Consolidated Financial Statements

Yodogawa Steel Works, Ltd.
and Consolidated Subsidiaries

March 31, 2014
with Independent Auditor's Report

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Financial Statements

March 31, 2014

Contents

Independent Auditor's Report

The Board of Directors
Yodogawa Steel Works, Ltd.

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 3.

Ernst & Young ShinNihon LLC

June 25, 2014
Osaka, Japan

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheet

March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	**2014**	**2014**
Assets			
Current assets:			
Cash and deposits *(Notes 4, 5 and 12)*	¥ 27,406	¥ 26,877	$ 261,145
Marketable securities *(Notes 4, 5 and 6)*	8,813	5,404	52,507
Notes and accounts receivable *(Note 5)*:			
Unconsolidated subsidiaries and affiliates *(Note 23)*	12,554	14,364	139,565
Trade	22,344	26,023	252,847
Less allowance for doubtful receivables	(223)	(229)	(2,225)
Inventories *(Note 7)*	23,921	29,901	290,527
Deferred income taxes *(Note 15)*	739	606	5,888
Other current assets *(Notes 4 and 12)*	5,155	6,600	64,126
Total current assets	100,709	109,546	1,064,380
Property, plant and equipment:			
Land *(Notes 8, 18 and 24)*	18,792	19,182	186,378
Buildings and structures *(Notes 8 and 24)*	51,878	57,720	560,824
Machinery, equipment and vehicles *(Note 8)*	127,056	138,912	1,349,709
Leased assets	85	1,441	14,001
Construction in progress	7,717	3,482	33,832
Less accumulated depreciation	(153,897)	(161,940)	(1,573,455)
Property, plant and equipment, net *(Note 25)*	51,631	58,797	571,289
Investments and other assets:			
Investments in securities *(Notes 5, 6 and 12)*	27,213	31,361	304,712
Investments in unconsolidated subsidiaries and affiliates *(Note 25)*	4,456	4,603	44,724
Deferred income taxes *(Note 15)*	558	650	6,316
Other assets *(Note 12)*	3,237	2,819	27,390
Total investments and other assets	35,464	39,433	383,142
Total assets *(Note 25)*	¥187,804	¥ 207,776	$ 2,018,811

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2013	**2014**	**2014**
Liabilities and net assets			
Current liabilities:			
Current portion of finance lease obligations	¥ 17	¥ 146	$ 1,419
Notes and accounts payable *(Note 5)*:			
Unconsolidated subsidiaries and affiliates	387	539	5,237
Trade	15,176	18,805	182,715
Construction	2,446	3,236	31,442
Accrued expenses	3,236	3,345	32,501
Accrued income taxes *(Note 15)*	1,234	2,294	22,289
Allowance for bonuses to employees	824	902	8,764
Other current liabilities *(Notes 10 and 12)*	3,204	3,267	31,743
Total current liabilities	26,524	32,534	316,110
Long-term liabilities:			
Accrued retirement benefits for employees *(Note 14)*	7,463	–	–
Liability for retirement benefits (*Note 14*)	–	9,615	93,422
Accrued retirement benefits for directors and corporate auditors	86	73	709
Guarantee deposits *(Note 10)*	3,247	3,120	30,315
Finance lease obligations, less current portion	15	1,150	11,174
Negative goodwill *(Note 25)*	17	7	68
Deferred income taxes *(Note 15)*	1,846	2,471	24,009
Deferred income taxes on land revaluation reserve *(Note 15)*	917	917	8,910
Other long-term liabilities	639	1,356	13,175
Total long-term liabilities	14,230	18,709	181,782
Contingent liabilities *(Note 13)*			
Net assets:			
Shareholders' equity *(Note 17)*:			
Common stock:			
Authorized: 753,814,067 shares in 2013 and 2014			
Issued: 184,186,153 shares in 2013 and 2014	23,221	23,221	225,622
Capital surplus	23,497	23,460	227,944
Retained earnings *(Note 26)*	92,135	93,846	911,834
Treasury stock, at cost – 26,402,891 shares in 2013 and 26,530,317shares in 2014	(10,132)	(10,104)	(98,173)
Total shareholders' equity	128,721	130,423	1,267,227
Accumulated other comprehensive income (loss):			
Unrealized holding gain on securities *(Note 6)*	6,568	8,923	86,698
Unrealized loss from hedging instruments	(1)	(0)	(0)
Land revaluation reserve *(Note 18)*	1,557	1,545	15,012
Translation adjustments	(3,431)	933	9,065
Retirement benefit liability adjustments *(Note 14)*	–	(1,511)	(14,681)
Total accumulated other comprehensive income	4,693	9,890	96,094
Stock acquisition rights *(Note 17)*	134	156	1,516
Minority interests	13,502	16,064	156,082
Total net assets	147,050	156,533	1,520,919
Total liabilities and net assets	¥187,804	¥ 207,776	$ 2,018,811

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Income

Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2013	**2014**	**2014**
Net sales *(Notes 23, 24 and 25)*	¥ 141,084	¥ 157,552	$ 1,530,820
Cost of sales *(Notes 7 and 24)*	122,189	134,872	1,310,455
Gross profit	18,895	22,680	220,365
Selling, general and administrative expenses *(Notes 17, 19 and 24)*	15,265	16,557	160,873
Operating income *(Note 25)*	3,630	6,123	59,492
Other income (expenses):			
Interest and dividend income	714	762	7,404
Interest expense	(57)	(112)	(1,088)
Gain on insurance claims	87	93	904
Foreign exchange gain, net	172	400	3,886
Amortization of negative goodwill *(Note 25)*	19	10	97
Equity in earnings of an affiliate	121	142	1,380
Gain on revaluation of derivatives	137	44	427
Gain on sales of investments in securities, net	285	283	2,750
Expenses related to employees seconded to overseas unconsolidated subsidiaries	(175)	(231)	(2,244)
Loss on sales or disposal of property, plant and equipment, net	(74)	(85)	(826)
Loss on impairment of investments in securities *(Note 6)*	(405)	(266)	(2,585)
Loss on impairment of fixed assets *(Notes 8, 24 and 25)*	(150)	(7)	(68)
Insurance income *(Note 9)*	–	914	8,881
Loss on disaster *(Note 9)*	(1)	(948)	(9,211)
Other, net *(Notes 24 and 25)*	6	127	1,234
Income before income taxes and minority interests	4,309	7,249	70,433
Income taxes *(Note 15)*:			
Current	1,475	3,083	29,955
Deferred	73	256	2,487
	1,548	3,339	32,442
Income before minority interests	2,761	3,910	37,991
Minority interests	(245)	(640)	(6,219)
Net income	¥ 2,516	¥ 3,270	$ 31,772

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2013	**2014**	**2014**
Income before minority interests	¥ 2,761	¥ 3,910	$ 37,991
Other comprehensive (loss) income:			
Unrealized holding gain on securities	2,759	2,363	22,960
Unrealized (loss) gain from hedging instruments	(1)	1	10
Translation adjustments	3,565	6,719	65,283
Share of other comprehensive income of an affiliate accounted for by the equity method	26	18	175
Total other comprehensive income *(Note 16)*	6,349	9,101	88,428
Comprehensive income	¥ 9,110	¥ 13,011	$ 126,419
Total comprehensive income attributable to:			
Shareholders of the Company	¥ 7,352	¥ 9,991	$ 97,075
Minority interests of consolidated subsidiaries	1,758	3,020	29,344

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014

	Number of shares issued	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
		Millions of yen				
Balance at April 1, 2012	184,186,153	¥ 23,221	¥ 23,497	¥ 90,758	¥ (9,628)	¥ 127,848
Cash dividends	–	–	–	(1,194)	–	(1,194)
Net income	–	–	–	2,516	–	2,516
Acquisition of treasury stock	–	–	–	–	(505)	(505)
Disposition of treasury stock	–	–	(0)	–	1	1
Change in scope of consolidation	–	–	–	51	–	51
Reversal of land revaluation reserve	–	–	–	4	–	4
Other changes	–	–	–	–	–	–
Balance at April 1, 2013	184,186,153	¥ 23,221	¥ 23,497	¥ 92,135	¥ (10,132)	¥ 128,721
Cash dividends	–	–	–	(1,571)	–	(1,571)
Net income	–	–	–	3,270	–	3,270
Acquisition of treasury stock	–	–	–	–	(1,331)	(1,331)
Disposition of treasury stock	–	–	(37)	–	1,359	1,322
Reversal of land revaluation reserve	–	–	–	12	–	12
Other changes	–	–	–	–	–	–
Balance at March 31, 2014	184,156,153	¥ 23,221	¥ 23,460	¥ 93,846	¥ (10,104)	¥ 130,423

	Unrealized holding gain on securities	Unrealized loss from hedging instruments	Land revaluation reserve	Translation adjustments	Retirement benefit liability adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
		Millions of yen							
Balance at April 1, 2012	¥ 3,817	¥ –	¥ 1,561	¥ (5,293)	¥ –	¥ 85	¥ 119	¥ 11,664	¥ 139,716
Cash dividends	–	–	–	–	–	–	–	–	(1,194)
Net income	–	–	–	–	–	–	–	–	2,516
Acquisition of treasury stock	–	–	–	–	–	–	–	–	(505)
Disposition of treasury stock	–	–	–	–	–	–	–	–	1
Change in scope of consolidation	–	–	–	–	–	–	–	–	51
Reversal of land revaluation reserve	–	–	–	–	–	–	–	–	4
Other changes	2,751	(1)	(4)	1,862	–	4,608	15	1,838	6,461
Balance at April 1, 2013	¥ 6,568	¥ (1)	¥ 1,557	¥ (3,431)	¥ –	¥ 4,693	¥ 134	¥ 13,502	¥ 147,050
Cash dividends	–	–	–	–	–	–	–	–	(1,571)
Net income	–	–	–	–	–	–	–	–	3,270
Acquisition of treasury stock	–	–	–	–	–	–	–	–	(1,331)
Disposition of treasury stock	–	–	–	–	–	–	–	–	1,322
Reversal of land revaluation reserve	–	–	–	–	–	–	–	–	12
Other changes	2,355	1	(12)	4,364	(1,511)	5,197	22	2,562	7,781
Balance at March 31, 2014	¥ 8,923	¥ (0)	¥ 1,545	¥ 933	¥ (1,511)	¥ 9,890	¥ 156	¥ 16,064	¥ 156,533

