422	133,422	–
(3) Investment securities			
1) Held-to-maturity securities	500	505	5
2) Other securities	44,558	44,558	–
(4) Long-term loans receivable	8,831	8,984	153
Total assets	<u>¥ 259,864</u>	<u>¥ 260,022</u>	<u>¥ 158</u>
(1) Notes and accounts payable, trade	¥ 111,222	¥ 111,222	¥ –
(2) Short-term borrowings	1,546	1,546	–
(3) Current portion of long-term debt	7,600	7,600	–
(4) Accrued income taxes	3,311	3,311	–
(5) Notes payable-facilities	2,321	2,321	–
(6) Bonds	–	–	–
(7) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	11,268	11,802	534
(8) Long-term debt	16,917	16,895	(22)
(9) Long-term lease obligations	482	477	(5)
Total liabilities	<u>¥ 154,667</u>	<u>¥ 155,174</u>	<u>¥ 507</u>
Derivative financial instruments (*1)	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

  

<b>At March 31, 2015</b>			
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Unrealized gain (loss)</b>
<i>(Millions of yen)</i>			
(1) Cash and bank deposits	¥ 83,701	¥ 83,701	¥ –
(2) Notes and accounts receivable, trade	135,433	135,433	–
(3) Investment securities			
1) Held-to-maturity securities	500	508	8
2) Other securities	54,449	54,449	–
(4) Long-term loans receivable	3,948	4,225	277
Total assets	<u>¥ 278,031</u>	<u>¥ 278,316</u>	<u>¥ 285</u>
(1) Notes and accounts payable, trade	¥ 117,856	¥ 117,856	¥ –
(2) Short-term borrowings	1,441	1,441	–
(3) Current portion of long-term debt	7,622	7,622	–
(4) Accrued income taxes	5,862	5,862	–
(5) Notes payable-facilities	2,361	2,361	–
(6) Bonds	10,000	10,048	48
(7) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	12,017	13,106	1,089
(8) Long-term debt	15,439	15,336	(103)
(9) Long-term lease obligations	750	741	(9)
Total liabilities	<u>¥ 173,348</u>	<u>¥ 174,373</u>	<u>¥ 1,025</u>
Derivative financial instruments (*1)	<u>¥ –</u>	<u>¥ –</u>	<u>¥ –</u>

**20. Financial Instruments (continued)**

## 2. Fair values of financial instruments (continued)

	<b>At March 31, 2016</b>		
	<b>Carrying amount</b>	<b>Fair value</b>	<b>Unrealized gain (loss)</b>
	<i>(Thousands of U.S. dollars)</i>		
(1) Cash and bank deposits	\$ 644,343	\$ 644,343	\$ –
(2) Notes and accounts receivable, trade	1,184,923	1,184,923	–
(3) Investment securities			
1) Held-to-maturity securities	4,440	4,481	41
2) Other securities	395,724	395,724	–
(4) Long-term loans receivable	78,427	79,783	1,356
Total assets	<u>\$2,307,857</u>	<u>\$2,309,254</u>	<u>\$ 1,397</u>
(1) Notes and accounts payable, trade	\$ 987,764	\$ 987,764	–
(2) Short-term borrowings	13,729	13,729	–
(3) Current portion of long-term debt	67,495	67,495	–
(4) Accrued income taxes	29,405	29,405	–
(5) Notes payable-facilities	20,612	20,612	–
(6) Bonds	–	–	–
(7) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	100,071	104,815	4,744
(8) Long-term debt	150,244	150,051	(193)
(9) Long-term lease obligations	4,278	4,230	(48)
Total liabilities	<u>\$1,373,598</u>	<u>\$1,378,101</u>	<u>\$ 4,503</u>
Derivative financial instruments (*1)	<u>\$ –</u>	<u>\$ –</u>	<u>\$ –</u>

(\*1) Receivables and payables under derivative transactions are presented on a net basis. Payables are presented in parentheses.

(Note 1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

## Assets:

## (1) Cash and bank deposits and (2) Notes and accounts receivable, trade

These assets are recorded using book values because fair values approximate book values due to their short-term maturities.

## (3) Investment securities

The fair values of equity securities are determined using the quoted price at the stock exchange, and those of debt securities are determined using the quoted price obtained from the financial institutions.

Please see Note 9 “Investment Securities” for information on securities by holding purpose.

