

Consolidated Financial Statements

USHIO INC.

*Year ended March 31, 2016 with
Independent Auditor's Report*

Independent Auditor's Report

Independent Auditor's Report

The Board of Directors
USHIO INC.

We have audited the accompanying consolidated financial statements of USHIO INC. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of USHIO INC. and its consolidated subsidiaries as at March 31, 2016, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 29, 2016
Tokyo, Japan

USHIO INC. and Consolidated Subsidiaries

Consolidated Balance Sheet

	As of March 31		
	2016 (Millions of yen)	2015	2016 (Thousands of U.S. dollars) (Note 2)
Assets			
Current assets:			
Cash and deposits (Notes 3, 9 and 16)	¥ 54,595	¥ 60,765	\$ 484,516
Notes and accounts receivable – trade (Notes 3 and 9)	38,424	39,796	341,002
Securities (Notes 9 and 10)	7,893	13,503	70,055
Merchandise and finished goods	30,705	28,997	272,502
Work in process	10,215	7,888	90,658
Raw materials and supplies	15,716	15,361	139,481
Deferred tax assets (Note 4)	5,070	6,016	45,001
Prepaid expenses and other current assets	8,677	7,740	77,007
Less: Allowance for doubtful accounts (Note 9)	(1,125)	(1,295)	(9,989)
Total current assets	170,173	178,774	1,510,233
Property, plant and equipment, at cost:			
Buildings and structures	40,115	39,863	356,010
Machinery, equipment and other (Note 8)	49,765	49,384	441,664
Land	10,119	9,670	89,810
Construction in progress	3,118	1,214	27,673
	103,117	100,133	915,157
Less: Accumulated depreciation	(60,809)	(60,119)	(539,668)
Property, plant and equipment, net	42,310	40,014	375,489
Intangible assets	10,786	7,098	95,722
Investments and other assets:			
Investment securities (Notes 9 and 10)	65,724	63,216	583,280
Investments in and advances to associates	21	34	188
Deferred tax assets (Note 4)	1,116	1,071	9,906
Net defined benefit asset (Note 12)	23	18	208
Other assets	4,371	4,315	38,794
Total investments and other assets	71,256	68,655	632,376
Total assets	¥294,525	¥294,542	\$2,613,821

	As of March 31		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable – trade (Note 9)	¥ 17,797	¥ 17,786	\$ 157,945
Short-term loans payable (Notes 3 and 9)	5,049	4,272	44,817
Current portion of long-term loans payable (Notes 3 and 9)	3,066	1,361	27,217
Income taxes payable	382	1,801	3,394
Deferred tax liabilities (Note 4)	183	79	1,625
Provision for bonuses	2,472	2,654	21,945
Provision for product warranties	1,828	1,755	16,231
Provision for loss on order received	2	73	20
Provision for environmental measures	236	–	2,094
Other current liabilities	18,443	15,100	163,683
Total current liabilities	49,463	44,886	438,971
Long-term liabilities:			
Long-term loans payable (Notes 3 and 9)	6,397	8,430	56,775
Deferred tax liabilities (Note 4)	4,325	5,792	38,392
Provision for directors' retirement benefits	756	545	6,718
Provision for directors' stock payment	102	–	913
Net defined benefit liability (Note 12)	14,946	9,170	132,647
Other long-term liabilities	7,235	6,992	64,216
Total long-term liabilities	33,765	30,932	299,660
Net assets:			
Shareholders' equity:			
Capital stock:			
Authorized – 300,000,000 shares			
Issued – 139,628,721 shares	19,556	19,556	173,556
Capital surplus	27,672	28,301	245,587
Retained earnings	151,856	143,883	1,347,676
Treasury shares, at cost	(16,027)	(12,850)	(142,236)
Total shareholders' equity	183,057	178,891	1,624,582
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	31,072	29,892	275,756
Deferred gains or losses on hedges	–	0	–
Foreign currency translation adjustment	4,375	12,425	38,836
Remeasurements of defined benefit plans	(9,800)	(5,285)	(86,975)
Total accumulated other comprehensive income	25,647	37,033	227,617
Non-controlling interests	2,590	2,798	22,989
Total net assets (Note 15)	211,296	218,723	1,875,189
Total liabilities and net assets	¥294,525	¥294,542	\$2,613,821