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets (continued)

Year ended March 31, 2014

	Thousands of U.S. dollars (Note 3)				
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
Balance at April 1, 2013	$ 225,622	$ 228,304	$ 895,210	$ (98,445)	$ 1,250,691
Cash dividends	–	–	(15,264)	–	(15,264)
Net income	–	–	31,772	–	31,772
Acquisition of treasury stock	–	–	–	(12,932)	(12,932)
Disposition of treasury stock	–	(360)	–	13,204	12,844
Reversal of land revaluation reserve	–	–	116	–	116
Other changes	–	–	–	–	
Balance at March 31, 2014	$ 225,622	$ 227,944	$ 911,834	$ (98,173)	$ 1,267,227

	Thousands of U.S. dollars (Note 3)								
	Unrealized holding gain on securities	Unrealized loss from hedging instruments	Land revaluation reserve	Translation adjustments	Retirement benefit liability adjustment	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	$ 63,817	$ (10)	$ 15,128	$ (33,337)	$ –	$ 45,598	$ 1,302	$ 131,189	$ 1,428,780
Cash dividends	–	–	–	–	–	–	–	–	(15,264)
Net income	–	–	–	–	–	–	–	–	31,772
Acquisition of treasury stock	–	–	–	–	–	–	–	–	(12,932)
Disposition of treasury stock	–	–	–	–	–	–	–	–	12,844
Reversal of land revaluation reserve	–	–	–	–	–	–	–	–	116
Other changes	22,881	10	(116)	42,402	(14,681)	50,496	214	24,893	75,603
Balance at March 31, 2014	$ 86,698	$ (0)	$ 15,012	$ 9,065	$ (14,681)	$ 96,094	$ 1,516	$ 156,082	$ 1,520,919

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2013	**2014**	**2014**
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 4,309	¥ 7,249	$ 70,433
Adjustments for:			
Depreciation and amortization	3,988	4,352	42,285
Amortization of negative goodwill	(19)	(10)	(97)
Equity in earnings of an affiliate	(121)	(142)	(1,380)
Increase (decrease) in accrued retirement benefits for employees	153	(12)	(117)
Decrease in liability for retirement benefits	–	(189)	(1,836)
(Decrease) increase in accrued bonuses	(54)	78	758
Increase in allowance for doubtful receivables	29	2	19
Interest and dividend income	(714)	(762)	(7,404)
Interest expense	57	112	1,088
Gain on revaluation of derivatives	(137)	(44)	(427)
Gain on sales of investments in securities	(285)	(283)	(2,750)
Loss on impairment of investments in securities	405	266	2,585
Loss on sales or disposal of property, plant and equipment, net	74	85	826
Loss on impairment of fixed assets	150	7	68
Decrease (increase) in notes and accounts receivable	1,076	(4,951)	(48,105)
Decrease (increase) in inventories	2,817	(4,753)	(46,182)
Increase in notes and accounts payable	288	3,532	34,318
Insurance income	(87)	(1,007)	(9,785)
Other	215	(1,289)	(12,523)
Subtotal	12,144	2,241	21,774
Insurance claims received	87	1,007	9,784
Interest and dividends received	765	820	7,967
Interest paid	(57)	(114)	(1,107)
Income taxes paid	(2,749)	(2,102)	(20,423)
Net cash provided by operating activities	¥ 10,190	¥ 1,852	$ 17,995

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows (continued)

Year ended March 31, 2014

	Millions of yen		*Thousands of U.S. dollars (Note 3)*
	2013	**2014**	**2014**
Cash flows from investing activities:			
Investments in time deposits with a maturity of more than three months	¥ (100)	¥ (5,999)	$ (58,288)
Proceeds from time deposits with a maturity of more than three months	300	4,469	43,422
Proceeds from sales of marketable securities	0	10	97
Purchases of property, plant and equipment	(8,208)	(7,320)	(71,123)
Proceeds from sales of property, plant and equipment	70	80	777
Purchases of intangible fixed assets	(481)	(80)	(777)
Purchases of investments in securities	(31)	(1,531)	(14,876)
Proceeds from sales of investments in securities	1,055	1,096	10,649
Payment for loans receivable	(705)	(661)	(6,422)
Collection of loans receivable	636	465	4,518
Proceeds from subsidy income	–	425	4,129
Other	15	(7)	(68)
Net cash used in investing activities	(7,449)	(9,053)	(87,962)
Cash flows from financing activities:			
Short-term bank loans, net	–	946	9,192
Proceeds from sales of treasury stock	0	1,317	12,796
Purchases of treasury stock	(502)	(1,328)	(12,903)
Cash dividends paid to the Company's shareholders	(1,203)	(1,583)	(15,381)
Cash dividends paid to minority shareholders of consolidated subsidiaries	(455)	(191)	(1,856)
Proceeds from sale and leaseback transactions	–	1,466	14,244
Repayment of lease obligations	(19)	(248)	(2,410)
Net cash (used in) provided by financing activities	(2,179)	379	3,682
Effect of exchange rate changes on cash and cash equivalents	626	1,764	17,140
Net increase (decrease) in cash and cash equivalents	1,188	(5,058)	(49,145)
Cash and cash equivalents at beginning of the year	33,825	36,338	353,070
Increase in cash and cash equivalents resulting from change in scope of consolidation	1,325	–	–
Cash and cash equivalents at end of the year *(Note 4)*	¥ 36,338	¥ 31,280	$ 303,925

See accompanying notes to consolidated financial statements.

Yodogawa Steel Works, Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2014

1. Summary of Significant Accounting Policies

(a) Basis of preparation

Yodogawa Steel Works, Ltd. (the "Company") and its domestic subsidiaries maintain their books of account and records in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those of their respective countries of domicile.

The accompanying consolidated financial statements of the Company and consolidated subsidiaries (collectively, the "Group") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain reclassifications of previously reported amounts have been made to conform the accompanying consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net assets.

(b) Basis of consolidation

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which substantial control is exerted through either majority ownership of voting stock and/or by other means. All significant intercompany balances and transactions have been eliminated in consolidation.

An investment in one affiliate (a company over which the Company has the ability to exercise significant influence) is stated at cost plus equity in its undistributed earnings or undisposed loss. Consolidated net income or loss includes the Company's equity in the current net income or loss of this company after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries are revalued on acquisition, if applicable. The difference between the cost of investments in subsidiaries and the equity in their net assets at their respective dates of acquisition is amortized over a period of 5 years on a straight-line basis. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is credited to income when incurred.

1. Summary of Significant Accounting Policies (continued)

(b) Basis of consolidation (continued)

The financial statements of certain consolidated subsidiaries whose fiscal year end is December 31 have been included in consolidation on the basis of a full fiscal year after making the necessary adjustments for significant transactions during the period from their fiscal year end to the Company's balance sheet date.

(c) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date. Other assets and liabilities denominated in foreign currencies are translated at their historical rates. All revenues and expenses associated with foreign currencies are translated at the rates of exchange prevailing when such transactions were made. The resulting exchange gain or loss is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries (except for net assets excluding minority interests) are translated into yen at the rate of exchange in effect at the balance sheet date. The components of net assets excluding minority interests are translated at their respective historical rates of exchange. Revenue and expense accounts are translated into yen at the average rate of exchange in effect during the year.

Translation adjustments have been presented as a component of net assets and minority interests in the accompanying consolidated financial statements.

(d) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, deposits with banks withdrawable on demand, and short-term investments which are readily convertible into cash subject to an insignificant risk of any changes in their value and which were purchased with an original maturity of three months or less.

1. Summary of Significant Accounting Policies (continued)

(e) Securities

The accounting standard for financial instruments requires that securities other than those of subsidiaries and affiliates be classified into three categories: trading securities, held-to-maturity debt securities or other securities. Under this standard, trading securities are carried at fair value and gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined principally by the moving average method.

(f) Derivatives

Derivatives are measured at fair value.

(g) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are principally stated at the lower of cost or net selling value, cost being determined by the average method. Inventories of overseas consolidated subsidiaries are stated at the lower of cost or net selling value, cost being determined by the moving average method.

(h) Property, plant and equipment and depreciation (except for leased assets)

Depreciation of property, plant and equipment is calculated by the declining-balance method over the estimated useful lives of the respective assets, except that the straight-line method is applied to buildings (other than structures attached to the buildings) acquired on or after April 1, 1998.

Depreciation of property, plant and equipment at overseas consolidated subsidiaries is calculated by the straight-line method.

The useful lives adopted for calculating depreciation are principally as follows:

Buildings and structures	3 to 60 years
Machinery, equipment and vehicles	3 to 36 years

1. Summary of Significant Accounting Policies (continued)

(i) Research and development costs

Research and development costs are charged to income as incurred.