## (4) Long-term loans receivable

The fair values of long-term loans receivable are the present value, calculated based on the estimated amount of principal and interest receivable, reflecting the collectability and discounted using the interest rate of Japanese government bonds with the corresponding maturities.

## 20. Financial Instruments (continued)

### 2. Fair values of financial instruments (continued)

#### Liabilities

- (1) Notes and accounts payable, trade, (2) Short-term borrowings, (3) Current portion of long-term debt, (4) Accrued income taxes, and (5) Note payable-facilities

These payables are recorded using book values because fair values approximate book values due to their short-term maturities.

- (6) Bonds

The fair values of bonds are determined based on the reference trading price statistics issued by the Japan Securities Dealers Association.

- (7) U.S. dollar denominated convertible bond-type bonds with subscription rights to shares

The fair value of U.S. dollar denominated convertible bond-type bonds with subscription rights to shares is determined using the quoted price obtained from the financial institutions.

- (8) Long-term debt and (9) Lease obligations

The fair values of long-term debt and lease obligations are determined by discounting the aggregated values of the principal and interest using an assumed interest rate applied in case the same type of loans or leases should be newly made. Long-term debt with floating interest rates is hedged by interest rate swap contracts meeting certain conditions for hedge accounting, and the fair values are determined by discounting the aggregated values of the principal and interest accounted for together with the related interest rate swap contracts using the reasonably estimated interest rate to be applied when the same types of loans are newly made.

#### Derivative financial instruments:

Please see the Note 19 “Derivative Financial Instruments.”

- (Note 2) Financial instruments for which it is extremely difficult to determine the fair value

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Equity investments of unlisted subsidiaries and affiliated companies	¥14,789	¥15,774	\$131,343
Other unlisted equity securities	1,184	1,099	10,511

The items above are not included in “(3) Investment securities” because there is no market price and it is very difficult to determine their fair values.

## 20. Financial Instruments (continued)

### 2. Fair values of financial instruments (continued)

(Note 3) Redemption schedule of monetary assets and investment securities with contractual maturities as of March 31, 2016

	<i>(Millions of yen)</i>			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and bank deposits	¥ 72,553	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	133,422	–	–	–
Investment securities:				
Held-to-maturity securities (bonds)	–	–	500	–
Long-term loans receivable	–	8,728	89	14
Total	<u>¥205,975</u>	<u>¥ 8,728</u>	<u>¥ 589</u>	<u>¥ 14</u>

	<i>(Thousands of U.S. dollars)</i>			
	Within one year	One to five years	Five to ten years	Over ten years
Cash and bank deposits	\$ 644,343	\$ –	\$ –	\$ –
Notes and accounts receivable, trade	1,184,923	–	–	–
Investment securities:				
Held-to-maturity securities (bonds)	–	–	4,440	–
Long-term loans receivable	–	77,512	790	125
Total	<u>\$1,829,266</u>	<u>\$ 77,512</u>	<u>\$ 5,230</u>	<u>\$ 125</u>

(Note 4) Redemption schedule of short-term borrowings, bonds, long-term debt and long-term lease obligations as of March 31, 2016

	<i>(Millions of yen)</i>					
	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term borrowings	¥ 1,546	¥ –	¥ –	¥ –	¥ –	¥ –
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	–	–	–	11,268	–	–
Long-term debt	7,600	9,911	3,515	2,671	820	–
Long-term lease obligations	–	190	122	82	31	57
Total	<u>¥ 9,146</u>	<u>¥ 10,101</u>	<u>¥ 3,637</u>	<u>¥14,021</u>	<u>¥ 851</u>	<u>¥ 57</u>



**20. Financial Instruments (continued)**

*(Thousands of U.S. dollars)*

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Over five years
Short-term borrowings	\$ 13,729	\$ –	\$ –	\$ –	\$ –	\$ –
U.S. dollar denominated convertible bond-type bonds with subscription rights to shares	–	–	–	100,071	–	–
Long-term debt	67,495	88,021	31,217	23,723	7,283	–
Long-term lease obligations	–	1,685	1,086	726	272	509
Total	<u>\$ 81,224</u>	<u>\$ 89,706</u>	<u>\$ 32,303</u>	<u>\$124,520</u>	<u>\$ 7,555</u>	<u>\$ 509</u>