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Income

	Years ended March 31		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales	¥179,121	¥159,365	\$1,589,647
Cost of sales	110,717	98,030	982,583
Gross profit	68,403	61,335	607,064
Selling, general and administrative expenses (Note 5)	55,273	50,977	490,532
Operating income	13,130	10,357	116,532
Other income (expenses):			
Interest and dividend income	1,899	1,819	16,853
Interest expenses	(250)	(193)	(2,221)
Foreign exchange gains	11	757	98
Loss on trading securities	(341)	—	(3,030)
Gain on trading securities	—	445	—
Share of loss of entities accounted for using equity method	(12)	(43)	(115)
Gain on sales of investment securities, net	253	3,296	2,250
Gain on bargain purchase	579	277	5,142
Loss on valuation of investment securities (Note 10)	—	(86)	—
Impairment loss (Note 6)	(244)	(1,521)	(2,168)
Extra retirement payment	(50)	(84)	(448)
Provision for environmental measures	(236)	—	(2,094)
Office transfer expenses (Note 7)	(543)	—	(4,826)
Loss on liquidation of subsidiaries and associates, net	(50)	—	(447)
Other, net	1,043	521	9,262
	2,057	5,187	18,256
Profit before income taxes	15,187	15,545	134,788
Income taxes (Note 4):			
Current	3,003	3,342	26,653
Deferred	998	660	8,862
	4,001	4,002	35,515
Profit	11,186	11,542	99,274
Profit attributable to non-controlling interests	80	263	712
Profit attributable to owners of the parent (Note 15)	¥ 11,105	¥ 11,279	\$ 98,562

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income

	Years ended March 31		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Profit	¥ 11,186	¥11,542	\$ 99,274
Other comprehensive income (Note 13):			
Valuation difference on available-for-sale securities	1,179	8,485	10,467
Deferred gains or losses on hedges	(0)	7	(6)
Foreign currency translation adjustment	(8,244)	11,020	(73,166)
Remeasurements of defined benefit plans	(4,515)	(597)	(40,070)
Share of other comprehensive income of entities accounted for using equity method	0	2	1
Total other comprehensive income (losses)	(11,580)	18,919	(102,774)
Comprehensive income (losses)	¥ (394)	¥30,462	\$ (3,500)
Comprehensive income attributable to owners of the parent	¥ (279)	¥30,009	\$ (2,480)
Comprehensive income attributable to non-controlling interests	(114)	452	(1,020)

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Changes in Net Assets

		Shareholders' equity					Accumulated other comprehensive income						
	Number of shares of capital stock issued <i>(Thousands)</i>	Capital stock	Capital surplus	Retained earnings	Treasury shares, at cost	Total shareholders' equity	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
							<i>(Millions of yen)</i>						
Balance as of April 1, 2014	139,628	¥19,556	¥28,371	¥134,798	¥(13,244)	¥169,482	¥21,407	¥(7)	¥ 1,590	¥(4,687)	¥ 18,302	¥3,461	¥191,246
Cumulative effects of changes in accounting policies				1,193		1,193							1,193
Restated balance at April 1, 2014	139,628	19,556	28,371	135,992	(13,244)	170,676	21,407	(7)	1,590	(4,687)	18,302	3,461	192,440
Dividends from surplus				(3,388)		(3,388)							(3,388)
Profit attributable to owners of the parent				11,279		11,279							11,279
Purchase of treasury shares					(432)	(432)							(432)
Increase by share exchanges			(69)		826	756							756
Net changes of items other than shareholders' equity						–	8,485	7	10,834	(597)	18,730	(662)	18,067
Balance as of March 31, 2015	139,628	19,556	28,301	143,883	(12,850)	178,891	29,892	0	12,425	(5,285)	37,033	2,798	218,723
Dividends from surplus				(3,133)		(3,133)							(3,133)
Profit attributable to owners of the parent				11,105		11,105							11,105
Purchase of treasury shares					(3,177)	(3,177)							(3,177)
Purchase of shares of consolidated subsidiaries			(628)			(628)							(628)
Net changes of items other than shareholders' equity						–	1,179	(0)	(8,049)	(4,515)	(11,385)	(208)	(11,593)
Balance as of March 31, 2016	139,628	¥19,556	¥27,672	¥151,856	¥(16,027)	¥183,057	¥31,072	¥–	¥ 4,375	¥(9,800)	¥ 25,647	¥2,590	¥211,296