(j) Leases

Leased assets under finance lease transactions that transfer ownership to the lessee are depreciated by the same method used for owned fixed assets.

Leased assets under finance lease transactions which do not transfer ownership of the leased assets to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life. Among the finance lease transactions which do not transfer ownership of the leased assets to the lessees, those that started on or before March 31, 2008 are accounted for in the same manner as operating leases.

(k) Allowance for doubtful receivables

The Group provides an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(l) Allowance for bonuses to employees

The Company and its domestic consolidated subsidiaries provide an allowance for bonuses to employees based on the estimated amount to be paid to employees after the balance sheet date, which is attributable to the current fiscal year.

(m) Accrued retirement benefits for directors and corporate auditors

The directors and corporate auditors of the Company’s domestic consolidated subsidiaries have customarily been entitled to lump-sum payments under the unfunded retirement benefit plans. Accrued retirement benefits for these directors and corporate auditors have been provided at an estimated amount based on each consolidated subsidiary’s internal rules.

1. Summary of Significant Accounting Policies (continued)

(n) Retirement benefits

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

Prior service cost is being amortized as incurred by the straight-line method over a period of principally 10 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of principally 10 years, which is within the estimated average remaining years of service of the eligible employees.

Certain consolidated subsidiaries calculate liability for retirement benefits and retirement benefit expenses for the defined benefit corporate pension plans and the retirement lump-sum plans based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (“Simplified method”).

(o) Income taxes

Deferred income taxes are provided for temporary differences between the balances of assets and liabilities for financial reporting purposes and the corresponding balances for tax reporting purposes.

(p) Consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes and local consumption taxes paid not offset by consumption taxes and local consumption taxes received in accordance with Consumption Tax Act of Japan are charged to income when incurred.

(q) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be adopted for contracts for which the percentage of completion cannot be reliably estimated.

1. Summary of Significant Accounting Policies (continued)

(r) Hedge accounting

Gain or loss on derivatives designated as hedging instruments is deferred until the loss or gain on the underlying hedged items is recognized. Receivables hedged by forward foreign exchange contracts which meet certain conditions are translated at the corresponding foreign exchange contract rates ("Allocation method"). The evaluation of effectiveness of such forward foreign exchange contracts is omitted because significant terms of the hedging instruments and underlying hedged items are the same and the Company assumes that movements of cash flows are completely offset.

(s) Accounting standards issued but not yet effective

<u>Accounting standards for retirement benefits</u>
On May 17, 2012, the Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25). The standard provides guidance for the accounting for unrecognized actuarial differences and unrecognized prior service costs, the calculation methods for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvements to financial reporting and international trends.

Revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015. However, the standard and guidance will not be applied retrospectively to the consolidated financial statements of prior years because transitional treatment is provided in the standard and guidance.

The Company is in the process of evaluating the effect on its consolidated financial statements from the adoption of these accounting standards.

2. Change in Accounting Policies

The Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26 of May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 of May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance) as of the end of the fiscal year ended March 31, 2014. These accounting standards require entities to apply a revised method for recording the retirement benefit obligations, after deducting pension plan assets, as a liability for retirement benefits. In addition, unrecognized actuarial differences and unrecognized prior service costs are recorded as a liability for retirement benefits. Concerning the application of the Accounting Standard for Retirement Benefits, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income.

As a result of this change, liability for retirement benefits was recognized in the amount of ¥9,615 million ($93,422 thousand), accumulated other comprehensive income decreased by ¥1,511 million ($14,681 thousand) and minority interests decreased by ¥204 million ($1,982 thousand) as of March 31, 2014. In addition, net assets per share decreased by ¥9.6 ($0.09) as of March 31, 2014.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan and has been made at the rate of ¥102.92 = U.S.$1.00, the approximate exchange rate prevailing on March 31, 2014. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

4. Cash and Cash Equivalents

A reconciliation of cash and deposits shown in the accompanying consolidated balance sheet to cash and cash equivalents shown in the accompanying consolidated statement of cash flows at March 31, 2013 and 2014 is presented as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Cash and deposits	¥ 27,406	¥ 26,877	$ 261,145
Investment trust funds included in "Marketable securities"	8,303	5,404	52,506
Beneficiary interests in trusts included in "Other current assets"	1,000	1,000	9,716
Time deposits with a maturity of more than three months	(371)	(2,001)	(19,442)
Cash and cash equivalents	¥ 36,338	¥ 31,280	$ 303,925

5. Financial Instruments

Overview

(a) Policy for financial instruments

In consideration of plans for capital investment, the Group primarily utilizes cash on hand. In case of a lack of cash on hand, the Group raises funds by bond issuances or bank borrowings. The Group manages temporary cash surpluses through low-risk financial assets. The Group uses derivatives for the purpose of reducing risk and does not enter into derivatives for speculative purposes.

(b) Types of financial instruments and related risk

Trade receivables, notes and accounts receivables, are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from trade receivables denominated in foreign currencies.

Investments in securities and marketable securities are exposed to market risk. The former is composed mainly of the shares of common stock of other companies with which the Group has business relationships, held-to-maturity debt securities and hybrid financial instruments containing embedded derivatives. The latter is composed mainly of commercial paper and negotiable certificates of deposits.

Trade payables, notes and accounts payable, have payment due dates within six months. The Group is exposed to foreign currency exchange risk arising from trade payables denominated in foreign currencies.

5. Financial Instruments (continued)

Overview (continued)

(b) Types of financial instruments and related risk (continued)

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from trade receivables, trade payables and loans receivables denominated in foreign currencies for the purpose of efficient risk management.

Information regarding the method of hedge accounting is addressed in Note 1 (r).

(c) Risk management for financial instruments

For trade receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer. In addition, the Company and its domestic consolidated subsidiaries are making efforts to identify at an early point and mitigate risks of bad debts from customers who have financial difficulties.

The overseas consolidated subsidiaries request customers to issue non-cancelable letters of credit to hedge credit risk.

The Group only acquires held-to-maturity debt securities and commercial paper issued by companies with high credit ratings or sound credit profiles. Accordingly, the Group believes that the credit risk deriving from such securities is insignificant. The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

For trade receivables and trade payables denominated in foreign currencies, the Group enters into forward foreign exchange contracts to hedge the risks arising from fluctuations in foreign exchanges rates.

For marketable securities and investments in securities, the Group periodically reviews the fair value of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether or not securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair value and relationships with the issuers.

The Group enters into derivative transactions based on internal regulations which set forth the purpose, contents, counterparties, holding risk, maximum upper limit of loss amount on the position and the reporting and approval of risk amounts.

5. Financial Instruments (continued)

Overview (continued)

(c) Risk management for financial instruments (continued)

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis and maintains sufficient solvency to manage liquidity risk. In order to provide for unexpected cash requirements, the Company has entered into the line-of-credit agreements with certain financial institutions and its overseas consolidated subsidiaries is able to obtain short-term borrowings from certain financial institutions.

(d) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market prices, if available. When there are no quoted market prices available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheet, estimated fair value and unrealized loss as of March 31, 2013 and 2014 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	Millions of yen		
	2013		
	Carrying value	Estimated fair value	Unrealized loss
Assets:			
Cash and deposits	¥ 27,406	¥ 27,406	¥ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	12,554	12,554	–
Trade	22,344	22,344	–
Marketable securities and investments in securities	30,410	30,273	(137)
Total assets	¥ 92,714	¥ 92,577	¥ (137)
Liabilities:			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	¥ 387	¥ 387	¥ –
Trade	15,176	15,176	–
Total liabilities	¥ 15,563	¥ 15,563	¥ –
Derivative transactions*	¥ (20)	¥ (20)	¥ –

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Unrealized loss
Assets:			
Cash and deposits	¥ 26,877	¥ 26,877	¥ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	14,364	14,364	–
Trade	26,023	26,023	–
Marketable securities and investments in securities	35,500	35,434	(66)
Total assets	¥ 102,764	¥ 102,698	¥ (66)
Liabilities:			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	¥ 539	¥ 539	¥ –
Trade	18,805	18,805	–
Total liabilities	¥ 19,344	¥ 19,344	¥ –
Derivatives*	¥ (210)	¥ (210)	¥ –

	Thousands of U.S. dollars		
	2014		
	Carrying value	Estimated fair value	Unrealized loss
Assets:			
Cash and deposits	$ 261,145	$ 261,145	$ –
Notes and accounts receivable			
Unconsolidated subsidiaries and affiliates	139,565	139,565	–
Trade	252,847	252,847	–
Marketable securities and investments in securities	344,928	344,287	(641)
Total assets	$ 998,485	$ 997,844	$ (641)
Liabilities:			
Notes and accounts payable			
Unconsolidated subsidiaries and affiliates	$ 5,237	$ 5,237	$ –
Trade	182,715	182,715	–
Total liabilities	$ 187,952	$ 187,952	$ –
Derivatives*	$ (2,040)	$ (2,040)	$ –

* The value of assets and liabilities arising from derivative transactions is shown at net value, and with the amount in parentheses representing net liability position.

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Calculation method of estimated fair value of financial instruments is as follows:

Cash, deposits, notes and accounts receivable
Since these items are settled in a short period of time, their carrying value approximates the fair value.

Marketable securities and investments in securities
The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or the prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6.

Notes and accounts payable
Since this item is settled in a short period of time, its carrying value approximates the fair value.

Derivative transactions
Please refer to Note 21.