**21. Other Comprehensive Income**

The components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>	<u>2016</u>
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrealized holding gain (loss) on securities:			
Amount arising during year	¥ (9,545)	¥ 14,236	\$ (84,773)
Reclassification adjustments	363	-	3,224
Amount before the adjustment of tax effect	(9,182)	14,236	(81,549)
Tax effect	3,415	(3,706)	30,334
Unrealized holding gain (loss) on securities	<u>(5,767)</u>	<u>10,530</u>	<u>(51,215)</u>
Translation adjustments:			
Amount arising during year	<u>(9,025)</u>	<u>14,648</u>	<u>(80,159)</u>
Retirement benefit liability adjustments:			
Amount arising during year	(10,170)	4,225	(90,314)
Reclassification adjustments	733	918	6,508
Amount before the adjustment of tax effect	(9,437)	5,143	(83,806)
Tax effect	2,686	(1,586)	23,851
Retirement benefit liability adjustments	<u>(6,751)</u>	<u>3,557</u>	<u>(59,955)</u>
Share of other comprehensive income (loss) of affiliated companies accounted for by the equity method:			
Amount arising during year	<u>(1,201)</u>	<u>458</u>	<u>(10,666)</u>
Total other comprehensive income (loss)	<u>¥(22,744)</u>	<u>¥ 29,193</u>	<u>\$(201,995)</u>

## 22. Segment Information

### (1) Outline of reportable segments

The reportable segments of the Group are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about allocation of management resources and to assess performance.

The Company operates principally in four industrial segments: automotive suspension springs; automotive seating; precision springs and components; and industrial machinery and equipment, and others based on manufacturing divisions of the Company. The main products of each segment are as follows:

Automotive suspension springs:	Leaf springs, coil springs, stabilizer bars, torsion bars, stabilizer links, gas springs, stabilinker and others
Automotive seating:	Seats, mechanical seating components, trim parts and others
Precision springs and components:	HDD suspensions and mechanical components, wire springs, flat springs, LCD/semiconductor testing probe units, fastener (screw), precision machine components and others
Industrial machinery and equipment, and others:	Brazed products, ceramic products, spring mechanisms, pipe support systems, automatic parking systems, polyurethane products, metal-based printed wiring boards, security products, lighting equipment, golf club shafts and others

### (2) Calculation method of net sales, income, assets and other items by reportable segment

The accounting treatments for reportable segments are consistent with those described in Note 1. Summary of Significant Accounting Policies. Segment income is based on operating income.

**22. Segment Information (continued)****(3) Net sales, income or loss, assets and other items by reportable segment**

	<b>Year ended March 31, 2016</b>						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
	<i>(Millions of yen)</i>						
Sales:							
Sales to external customers	¥ 124,512	¥ 296,055	¥ 142,944	¥ 77,006	¥ 640,517	¥ –	¥ 640,517
Inter-segment sales	1,894	71	1,659	8,703	12,327	(12,327)	–
Net sales	¥ 126,406	¥ 296,126	¥ 144,603	¥ 85,709	¥ 652,844	¥ (12,327)	¥ 640,517
Segment income	¥ 12,063	¥ 9,824	¥ 10,075	¥ 3,080	¥ 35,042	¥ –	¥ 35,042
Segment assets	¥ 98,870	¥ 122,507	¥ 117,180	¥ 75,527	¥ 414,084	¥ 95,727	¥ 509,811
Other items:							
Depreciation and amortization	¥ 5,315	¥ 4,919	¥ 8,807	¥ 2,189	¥ 21,230	¥ 2,352	¥ 23,582
Investments in affiliated companies accounted for by the equity-method	2,318	1,463	3,340	91	7,212	–	7,212
Increase in property, plant and equipment and intangible and other assets	9,987	5,131	8,813	2,504	26,435	958	27,393
	<b>Year ended March 31, 2015</b>						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
	<i>(Millions of yen)</i>						
Sales:							
Sales to external customers	¥ 121,769	¥ 266,271	¥ 137,035	¥ 76,359	¥ 601,434	¥ –	¥ 601,434
Inter-segment sales	1,919	72	1,669	7,782	11,442	(11,442)	–
Net sales	¥ 123,688	¥ 266,343	¥ 138,704	¥ 84,141	¥ 612,876	¥ (11,442)	¥ 601,434
Segment income	¥ 8,779	¥ 11,070	¥ 8,707	¥ 4,147	¥ 32,703	¥ –	¥ 32,703
Segment assets	¥ 93,791	¥ 128,422	¥ 120,245	¥ 79,140	¥ 421,598	¥ 108,301	¥ 529,899
Other items:							
Depreciation and amortization	¥ 4,621	¥ 4,041	¥ 8,916	¥ 1,952	¥ 19,530	¥ 1,919	¥ 21,449
Investments in affiliated companies accounted for by the equity-method	3,198	1,276	3,574	98	8,146	–	8,146
Increase in property, plant and equipment and intangible and other assets	6,656	4,380	6,567	1,530	19,133	1,538	20,671