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury shares, at cost	Total shareholders' equity	Valuation difference on available-for- sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure- ments of defined benefit plans	Total accumulated other comprehensive income	Non- controlling interests	Total net assets
	<i>(Thousands of U.S. dollars) (Note 2)</i>											
Balance as of March 31, 2015	\$173,556	\$251,168	\$1,276,922	\$(114,040)	\$1,587,606	\$265,289	\$ 6	\$110,269	\$(46,905)	\$ 328,659	\$24,838	\$1,941,103
Dividends from surplus			(27,808)		(27,808)							(27,808)
Profit attributable to owners of the parent			98,562		98,562							98,562
Purchase of treasury shares				(28,196)	(28,196)							(28,196)
Purchase of shares of consolidated subsidiaries		(5,582)			(5,582)							(5,582)
Net changes of items other than shareholders' equity						10,467	(6)	(71,433)	(40,070)	(101,042)	(1,848)	(102,890)
Balance as of March 31, 2016	\$173,556	\$245,587	\$1,347,676	\$(142,236)	\$1,624,582	\$275,756	\$ –	\$ 38,836	\$(86,975)	\$ 227,617	\$22,989	\$1,875,189

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows

	Years ended March 31		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating activities			
Profit before income taxes	¥ 15,187	¥ 15,545	\$ 134,788
Adjustments to reconcile profit before income taxes to net cash provided by operating activities:			
Depreciation	6,495	5,919	57,648
Impairment loss	244	1,521	2,168
Increase (decrease) in net defined benefit liability	227	(1,070)	2,016
Amortization of goodwill	1,003	680	8,908
Gain on bargain purchase	(579)	(277)	(5,142)
Increase in provision for environmental measures	236	—	2,094
Interest and dividends income	(1,899)	(1,819)	(16,853)
Interest expenses	250	193	2,221
Loss (gain) on trading securities	341	(445)	3,030
Share of loss of entities accounted for using equity method	12	43	115
Gain on sales of investment securities	(253)	(3,296)	(2,250)
Loss on valuation of investment securities	—	86	—
Decrease in notes and accounts receivable – trade	501	3,412	4,451
Increase in inventories	(8,108)	(6,574)	(71,959)
Decrease in notes and accounts payable – trade	(34)	(69)	(305)
Other	1,021	(374)	9,069
Subtotal	14,648	13,475	130,000
Interest and dividends received	1,982	1,866	17,597
Interest paid	(250)	(193)	(2,219)
Income taxes paid	(4,349)	(5,271)	(38,600)
Net cash provided by operating activities	12,031	9,876	106,778
Investing activities			
Payments into time deposits	(13,766)	(12,975)	(122,177)
Proceeds from withdrawal of time deposits	15,432	13,005	136,962
Payments of short-term loans receivable	(322)	(142)	(2,862)
Collection of short-term loans receivable	212	129	1,882
Purchase of securities	(3,940)	(1,240)	(34,969)
Proceeds from sales and redemption of securities	7,248	4,063	64,327
Purchase of property, plant and equipment	(7,903)	(4,092)	(70,139)
Proceeds from sales of property, plant and equipment	1,953	336	17,335
Purchase of intangible assets	(189)	(405)	(1,681)
Purchase of investment securities	(6,134)	(2,619)	(54,438)
Proceeds from sales and redemption of investment securities	671	4,931	5,955
Payments from purchases of shares in subsidiaries resulting in a change in scope of consolidation	(3,883)	(1,815)	(34,461)
Payments of long-term loans receivable	(13)	(28)	(119)
Collection of long-term loans receivable	221	0	1,967
Payments for transfer of business	—	(2,588)	—
Other	46	(269)	413
Net cash used in investing activities	(10,367)	(3,710)	(92,004)