The carrying value of financial instruments without determinable market value at March 31, 2013 and 2014 is presented as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Unlisted stocks	¥ 216	¥ 432	$ 4,198
Money trusts	4,304	–	–
Investment in a limited liability partnership	213	186	1,807
Preferred stocks	883	647	6,286
Total	¥ 5,616	¥ 1,265	$ 12,291

Because no quoted market price is available, it is extremely difficult to determine the fair value. Therefore, the above financial instruments are not included as part of the amounts presented in the preceding fair value of financial instruments table.

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

The redemption schedule for monetary assets and investments by maturity dates at March 31, 2013 and 2014 is as follows:

	Millions of yen			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 27,359	¥ –	¥ –	¥ –
Notes and accounts receivable	34,898	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	10	–	40	–
Corporate bonds	4,500	–	500	2,500
Other marketable securities with maturities				
Bonds	–	300	200	–
Other	4,100	–	–	–
Total	¥ 70,867	¥ 300	¥ 740	¥ 2,500

	Millions of yen			
	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥ 26,811	¥ –	¥ –	¥ –
Notes and accounts receivable	40,387	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	–	10	40	–
Corporate bonds	–	–	500	1,800
Other marketable securities with maturities				
Bonds	–	300	200	–
Other	4,700	–	–	–
Total	¥ 71,898	¥ 310	¥ 740	¥ 1,800

5. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	Thousands of U.S. dollars			
	2014			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	$ 260,503	$ –	$ –	$ –
Notes and accounts receivable	392,412	–	–	–
Marketable securities and investments in securities				
Held-to-maturity debt securities				
National and local government bonds	–	97	389	–
Corporate bonds	–	–	4,858	17,489
Other marketable securities with maturities				
Bonds	–	2,915	1,943	–
Other	45,667	–	–	–
Total	$ 698,582	$ 3,012	$ 7,190	$ 17,489

6. Securities

Marketable securities classified as held-to-maturity debt securities at March 31, 2013 and 2014 are summarized as follows:

	Millions of yen		
	2013		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 50	¥ 51	¥ 1
Corporate bonds	3,438	3,506	68
	3,488	3,557	69
Securities whose estimated fair value does not exceed their carrying value:			
Corporate bonds	3,879	3,673	(206)
Total	¥ 7,367	¥ 7,230	¥ (137)

6. Securities (continued)

	Millions of yen		
	2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	¥ 50	¥ 51	¥ 1
Corporate bonds	443	500	57
	493	551	58
Securities whose estimated fair value does not exceed their carrying value:			
Corporate bonds	1,724	1,601	(123)
Total	¥ 2,217	¥ 2,152	¥ (65)

	Thousands of U.S. dollars		
	2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value:			
Government bonds	$ 486	$ 496	$ 10
Corporate bonds	4,304	4,858	554
	4,790	5,354	564
Securities whose estimated fair value does not exceed their carrying value:			
Corporate bonds	16,751	15,555	(1,196)
Total	$ 21,541	$ 20,909	$ (632)

6. Securities (continued)

Other securities with determinable market value at March 31, 2013 and 2014 are summarized as follows:

	Millions of yen		
	2013		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 18,960	¥ 8,495	¥ 10,465
Corporate bonds	710	700	10
Other	104	97	7
	19,774	9,292	10,482
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	2,976	3,838	(862)
Corporate bonds	293	301	(8)
	3,269	4,139	(870)
Total	¥ 23,043	¥ 13,431	¥ 9,612

	Millions of yen		
	2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	¥ 23,356	¥ 9,681	¥ 13,675
Corporate bonds	1,012	1,001	11
Other	110	97	13
	24,478	10,779	13,699
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	3,401	3,867	(466)
Other	5,404	5,404	–
	8,805	9,271	(466)
Total	¥ 33,283	¥ 20,050	¥ 13,233

6. Securities (continued)

	Thousands of U.S. dollars		
	2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	$ 226,933	$ 94,063	$ 132,870
Corporate bonds	9,833	9,726	107
Other	1,069	943	126
	237,835	104,732	133,103
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	33,045	37,573	(4,528)
Other	52,507	52,507	–
	85,552	90,080	(4,528)
Total	$ 323,387	$ 194,812	$ 128,575

Sales of securities classified as other securities for the years ended March 31, 2013 and 2014 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Sales	¥ 1,002	¥ 354	$ 3,440
Aggregate gain	334	289	2,808

The Group recorded loss on impairment of investments in securities with determinable market value of ¥405 million and ¥45 million ($437 thousand) for the years ended March 31, 2013 and 2014, respectively. Loss on impairment is recorded on securities whose fair value has declined by 50% on more, or whose fair value has declined by 30% on more, but less than 50%, if the decline is deemed to be irrecoverable.

7. Inventories

The following is a summary of inventories at March 31, 2013 and 2014:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Finished goods	¥ 12,213	¥ 14,396	$ 139,876
Work in process	3,216	3,976	38,632
Raw materials and supplies	8,492	11,529	112,019
	¥ 23,921	¥ 29,901	$ 290,527

Gain on reversal of devaluation of inventories included in cost of sales totaled ¥495 million for the year ended March 31, 2013 and loss on devaluation of inventories included in cost of sales totaled ¥434 million ($4,217 thousand) for the year ended March 31, 2014.

8. Loss on Impairment of Fixed Assets

The Company and its consolidated subsidiaries recognized loss on impairment of fixed assets for the years ended March 31, 2013 and 2014 as follows:

			Millions of yen		*Thousands of U.S. dollars*
Location	Use	Classification	**2013**	**2014**	**2014**
Nishiwaki City, Hyogo Prefecture	Golf course	Land, buildings and structures and machinery, equipment and vehicles	¥ 133	¥ –	$ –
Miyazaki City, Miyazaki Prefecture	Idle assets	Land	10	7	68
Nerima City, Tokyo Prefecture	Idle assets	Land	6	–	–
Hakuba Village, Nagano Prefecture	Idle assets	Land	1	–	–
Suzaka City, Nagano Prefecture	Idle assets	Land	0	0	0
Total			¥ 150	¥ 7	$ 68

8. Loss on Impairment of Fixed Assets (continued)

The Company and its consolidated subsidiaries group fixed assets by management segment, each of which continuously records cash receipts and payments. They group idle assets not utilized in their operations on an individual asset basis.

Consequently, the Company and its consolidated subsidiaries have written down the carrying values of the golf course and its asset group whose operating income has been continuously negative to their respective net recoverable values, and have recorded a related loss on impairment of fixed assets of ¥133 million for the year ended March 31, 2013, which consisted of land of ¥98 million, building and structures of ¥34 million and machinery, equipment and vehicles of ¥1 million.

In addition, the Company and its consolidated subsidiaries have written down the carrying values of the idle assets owned by the Company and its consolidated subsidiaries for the years ended March 31, 2013 and 2014, which are not expected to be utilized in the future, to their respective net recoverable values, and have recorded a related loss on impairment of fixed assets of ¥17 million and ¥7 million ($68 thousand) for the years ended March 31, 2013 and 2014, respectively. This loss on impairment of fixed assets consisted of land of ¥17 million for the year ended March 31, 2013, and land of ¥7 million ($68 thousand) for the year ended March 31, 2014.

The recoverable amounts of these assets are measured at estimated selling value, at a valuation assessed for property tax purposes or at the comparable published land prices.

9. Insurance Income and Loss on Disaster

In connection with a fire at the Ichikawa Plant in July 2013, the Company recorded a loss on disaster of ¥948 million ($9,211 thousand) including overhead production costs incurred during the suspension of operations and repair expenses, mainly for machinery and equipment, and the corresponding insurance income of ¥914 million ($8,881 thousand) for the year ended March 31, 2014.

10. Short-Term Bank Loans and Guarantee Deposits

Short-term bank loans were nil at March 31, 2013. Short-term bank loans of ¥960 million ($9,328 thousand) included in other current liabilities at an average annual interest rate was 2.63% at March 31, 2014

Guarantee deposits consisted of interest-free deposits, most of which were golf-club membership deposits, and interest-bearing deposits, which were principally deposits from customers at average annual interest rates of 0.82% and 0.80% at March 31, 2013 and 2014, respectively.

10. Short-Term Bank Loans and Guarantee Deposits (continued)

Interest-free deposits and interest-bearing deposits at March 31, 2013 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Interest-free deposits	¥ 2,524	¥ 2,352	$ 22,853
Interest-bearing deposits	723	768	7,462
	¥ 3,247	¥ 3,120	$ 30,315

11. Line-of-credit Agreements

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2013 and 2014 was as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Lines of credit	¥ 19,450	¥ 19,450	$ 188,982
Credit utilized	–	–	–
Available credit	¥ 19,450	¥ 19,450	$ 188,982

12. Pledged Assets

Assets pledged as collateral for indebtedness at March 31, 2013 and 2014 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Cash and deposits	¥ 60	¥ 60	$ 583
Other current assets	69	–	–
Investments in securities	17	17	165
Other assets	179	315	3,061
	¥ 325	¥ 392	$ 3,809

Indebtedness secured by these assets as collateral was ¥52 million and ¥52 million ($505 thousand), a component of other current liabilities at March 31, 2013 and 2014 respectively.

13. Contingent Liabilities

The Company was contingently liable for guarantees of borrowings from financial institutions and others of an unconsolidated subsidiary in the aggregate amounts of ¥47 million and ¥31 million ($301 thousand), at March 31, 2013 and 2014, respectively.

In addition, the Company is repairing machinery supplied to a customer located in Africa due to a product defect, damages during the shipment and other reasons. The Company was contingently liable for additional repair costs in the amount of approximately ¥300 million and ¥300 million ($2,915 thousand), at March 31, 2013 and 2014, respectively. The total amount to be paid by the Company will depend on future negotiations with the manufacturer of the machinery.