**22. Segment Information (continued)**

## (3) Net sales, income or loss, assets and other items by reportable segment (continued)

	Year ended March 31, 2016						
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Adjustments	Consolidated total
	<i>(Thousands of U.S. dollars)</i>						
Sales:							
Sales to external customers	\$ 1,105,789	\$ 2,629,261	\$ 1,269,482	\$ 683,893	\$ 5,688,425	\$ –	\$ 5,688,425
Inter-segment sales	16,826	628	14,740	77,284	109,478	(109,478)	–
Net sales	\$ 1,122,615	\$ 2,629,889	\$ 1,284,222	\$ 761,177	\$ 5,797,903	\$ (109,478)	\$ 5,688,425
Segment income	\$ 107,129	\$ 87,249	\$ 89,470	\$ 27,356	\$ 311,204	\$ –	\$ 311,204
Segment assets	\$ 878,063	\$ 1,087,987	\$ 1,040,672	\$ 670,753	\$ 3,677,475	\$ 850,150	\$ 4,527,625
Other items:							
Depreciation and amortization	\$ 47,206	\$ 43,688	\$ 78,215	\$ 19,439	\$ 188,548	\$ 20,885	\$ 209,433
Investments in affiliated companies accounted for by the equity-method	20,586	12,996	29,664	807	64,053	–	64,053
Increase in property, plant and equipment and intangible and other assets	88,695	45,566	78,268	22,243	234,772	8,504	243,276

(Note 1) Adjustments for segment assets of ¥95,727 million (\$850,150 thousand) and ¥108,301 million at March 31, 2016 and 2015, respectively, include corporate assets not allocated to each reportable segment. Corporate assets consist mainly of cash and bank deposits that are not attributable to any reportable segment.

(Note 2) Adjustments for depreciation and amortization relate to the head office building.

(Note 3) Adjustments for increase in property, plant, and equipment and intangible and other assets of ¥958 million (\$8,504 thousand) and ¥1,538 million at March 31, 2016 and 2015, respectively, relate to increased corporate assets that are not attributable to any reportable segment.

## 22. Segment Information (continued)

### (4) Information by geographic area

	As of/ Year ended March 31, 2016				
	Japan	North America	Asia	Other	Total
	<i>(Millions of yen)</i>				
Sales	¥321,324	¥118,622	¥197,646	¥2,925	¥640,517
Property, plant and equipment (excluding leased assets)	82,951	27,029	35,657	-	145,637
	As of/ Year ended March 31, 2015				
	Japan	North America	Asia	Other	Total
	<i>(Millions of yen)</i>				
Sales	¥316,974	¥106,581	¥175,474	¥2,405	¥601,434
Property, plant and equipment (excluding leased assets)	82,267	25,701	39,319	-	147,287
	As of/ Year ended March 31, 2016				
	Japan	North America	Asia	Other	Total
	<i>(Thousands of U.S. dollars)</i>				
Sales	\$2,853,678	\$1,053,482	\$1,755,294	\$25,971	\$5,688,425
Property, plant and equipment (excluding leased assets)	736,686	240,040	316,673	-	1,293,399

### (5) Information on major customers

Name of customer	Year ended March 31, 2016		Reportable segments
	Net sales <i>(Millions of yen)</i>	Net sales <i>(Thousands of U.S. dollars)</i>	
Fuji Heavy Industries Ltd.	¥66,628	\$591,725	Automotive suspension springs; automotive seating; precision springs and components; and industrial machinery and equipment, and others
	Year ended March 31, 2015		Reportable segments
	Net sales <i>(Millions of yen)</i>	Net sales <i>(Thousands of U.S. dollars)</i>	
Fuji Heavy Industries Ltd.	¥65,022		Automotive suspension springs; automotive seating; precision springs and components; and industrial machinery and equipment, and others