USHIO INC. and Consolidated Subsidiaries

Consolidated Statement of Cash Flows (continued)

	Years ended March 31		
	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
			(Note 2)
Financing activities			
Net increase in short-term loans payable	66	2,600	587
Proceeds from long-term loans payable	1,212	5,941	10,759
Repayment of long-term loans payable	(1,373)	(3,482)	(12,192)
Purchase of treasury shares	(3,177)	(432)	(28,196)
Cash dividends paid	(3,133)	(3,388)	(27,808)
Cash dividends paid to non-controlling shareholders	(28)	(28)	(249)
Payments from purchases of shares in subsidiaries not resulting in a change in scope of consolidation	(1,415)	–	(12,564)
Net cash (used in) provided by financing activities	(7,849)	1,210	(69,662)
Effect of exchange rate changes on cash and cash equivalents	(2,991)	4,270	(26,548)
Net (decrease) increase in cash and cash equivalents	(9,176)	11,646	(81,437)
Cash and cash equivalents at beginning of year	56,989	45,342	505,762
Cash and cash equivalents at end of year (Note 16)	¥ 47,813	¥ 56,989	\$ 424,326

See notes to consolidated financial statements.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

(a) Basis for presentation

USHIO INC. (the “Company”) and its domestic subsidiaries maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan, and its overseas subsidiaries maintain their books of account in conformity with those in their respective countries of domicile.

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

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (collectively, the “Group”) are prepared using the accounts of foreign consolidated subsidiaries prepared in accordance with any of the accounting principles generally accepted in Japan, IFRS or accounting principles generally accepted in the United States as adjusted for certain items.

For the purposes of these documents, certain reclassifications have been made to present the accompanying consolidated financial statements in a format that is familiar to readers outside Japan. In addition, certain reclassifications have been made to the prior year’s consolidated financial statements to bring them into conformity with the current year’s presentation.

As permitted by the regulations under the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (in both yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(b) Principles of consolidation and accounting for investments in associates

The accompanying consolidated financial statements include the accounts of the Company and all subsidiaries over which it exerts substantial control either through majority ownership of voting shares and/or other means. As of March 31, 2016, the number of consolidated subsidiaries and associates accounted for using the equity method were 57 and 2 (54 and 2 in 2015), respectively.

The changes in the scope of consolidation for the year ended March 31, 2016 are as follows:

Due to new establishment, Christie Digital Systems Columbia SAS was included in the consolidation scope.

Due to acquisition of shares, MAXRAY INC., Allure Global Solutions, Inc., American Green Technology, Inc. and Necsel Modules Corporation were included in the consolidation scope.

Due to liquidation, USHIO INTERNATIONAL TECHNOLOGIES, LLC and MIZUTANI Co., LTD. were excluded from the consolidation scope.

The closing date of a consolidated subsidiary, USHIO (SUZHOU) CO., LTD., and 10 other consolidated subsidiaries (8 in 2015) is December 31, and the closing date of Arsenal Media Inc. is January 31. Their financial accounts are consolidated using their financial statements as of the parent's fiscal year-end, and are prepared solely for consolidation purposes. All significant intercompany balances and transactions have been eliminated in the consolidation.

Additionally, XTREME technologies GmbH, which closes its books on September 30, is consolidated by using its financial statements that are prepared solely for consolidation purposes as of December 31. Material differences in intercompany transactions and accounts arising from the use of different fiscal year-ends are appropriately adjusted through consolidation procedures.