14. Retirement Benefits Plans

The Company and its domestic consolidated subsidiaries have two types of defined benefit retirement plans: a defined benefit pension plan and a lump sum payment plan. Moreover, two overseas consolidated subsidiaries have a defined benefit pension plan. Additional severance payments may also be provided for an early retirement program. Furthermore, the Company has adopted a retirement benefit trust.

Certain consolidated domestic subsidiaries are accounted for using Simplified method for calculating liability for retirement benefits and retirement benefit expenses.

For the year ended March 31, 2013

The funded and accrued status of the employees' defined-benefits retirement plans of the Group, and the amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 was summarized as follows:

	Millions of yen
	2013
Retirement benefit obligation	¥ (14,155)
Plan assets at fair value	4,208
Unfunded retirement benefit obligation	(9,947)
Unrecognized actuarial loss	3,111
Unrecognized prior service cost	(13)
Net retirement benefit obligation recognized in the consolidated balance sheet	(6,849)
Prepaid pension expenses	614
Accrued retirement benefits for employees	¥ (7,463)

As permitted under the accounting standards for retirement benefits, certain domestic consolidated subsidiaries have calculated their retirement benefit obligation based on the Simplified method.

14. Retirement Benefits Plans (continued)

The components of retirement benefit expenses for employees for the year ended March 31, 2013 was outlined as follows:

	Millions of yen
	2013
Service cost	¥ 639
Interest cost	226
Expected return on plan assets	(66)
Amortization of actuarial loss	195
Amortization of prior service cost	(1)
Retirement benefit expenses for employees	¥ 993

Retirement benefit expenses for certain domestic subsidiaries, whose benefit obligation is calculated based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily, have been included in service cost.

The assumptions used in accounting for the above benefit plans for the years ended March 31, 2013 was as follows:

	2013
Discount rate	Principally 1.3%
Expected rate of return on plan assets	Principally 1.9%

14. Retirement Benefits Plans (continued)

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	**2014**
Retirement benefit obligation at April 1, 2013	¥ 14,156	$ 137,544
Service cost*	641	6,228
Interest cost	176	1,710
Actuarial differences	(209)	(2,031)
Retirement benefit paid	(914)	(8,881)
Prior service cost	565	5,490
Retirement benefit obligation at March 31, 2014	¥ 14,415	$ 140,060

* Retirement benefit expenses for certain consolidated subsidiaries, whose benefit obligation is calculated by the Simplified method, have been included in service cost.

The changes in plan assets at fair value during the year ended March 31, 2014 are as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	**2014**
Plan assets at fair value at April 1, 2013	¥ 4,208	$ 40,886
Expected return on plan assets	75	729
Actuarial differences	246	2,390
Contributions by the employers	598	5,810
Retirement benefit paid	(387)	(3,760)
Other*	60	583
Plan assets at fair value at March 31, 2014	¥ 4,800	$ 46,638

* "Other" mainly consists of the effect of foreign currency exchange translation adjustments on pension plan assets at fair value attributable to an overseas subsidiary and the difference of actual and expected returns on plan assets at fair value from the retirement benefit plans of consolidated subsidiary to which the Simplified method applied.

14. Retirement Benefits Plans (continued)

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

	Millions of yen	*Thousands of U.S. dollars*
	2014	**2014**
Funded retirement benefit obligation	¥ 14,402	$ 139,934
Plan assets at fair value	(4,800)	(46,638)
	9,602	93,296
Unfunded retirement benefit obligation	13	126
Liability for retirement benefits in the consolidated balance sheet, net	9,615	93,422
Liability for retirement benefits	9,615	93,422
Liability for retirement benefits in the consolidated balance sheet, net	¥ 9,615	$ 93,422

Note: The above includes retirement benefit plans calculated under the Simplified method.

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

	Millions of yen	*Thousands of U.S. dollars*
	2014	**2014**
Service cost	¥ 641	$ 6,228
Interest cost	176	1,710
Expected return on plan assets	(75)	(729)
Amortization of actuarial differences	223	2,167
Amortization of prior service cost	(2)	(19)
Retirement benefit expense	¥ 963	$ 9,357

The balance of prior service cost and actuarial loss included in accumulated other comprehensive income before the deduction of tax effects as of March 31, 2014 is summarized as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	**2014**
Prior service cost	¥ (11)	$ (107)
Actuarial loss	2,523	24,514
Total	¥ 2,512	$ 24,407

14. Retirement Benefits Plans (continued)

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 is as follows:

	2014
Bonds	28 %
Stocks	42
General account at insurance companies	17
Other	13
Total	100 %

Note: 16% of the total plan assets is held in a retirement benefit trust.

The expected return on assets has been estimated based on the anticipated allocation to each asset class and the expected long-term returns on assets held in each category.

The assumptions used in the actuarial calculation for the above defined benefit pension plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	Principally 1.3%
Expected rate of return on plan assets (weighted average)	1.9%

The contribution paid by consolidated subsidiaries to the defined contribution pension plans amounted to ¥35 million ($340 thousand) for the year ended March 31, 2014.

15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rate of approximately 37.9% for the years ended March 31, 2013 and 2014.

A reconciliation of the statutory tax rate and the effective tax rate for the year ended March 31, 2013 and 2014 as a percentage of income before income taxes and minority interests is as follows:

	2013	2014
Statutory tax rate	37.9 %	37.9 %
Permanently non-deductible expenses	0.9	0.6
Per capita portion of inhabitants' taxes	1.3	0.7
Differences in tax rates applicable to the overseas consolidated subsidiaries	(1.7)	(3.4)
Cash dividends received from the overseas consolidated subsidiary	(1.4)	1.4
Adjustments of accounting standards applied by the overseas consolidated subsidiary	(1.9)	1.5
Foreign tax credit	1.6	0.5
Tax loss carryforwards of consolidated subsidiaries	1.8	5.2
Increase in valuation allowance	1.7	2.5
Permanently non-taxable income	(2.1)	(1.2)
Tax credit for research and development costs	(0.4)	(0.3)
Equity in earnings of an affiliate	(0.8)	(0.8)
Decrease in deferred tax assets resulting from change in the statutory tax rate applicable to the fiscal years beginning on or after April 1, 2014	–	0.7
Other	(1.0)	0.8
Effective tax rates	35.9 %	46.1 %

15. Income Taxes (continued)

The significant components of the deferred tax assets and liabilities of the Group at March 31, 2013 and 2014 are summarized as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Deferred tax assets:			
Accrued retirement benefits for employees	¥ 2,179	¥ –	$ 253
Liability for retirement benefits	–	2,993	29,081
Allowance for doubtful receivables	83	83	806
Accrued enterprise taxes	118	136	1,321
Accrued bonuses	312	318	3,090
Loss on devaluation of inventories	143	247	2,400
Foreign tax credit	3	–	–
Tax loss carryforwards	620	520	5,052
Loss on impairment of investments in securities and golf-club memberships	781	770	7,482
Loss on impairment of fixed assets	219	216	2,099
Unrealized loss from hedging instruments	1	0	0
Other	1,015	1,031	9,765
Gross deferred tax assets	5,474	6,314	61,349
Less valuation allowance	(2,152)	(2,176)	(21,143)
Total deferred tax assets	3,322	4,138	40,206
Deferred tax liabilities:			
Dividends from an overseas consolidated subsidiary	(45)	(142)	(1,380)
Unrealized holding gain on securities	(3,007)	(4,279)	(41,576)
Land revaluation reserve	(917)	(917)	(8,910)
Reserve for deferred taxation on contributions for acquisition of property	(668)	(643)	(6,248)
Reserve for special depreciation	(7)	(119)	(1,156)
Other	(144)	(170)	(1,651)
Total deferred tax liabilities	(4,788)	(6,270)	(60,921)
Net deferred tax liabilities	¥ (1,466)	¥ (2,132)	$ (20,715)

15. Income Taxes (continued)

Note: Net deferred tax liabilities as of March 31, 2013 and 2014 are reflected in the following accounts in the consolidated balance sheet:

		Millions of yen		*Thousands of U.S. dollars*
		2013	**2014**	**2014**
Current assets		¥ 739	¥ 606	$ 5,888
Investments and other assets		558	650	6,316
Long-term liabilities:	Deferred income taxes	(1,846)	(2,471)	(24,009)
	Deferred income taxes on land revaluation reserve	(917)	(917)	(8,910)

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

In line with these revisions, the Company and its domestic subsidiaries changed the statutory tax rate to calculate deferred tax assets and liabilities mainly from 37.9% to 35.5% for temporary differences expected to be realized or settled from the fiscal year beginning April 1, 2014.

The effect of the announced reduction of the effective statutory tax rate was immaterial.

16. Other Comprehensive Income

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

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Unrealized holding gain on securities:			
Gain arising during the year	¥ 3,863	¥ 3,652	$ 35,484
Reclassification adjustments	121	(17)	(165)
Before tax effect	3,984	3,635	35,319
Tax effect	(1,225)	(1,272)	(12,359)
Total	2,759	2,363	22,960
Unrealized loss from hedging instruments:			
Loss (gain) arising during the year	(1)	1	10
Before tax effect	(1)	1	10
Tax effect	0	(0)	(0)
Total	(1)	1	10
Translation adjustments:			
Amount arising during the year	3,565	6,719	65,283
Share of other comprehensive income of an affiliate accounted for by the equity method:			
Amount arising during the year	26	18	175
Total other comprehensive income	¥ 6,349	¥ 9,101	$ 88,428

17. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The legal reserve of the Company was nil at March 31, 2013 and 2014.