**22. Segment Information (continued)**

(6) Information on impairment loss of long-lived assets by reportable segment

<b>Year ended March 31, 2016</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Millions of yen)</i>						
Impairment loss	¥-	¥-	¥302	¥90	¥392	¥-	¥392

<b>Year ended March 31, 2015</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Millions of yen)</i>						
Impairment loss	¥-	¥-	¥-	¥-	¥-	¥601	¥601

<b>Year ended March 31, 2016</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Thousands of U.S. dollars)</i>						
Impairment loss	\$-	\$-	\$2,686	\$796	\$3,482	\$-	\$3,482

**22. Segment Information (continued)**

(7) Information on amortization and unamortized balance of goodwill by reportable segment

<b>As of/ Year ended March 31, 2016</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Millions of yen)</i>						
Amortization	¥71	¥1	¥0	¥59	¥131	¥-	¥131
Unamortized balance	144	2	0	58	204	-	204
<b>As of/ Year ended March 31, 2015</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Millions of yen)</i>						
Amortization	¥71	¥1	¥0	¥26	¥98	¥-	¥98
Unamortized balance	215	2	1	117	335	-	335
<b>As of/ Year ended March 31, 2016</b>							
	Automotive suspension springs	Automotive seating	Precision springs and components	Industrial machinery and equipment, and others	Total	Eliminations or corporate assets	Consolidated total
	<i>(Thousands of U.S. dollars)</i>						
Amortization	\$633	\$8	\$1	\$519	\$1,161	\$-	\$1,161
Unamortized balance	1,275	14	3	519	1,811	-	1,811



### 23. Related Party Transactions

Year ended March 31, 2016

Transactions between the Company and related parties:

Type:	Affiliate
Name:	Faurecia-NHK Co., Ltd.
Address:	Naka-ku, Yokohama
Capital:	¥400 million (\$3,552 thousand)
Business area:	Automotive Seating Division
Proportion of voting rights owned:	50.0%
Related party transactions:	Customer of the Company One concurrent director
Details of transactions:	Purchase of products from the Company
Amount of transactions:	¥5,171 million (\$45,922 thousand)
Accounts recorded:	Account receivable
Balance at end of year:	¥3,861 million (\$34,293 thousand)

Transactions with subsidiaries of the Company and related parties:

Type:	Subsidiary
Name:	Nippan Business Support Co., Ltd.
Address:	Koto-ku, Tokyo
Capital:	¥10 million (\$89 thousand)
Business area:	Supply of services to all business areas (factoring)
Proportion of voting rights owned:	100%
Related party transactions:	Transfer of accounts payable
Details of transactions:	Transfer of accounts payable by consolidated subsidiaries
Amount of transactions:	¥20,489 million (\$181,960 thousand)
Accounts recorded:	Account payable
Balance at end of year:	¥6,601 million (\$58,621 thousand)

### 23. Related Party Transactions (continued)

Year ended March 31, 2015

Transactions between the Company and related parties:

Type:	Affiliate
Name:	Faurecia-NHK Co., Ltd.
Address:	Naka-ku, Yokohama
Capital:	¥400 million
Business area:	Automotive Seating Division
Proportion of voting rights owned:	50.0%
Related party transactions:	Customer of the Company One concurrent director
Details of transactions:	Purchase of products from the Company
Amount of transactions:	¥6,318 million
Accounts recorded:	Account receivable
Balance at end of year:	¥4,631 million

Transactions with subsidiaries of the Company and related parties:

Type:	Subsidiary
Name:	Nippan Business Support Co., Ltd.
Address:	Koto-ku, Tokyo
Capital:	¥10 million
Business area:	Supply of services to all business areas (factoring)
Proportion of voting rights owned:	100%
Related party transactions:	Transfer of accounts payable
Details of transactions:	Transfer of accounts payable by consolidated subsidiaries
Amount of transactions:	¥20,674 million
Accounts recorded:	Account payable
Balance at end of year:	¥6,476 million

### 24. Subsequent Event

[Distribution of retained earnings]

The following distribution of retained earnings, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2016, was approved by the shareholders of the Company at the Annual General Meeting of Shareholders held on June 28, 2016:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Cash dividends of ¥11.0 (\$0.10) per share	¥2,672	\$23,728