Stock options

The Company has stock option plans. The following stock option plans for certain directors and executive officers of the Company were approved at annual general meetings of the shareholders for the 2004 and 2005 plans in accordance with the former Commercial Code of Japan and meetings of the Board of Directors for the 2006 plan through to the 2013 plan in accordance with the Law.

Stock option expenses charged to income for the years ended March 31, 2013 and 2014 amounted to ¥16 million and ¥27 million ($262 thousand), respectively.

The stock option plans of the Company at March 31, 2013 and 2014 are summarized as follows:

	The 2004 plan	The 2005 plan	The 2006 plan
Date of approval	June 29, 2004	June 29, 2005	July 14, 2006
Number of options granted	81,000	62,000	53,000
Exercisable period	From June 30, 2023 to June 29, 2024	From June 30, 2024 to June 29, 2025	From June 30, 2025 to June 29, 2026
Vesting conditions	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2023	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2024	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2025
Vesting period for services received	From July 12, 2004 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2006	From July 14, 2005 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2007	From July 31, 2006 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2008

17. Shareholders' Equity (continued)

	The 2007 plan	The 2008 plan	The 2009 plan
Date of approval	July 17, 2007	July 15, 2008	July 15, 2009
Number of options granted	43,000	60,000	69,000
Exercisable period	From June 30, 2026 to June 29, 2027	From June 30, 2027 to June 29, 2028	From June 30, 2028 to June 29, 2029
Vesting conditions	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2026	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2027	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2028
Vesting period for services received	From August 1, 2007 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2009	From August 1, 2008 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2010	From August 1, 2009 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2011

	The 2010 plan	The 2011 plan	The 2012 plan
Date of approval	July 14, 2010	July 15, 2011	July 17, 2012
Number of options granted	102,000	98,000	77,000
Exercisable period	From June 30, 2029 to June 29, 2030	From June 30, 2030 to June 29, 2031	From June 30, 2031 to June 29, 2032
Vesting conditions	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2029	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2030	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2031
Vesting period for services received	From July 29, 2010 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2012	From August 2, 2011 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2013	From August 2, 2012 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2014

17. Shareholders' Equity (continued)

	The 2013 plan
Date of approval	January 16, 2014
Number of options granted	72,000
Exercisable period	From June 30, 2032 to June 29, 2033
Vesting conditions	In the event a grantee resigns from both positions of director and executive officer, the options are exercisable from the day following their resignation until June 29, 2032
Vesting period for services received	From July 29, 2013 to the date of the annual general meeting of the shareholders for the fiscal year ending March 31, 2015

17. Shareholders' Equity (continued)

Stock option activity plans are summarized as follows:

	The 2004 plan	The 2005 plan	The 2006 plan	The 2007 plan	The 2008 plan	The 2009 plan	The 2010 plan	The 2011 plan	The 2012 plan	The 2013 plan
Number of stock options which are not yet vested:										
Outstanding at April 1, 2013	15,000	12,000	19,000	21,000	31,000	48,000	61,000	59,000	77,000	–
Granted	–	–	–	–	–	–	–	–	–	72,000
Forfeited	–	–	–	–	–	–	–	–	–	–
Vested	–	–	–	–	–	–	–	–	–	–
Outstanding at March 31, 2014	15,000	12,000	19,000	21,000	31,000	48,000	61,000	59,000	77,000	72,000
Number of stock options which have already been vested:										
Outstanding at April 1, 2013	6,000	4,000	8,000	8,000	23,000	21,000	23,000	19,000	–	–
Vested	–	–	–	–	–	–	–	–	–	–
Exercised	3,000	2,000	2,000	–	11,000	–	–	–	–	–
Forfeited	–	–	–	–	–	–	–	–	–	–
Outstanding at March 31, 2014	3,000	2,000	6,000	8,000	12,000	21,000	23,000	19,000	–	–
Exercise price	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Weighted average fair value per stock at the exercise date	¥ 442	¥ 442	¥ 442	¥ –	¥ 412	¥ –	¥ –	¥ –	¥ –	¥ –
Fair value of stock options as of the grant date	¥ –	¥ –	¥ 478	¥ 546	¥ 416	¥ 365	¥ 280	¥ 240	¥ 204	¥ 375

17. Shareholders' Equity (continued)

Valuation method for estimating fair value was the Black-Scholes model. The major assumptions used were as follows:

Major assumptions	Note	The 2013 plan
Expected volatility	(a)	26.286%
Expected holding period		10 years
Expected dividend	(b)	¥7.5 per share
Risk-free rate	(c)	0.617%

(a) Expected volatility was computed by the actual stock price of the Company during the period from January 2004 to December 2013.

(b) The expected dividend was calculated at the actual amount paid for the year ended March 31, 2013.

(c) The risk-free rate was determined based on Japanese government bonds whose redemption period corresponds to the expected holding period described above.

Because it is difficult to reasonably estimate the number of stock options that will expire, the estimation reflects only the actual number of expired stock options.

Treasury stock

Movements in treasury stock during the years ended March 31, 2013 and 2014 are summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Treasury stock (*1)	24,976,317	1,427,843	1,269	26,402,891

	Number of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Treasury stock (*2)	26,402,891	3,145,426	3,018,000	26,530,317

(*1) The increase in the number of shares of treasury stock consists of 1,411,000 shares due to the purchase of shares based on the resolution of the Board of Directors meeting, 6,693 shares due to the purchase of fractional shares of less than one voting unit and 10,150 shares attributable to the Company acquired by its affiliates under the equity method.

The decrease in the number of shares of treasury stock (1,269 shares) is due to the sales to shareholders of 1,269 fractional shares at their request.

17. Shareholders' Equity (continued)

(*2) The increase in the number of shares of treasury stock consists of 3,118,000 shares due to purchase of shares based on the resolution of the Board of Directors meeting, 20,303 shares due to the purchase of fractional shares of less than one voting unit and 7,123 shares attributable to the Company acquired by its affiliates under the equity method.

The decrease in the number of shares of treasury stock consist of 3,000,000 shares due to a third-party allotment based on the resolution of the Board of Directors meeting and 18,000 shares due to the exercise of stock options.

18. Land Revaluation

At March 31, 2000 and 2002, certain consolidated subsidiaries and an affiliate revalued their land held for business use in accordance with the "Law on Land Revaluation." Differences on land revaluation have been accounted for as land revaluation reserve under net assets and are stated at the Company's share of the net amount of the relevant tax effect. The method followed for land revaluation was determined in accordance with the "Enforcement Act Concerning Land Revaluation."

The fair value of the land revalued at March 31, 2000 and 2002 was less than the corresponding carrying value by the following amounts at March 31, 2013 and 2014:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Land revalued at March 31, 2000	¥ (293)	¥ (312)	$ (3,032)
Land revalued at March 31, 2002	(623)	(662)	(6,432)
	¥ (916)	¥ (974)	$ (9,464)

A certain portion of land revalued at March 31, 2000 and 2002 is related to real estate for investment, rental and idle properties at March 31, 2013 in the amounts of ¥11 million and ¥239 million, respectively.

A certain portion of land revalued at March 31, 2000 and 2002 is related to real estate for investment, rental and idle properties at March 31, 2014 in the amounts of ¥13 million ($126 thousand) and ¥271 million ($2,633 thousand), respectively.

19. Research and Development Costs

Research and development costs included in selling, general and administrative expenses totaled ¥427 million and ¥538 million ($5,227 thousand) for the years ended March 31, 2013 and 2014, respectively.

20. Leases

(1) Finance leases

The Company and its consolidated subsidiaries lease mainly machinery, vehicles and others (machinery and equipment) as leased assets under finance lease transactions which transfer ownership to the Group and mainly, information processing systems as leased assets under finance lease transactions which do not transfer ownership to the Group.

The depreciation method for leased assets is addressed in Note 1. Summary of Significant Accounting Policies (j) Leases.

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2013 and 2014, which would have been reflected in the accompanying consolidated balance sheet if finance leases, other than those which transfer the ownership of the leased assets to the Group, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	Millions of yen					
	2013			**2014**		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 10	¥ 8	¥ 2	¥ 6	¥ 6	¥ 0

	Thousands of U.S dollars		
	2014		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	$ 58	$ 58	$ 0

The related lease payments and depreciation for the years ended March 31, 2013 and 2014 were as follows:

	Millions of yen		*Thousands of U.S. dollars*
	2013	**2014**	**2014**
Lease payments	¥ 2	¥ 1	$ 10
Depreciation	2	1	10

Depreciation is calculated by the straight-line method over the respective lease terms assuming a nil residual value.

The related future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 under finance leases other than those which transfer the ownership of the leased assets to the Group are summarized as follows:

Year ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2015	¥ 0	$ 0

20. Leases (continued)

(1) Finance leases (continued)
No loss on impairment has been recorded on leased assets for the years ended March 31, 2013 and 2014.

(2) Operating leases

Future minimum lease receipts subsequent to March 31, 2014 under operating leases are as follows:

Years ending March 31,	*Millions of yen*	*Thousands of U.S. dollars*
2015	¥ 16	$ 155
2016 and thereafter	136	1,322
	¥ 152	$1,477

There were no operating leases for the year ended March 31, 2013.

21. Derivatives

The outstanding currency-related derivatives positions not designated as hedging instruments at March 31, 2013 and 2014 are as follows:

	Thousands of New Taiwan dollars		*Millions of yen*	
	2013			
Type of transaction	Contract value (notional principal amount)	Contract value over one year	Estimated fair value	Unrealized loss
Over-the-counter transactions				
Forward foreign exchange contracts:				
Selling USD	TWD 243,109	TWD –	¥ (0)	¥ (0)

	Thousands of New Taiwan dollars		*Millions of yen*		*Thousands of U.S. dollars*	
	2014					
Type of transaction	Contract value (notional principal amount)	Contract value over one year	Estimated fair value	Unrealized loss	Estimated fair value	Unrealized loss
Over-the-counter transactions						
Forward foreign exchange contracts:						
Selling USD	TWD 141,711	TWD –	¥ (2)	¥ (2)	$ (19)	$ (19)

21. Derivatives (continued)

Type of transaction	Millions of yen 2013 Contract value (notional principal amount)	Contract value over one year	Estimated fair value	Unrealized loss
Over-the-counter transactions				
Forward foreign exchange contracts:				
Selling Chinese Yuan	¥ 1,131	¥ 1,131	¥ (18)	¥ (18)

Type of transaction	Millions of yen 2014 Contract value (notional principal amount)	Contract value over one year	Estimated fair value	Unrealized loss	Thousands of U.S. dollars 2014 Estimated fair value	Unrealized loss
Over-the-counter transactions						
Forward foreign exchange contracts:						
Selling Chinese Yuan	¥ 1,733	¥ 1,733	¥(208)	¥(208)	$(2,021)	$(2,021)

Fair value is based on the prices obtained from financial institutions.

The outstanding currency-related derivatives positions designated as hedging instruments at March 31, 2013 and 2014 are as follows:

Method of hedge accounting	Hedge transactions and major hedged items	Millions of yen 2013 Contract value (notional principal amount)	Contract value over one year	Estimated fair value
Deferral hedge accounting	Forecasted transactions in foreign currencies: Selling USD, Accounts receivable	¥ 12	¥ –	¥ (2)
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts: Selling USD, Accounts receivable	¥ 850	¥ –	¥ –

Method of hedge accounting	Hedge transactions and major hedged items	Millions of yen 2014 Contract value (notional principal amount)	Contract value over one year	Estimated fair value
Deferral hedge accounting	Forecasted transactions in foreign currencies: Selling USD, Accounts receivable	¥ 22	¥ –	¥ (0)
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts: Selling USD, Accounts receivable	¥ 217	¥ –	¥ –
	Forward foreign exchange contracts: Buying USD, Accounts payable	¥ 205	¥ –	¥ –

21. Derivatives (continued)

Method of hedge accounting	Hedge transactions and major hedged items	Thousands of U.S. dollars 2014 Contract value (notional principal amount)	Contract value over one year	Estimated fair value
Deferral hedge accounting	Forecasted transactions in foreign currencies: Selling USD, Accounts receivable	$ 214	$ –	$ (0)
Allocation method for forward foreign exchange contracts	Forward foreign exchange contracts: Selling USD, Accounts receivable	$ 2,108	$ –	$ –
	Forward foreign exchange contracts: Buying USD, Accounts payable	$ 1,992	$ –	$ –

Fair value is based on the prices obtained from financial institutions.

The fair value of forward foreign exchange contracts that qualify for allocation method is included in the carrying value of hedged accounts receivable and payable.

22. Amounts per Share

Amounts per share at March 31, 2013 and 2014 and for the years then ended were as follows:

	Yen 2013	Yen 2014	U.S. dollars 2014
Net assets	¥ 845.55	¥ 890.00	$ 8.65
Net income:			
Basic	15.82	20.76	0.20
Diluted	15.78	20.70	0.20
Cash dividends	7.50	10.00	0.10

Amounts per share of net assets are computed based on the number of shares of common stock outstanding at the year end.

Basic net income per share is computed based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share is computed based on the net income available for distribution to the shareholders and the weighted-average number of shares of common stock outstanding during each year after giving effect to the dilutive potential of shares of common stock to be issued upon the exercise of stock acquisition rights.

The average number of shares of common stock used to compute basic net income per share for the years ended March 31, 2013 and 2014 were 159,033 thousand and 157,500 thousand, respectively. The dilutive potential of shares of common stock for the years ended March 31, 2013 and 2014 were 425 thousand and 462 thousand, respectively.

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

23. Transactions with Related Parties

Transactions and balances with related parties as of and for the years ended March 31, 2013 and 2014 are summarized as follows:

Transactions

Name of affiliated company	Type of transaction	*Millions of yen* 2013	*Millions of yen* 2014	*Thousands of U.S. dollars* 2014
Sadoshima Corporation	Sales	¥ 31,361	¥ 34,206	$ 332,355

Balances

Name of affiliated company	Account name	*Millions of yen* 2013	*Millions of yen* 2014	*Thousands of U.S. dollars* 2014
Sadoshima Corporation	Notes and accounts receivable	¥ 11,418	¥ 13,149	$ 127,759

The Company owns 50.0% of the voting rights of Sadoshima Corporation, a steel product wholesaler for the Company. Certain board members of Sadoshima Corporation serve concurrently as board members of the Company. Selling prices of products are determined based on price negotiations each fiscal year, after considering market prices, overall costs and the Company's proposals regarding desired prices.

24. Investment, Rental and Idle Properties

The Company and certain consolidated subsidiaries own office buildings, land, and parking lots as rental properties and idle properties mainly in Osaka Prefecture, other domestic areas and Taiwan.

The carrying value in the consolidated balance sheet at March 31, 2013 and 2014 and the corresponding fair value of rental properties and idle properties are as follows:

	Millions of yen			
	Carrying value			Fair value
	2012	**Net change**	**2013**	**2013**
Rental properties and idle properties	¥ 4,426	¥ (35)	¥ 4,391	¥ 7,650
Real estate including certain portions used as rental property	4,818	(64)	4,754	11,408
Total	¥ 9,244	¥ (99)	¥ 9,145	¥ 19,058

24. Investment, Rental and Idle Properties (continued)

	Millions of yen			
	Carrying value			Fair value
	2013	**Net change**	**2014**	**2014**
Rental properties and idle properties	¥ 4,391	¥ 132	¥ 4,523	¥ 7,835
Real estate including certain portions used as rental property	4,754	(65)	4,689	11,157
Total	¥ 9,145	¥ 67	¥ 9,212	¥ 18,992

	Thousands of U.S. dollars			
	Carrying value			Fair value
	2013	**Net change**	**2014**	**2014**
Rental properties and idle properties	$ 42,664	$ 1,283	$ 43,947	$ 76,127
Real estate including certain portions used as rental property	46,191	(631)	45,560	108,405
Total	$ 88,855	$ 652	$ 89,507	$ 184,532

The carrying value represents the acquisition cost less accumulated depreciation and cumulative impairment loss.

The components of net change in carrying value for the year ended March 31, 2013 included increases mainly due to translation adjustments in the amount of ¥185 million and decreases mainly due to depreciation of buildings in the amount of ¥139 million and sales of properties in the amount of ¥76 million.

The components of net change in carrying value for the year ended March 31, 2014 included increases mainly due to translation adjustments in the amount of ¥235 million ($2,283 thousand) and decreases mainly due to depreciation of buildings in the amount of ¥149 million ($1,448 thousand).

Fair value of domestic rental properties are principally measured based on the real-estate appraisal assessed by the external real-estate appraiser. However, unless the appraisal or indicators that are regarded to reflect the fair value of the properties appropriately change significantly since the date of acquisition or the date of the latest appraisal, the Company and certain domestic consolidated subsidiaries measure the fair value of the properties based on such appraisal or indicators obtained previously and adjusted as appropriately.

24. Investment, Rental and Idle Properties (continued)

Fair value of rental properties in Taiwan is measured based on the property prices announced by the government.

Revenues, costs and expenses relevant to investment, rental and idle properties for the years ended March 31, 2013 and 2014 are as follows:

Millions of yen			
2013			
Rental revenues	Rental costs	Difference	Other loss, net on sales and others
¥ 851	¥ 576	¥ 275	¥ (25)

Millions of yen			
2014			
Rental revenues	Rental costs	Difference	Other gain, net on sales and others
¥ 823	¥ 557	¥ 266	¥ 3

Thousands of U.S. dollars			
2014			
Rental revenues	Rental costs	Difference	Other gain, net on sales and others
$ 7,997	$ 5,412	$ 2,585	$ 29

The rental revenues and rental costs for certain properties of which only a part are used as rental properties are not included in the above table because the Company and certain consolidated subsidiaries use a portion of these properties for the purposes of rendering services and conducting management activities. The rental revenues are recorded under net sales or other income and the rental costs are recorded under cost of sales, selling, general and administrative expenses or other, net, as part of other expenses, in the consolidated statement of income.

25. Segment Information

i) Outline of segment information

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 of the Company in order to make decisions about resource allocation and to assess business performance.

The Group's business units are divided by the similarity of the products or services sold by each business unit. Each business unit develops its own strategies and operates its businesses independently.

Therefore, the Group consists four reportable segments based on business units: "Steel Sheet Segment," "Roll Segment," "Grating Segment" and "Real Estate Segment."

The "Steel Sheet Segment" engages in the manufacture and sale of cold rolled steel, polished hoop steel, hot dip galvanizing steel sheets, painted hot dip galvanizing steel sheets, other construction materials, building materials and exterior products and others and in designing and engineering of construction work. The "Roll Segment" engages in the manufacture and sale of rolls for iron, steel and non-ferrous products and others. The "Grating Segment" engages in the manufacture and sales of gratings. The "Real Estate Segment" engages in the sale, purchase and lease of real estate such as buildings and car parking lots.

ii) Calculation methods used for net sales, income or loss, assets and other items of each reportable segment

The accounting policies of the segments are substantially the same as those described in the summary of significant accounting policies in Note 1. In addition, segment income (loss) is adjusted to be consistent with operating income in the consolidated statement of income.

25. Segment Information (continued)

iii) Information on net sales, income or loss, assets and other items of each reportable segment

Information by reportable segment for the years ended March 31, 2013 and 2014 are summarized as follows:

	Millions of yen								
	Year ended March 31, 2013								
	Reportable Segments								
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales									
Sales to third parties	¥ 130,549	¥ 3,535	¥ 3,350	¥ 901	¥ 138,335	¥ 2,749	¥ 141,084	¥ –	¥ 141,084
Inter-segment sales and transfers	–	–	–	424	424	3,737	4,161	(4,161)	–
Total	¥ 130,549	¥ 3,535	¥ 3,350	¥ 1,325	¥ 138,759	¥ 6,486	¥ 145,245	¥ (4,161)	¥ 141,084
Segment income (loss)	¥ 4,522	¥ (188)	¥ 76	¥ 664	¥ 5,074	¥ (243)	¥ 4,831	¥ (1,201)	¥ 3,630
Segment assets	¥ 108,462	¥ 3,534	¥ 3,238	¥ 8,477	¥ 123,711	¥ 8,108	¥ 131,819	¥ 55,985	¥ 187,804
Other items									
Depreciation and amortization	¥ 3,325	¥ 276	¥ 87	¥ 71	¥ 3,759	¥ 168	¥ 3,927	¥ 61	¥ 3,988
Investment in an affiliate accounted for by the equity method	3,202	–	309	2	3,513	–	3,513	–	3,513
Increase in property, plant and equipment and intangible assets	8,763	113	8	13	8,897	874	9,771	17	9,788

25. Segment Information (continued)

iii) Information on net sales, income or loss, assets and other items of each reportable segment (continued)

	Millions of yen								
	Year ended March 31, 2014								
	Reportable Segments								
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales									
Sales to third parties	¥ 146,791	¥ 2,508	¥ 3,599	¥ 872	¥ 153,770	¥ 3,782	¥ 157,552	¥ –	¥ 157,552
Inter-segment sales and transfers	–	–	–	443	443	2,897	3,340	(3,340)	–
Total	¥ 146,791	¥ 2,508	¥ 3,599	¥ 1,315	¥ 154,213	¥ 6,679	¥ 160,892	¥ (3,340)	¥ 157,552
Segment income (loss)	¥ 6,702	¥ (720)	¥ 93	¥ 625	¥ 6,700	¥ 343	¥ 7,043	¥ (920)	¥ 6,123
Segment assets	¥ 129,388	¥ 3,413	¥ 3,825	¥ 8,366	¥ 144,992	¥ 8,313	¥ 153,305	¥ 54,471	¥ 207,776
Other items									
Depreciation and amortization	¥ 3,677	¥ 275	¥ 74	¥ 69	¥ 4,095	¥ 203	¥ 4,298	¥ 54	¥ 4,352
Investment in an affiliate accounted for by the equity method	3,304	–	318	2	3,624	–	3,624	–	3,624
Increase in property, plant and equipment and intangible assets	7,119	184	17	4	7,324	804	8,128	24	8,152

	Thousands of U.S. dollars								
	Year ended March 31, 2014								
	Reportable Segments								
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Sub-Total	Other	Total	Adjustments and eliminations	Consolidated
Net sales									
Sales to third parties	$ 1,426,263	$ 24,368	$ 34,969	$ 8,473	$ 1,494,073	$ 36,747	$ 1,530,820	$ –	$ 1,530,820
Inter-segment sales and transfers	–	–	–	4,304	4,304	28,148	32,452	(32,452)	–
Total	$ 1,426,263	$ 24,368	$ 34,969	$ 12,777	$ 1,498,377	$ 64,895	$ 1,563,272	$ (32,452)	$ 1,530,820
Segment income (loss)	$ 65,118	$ (6,996)	$ 904	$ 6,073	$ 65,099	$ 3,333	$ 68,432	$ (8,940)	$ 59,492
Segment assets	$ 1,257,171	$ 33,162	$ 37,165	$ 81,286	$ 1,408,784	$ 80,771	$ 1,489,555	$ 529,256	$ 2,018,811
Other items									
Depreciation and amortization	$ 35,727	$ 2,672	$ 719	$ 670	$ 39,788	$ 1,973	$ 41,761	$ 524	$ 42,285
Investment in an affiliate accounted for by the equity method	32,103	–	3,090	19	35,212	–	35,212	–	35,212
Increase in property, plant and equipment and intangible assets	69,170	1,788	165	39	71,162	7,812	78,974	233	79,207

25. Segment Information (continued)

Net sales categorized by country and region based on locations of customers within the Group for the years ended March 31, 2013 and 2014 are summarized as follows:

Millions of yen			
2013			
Japan	Taiwan	Other	Total
¥ 93,531	¥ 20,152	¥ 27,401	¥ 141,084

Millions of yen			
2014			
Japan	Taiwan	Other	Total
¥102,795	¥ 24,470	¥ 30,287	¥ 157,552

Thousands of U.S. dollars			
2014			
Japan	Taiwan	Other	Total
$ 998,785	$ 237,758	$ 294,277	$ 1,530,820

Property, plant and equipment, net, categorized by geographical area at March 31, 2013 and 2014 are summarized as follows:

Millions of yen				
2013				
Japan	Taiwan	China	Other	Total
¥ 33,094	¥ 10,313	¥ 5,061	¥ 3,163	¥ 51,631

Millions of yen				
2014				
Japan	Taiwan	China	Other	Total
¥ 34,055	¥ 11,189	¥ 10,166	¥ 3,387	¥ 58,797

Thousands of U.S. dollars				
2014				
Japan	Taiwan	China	Other	Total
$ 330,888	$ 108,716	$ 98,776	$ 32,909	$ 571,289

25. Segment Information (continued)

Net sales to major customers for the years ended March 31, 2013 and 2014 are as follows:

Customer name	*Millions of yen* 2013	*Millions of yen* 2014	*Thousands of U.S. dollars* 2014	Related Segments
Sadoshima Corporation	¥ 31,361	¥ 34,206	$ 332,355	"Steel Sheet Segment," "Grating Segment," "Real Estate Segment" and "Other"

Loss on impairment of fixed assets by reportable segment for the years ended March 31, 2013 and 2014 is summarized as follows:

Millions of yen — Year ended March 31, 2013

	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥140	¥ 10	¥ 150

Millions of yen — Year ended March 31, 2014

	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Loss on impairment of fixed assets	¥ –	¥ –	¥ –	¥ –	¥ 0	¥ 7	¥ 7

Thousands of U.S. dollars — Year ended March 31, 2014

	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Loss on impairment of fixed assets	$ –	$ –	$ –	$ –	$ 0	$ 68	$ 68

25. Segment Information (continued)

The amortization and balance of negative goodwill by reportable segment as of and for the years ended March 31, 2013 and 2014 are summarized as follows:

	Millions of yen						
	Year ended March 31, 2013						
	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	¥ 13	¥ –	¥ 0	¥ –	¥ 2	¥ 4	¥ 19
Balance at the year end	12	–	0	–	1	4	17

	Millions of yen						
	Year ended March 31, 2014						
	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	¥ 7	¥ –	¥ 0	¥ –	¥ 1	¥ 2	¥ 10
Balance at the year end	5	–	0	–	1	1	7

	Thousands of U.S. dollars						
	Year ended March 31, 2014						
	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Amortization	$ 68	$ –	$ 0	$ –	$ 10	$ 19	$ 97
Balance at the year end	48	–	0	–	10	10	68

Negative goodwill credited to income by reportable segment for the year ended March 31, 2014 is summarized as follows:

	Millions of yen						
	Year ended March 31, 2014						
	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Negative goodwill credited to income	¥ 36	¥ –	¥ 1	¥ –	¥ 4	¥ 9	¥ 50

25. Segment Information (continued)

	Thousands of U.S. dollars						
	Year ended March 31, 2014						
	Reportable Segments						
	Steel Sheet Segment	Roll Segment	Grating Segment	Real Estate Segment	Other	Adjustments and eliminations	Total
Negative goodwill credited to income	$350	$ –	$ 10	$ –	$ 39	$ 87	$486

Negative goodwill was credited to income for the year ended March 31, 2014 due to purchases of a subsidiary's shares, which was included in other, net, as part of other income (expenses) in the consolidated statement of income.

There was no negative goodwill credited to income for the year ended March 31, 2013.

26. Subsequent Events

(a) Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014, was approved at a meeting of the Board of Directors held on May 12, 2014:

	Millions of yen	*Thousands of U.S. dollars*
Cash dividends of ¥5 ($0.05) per share	¥ 794	$ 7,715

(b) Purchase of treasury stock

At the meeting of the Board of Directors of the Company held on May 12, 2014, in accordance with Article 459 (1) of the law and Article 35 of the Company's bylaw, the Company approved the purchase of up to 1,200 thousand shares of treasury stock for an aggregate acquisition cost not exceeding ¥500 million ($4,858 thousand) during the period from May 13, 2014 through June 23, 2014, to support the execution of a flexible capital management policy in response to changes in the business environments.
As a result, the Company purchased 1,200 thousand shares of treasury stock for a total amount of ¥494 million ($4,800 thousand) from the market.