Shares of associates (companies over which the Company exercises significant influence) are stated at cost plus equity in their undistributed earnings or losses. Consolidated profit includes the Company's equity in the current profits or losses of such companies after the elimination of unrealized intercompany profits.

All assets and liabilities of the consolidated subsidiaries and associates are revalued on acquisition, if applicable. Goodwill is amortized in equal portions over the period in which it is deemed to be valuable.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(c) Foreign currency translation

Revenue and expense accounts of the overseas consolidated subsidiaries are translated into yen at the average rates of exchange in effect during the year. The balance sheet accounts, except for the components of net assets excluding non-controlling interests, are translated into yen at the rates of exchange in effect at the balance sheet date. The components of net assets excluding non-controlling interests are translated at their historical exchange rates. The differences arising from translation when more than two exchange rates have been used are presented as foreign currency translation adjustment on the accompanying consolidated balance sheet.

All monetary assets and liabilities of the Company and its domestic consolidated subsidiaries denominated in foreign currencies are translated at the current exchange rates in effect at each balance sheet date. Gains or losses resulting from the settlement of these items are credited or charged to income.

(d) Cash equivalents

All highly liquid investments, generally with a maturity of three months or less when purchased, which are readily convertible into known amounts of cash and are so near maturity that they represent only an insignificant risk of any change in value attributable to changes in interest rates, are considered cash equivalents.

(e) Securities and investment securities

Trading securities are carried at fair value, and held-to-maturity securities are carried at amortized cost. Marketable securities classified as available-for-sale securities are carried at fair value with any valuation difference, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as available-for-sale securities are carried at cost. The cost of securities sold is determined by the moving-average method. In cases where available-for-sale securities have declined significantly in value and such devaluation is not deemed temporary, those securities are written down to the fair value and the resulting losses are included in net profit or loss for the period.

(f) Inventories

Merchandise and finished goods, and work in process are stated principally at the lower of cost or market, cost being determined by the average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

Raw materials are principally stated at the lower of cost or market, cost being determined by the moving-average method for the Company and its domestic consolidated subsidiaries and at the lower of cost or market, cost being determined by the first-in, first-out method for overseas consolidated subsidiaries.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(g) Depreciation (excluding leased assets)

Depreciation of property, plant and equipment is calculated principally by the straight-line method based on the estimated useful lives of the respective assets.

The depreciation period ranges from 7 years to 60 years for buildings and structures and 3 years to 12 years for machinery and equipment, and vehicles. The others are generally depreciated from 2 years to 15 years.

Intangible assets are amortized by the straight-line method.

In addition, an estimated useful period for amortization for software for internal use is 5 years.

(h) Leased assets

Leased assets related to finance lease transactions that transfer ownership mainly consist of software of the Company's consolidated subsidiaries and are depreciated by the same approach as the depreciation method applied to non-current assets.

Leased assets related to finance lease transactions that do not transfer ownership mainly consist of production facilities (machinery) and inspection instruments (tools and equipment) of the Company's consolidated subsidiaries and are depreciated by the straight-line method over the lease period that is deemed as the useful life, assuming no residual value.

(i) Research and development expenses

Research and development expenses are charged to income when incurred.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on the collection of receivables, and has been determined based on historical experience with write-offs plus an estimated amount for probable specific doubtful accounts after a review of the collectability of individual receivables.

(k) Provision for bonuses

The provision for bonuses represents the amounts for future payments of employees' bonuses. The provision is recognized in the amount that is expected to be paid.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(l) Provision for directors' retirement benefits

Some of the consolidated subsidiaries recognize provision for retirement benefits for directors, corporate auditors and others in the full amount that would have to be paid if all the directors and corporate auditors resigned at the balance sheet date based on their internal regulations.

(m) Provision for directors' stock payment

Provision for directors' stock payment represents the amounts for future payments of the Company's stock to directors. The provision is recognized based on the amount that is expected to be paid, which is determined using points allocated to each director as prescribed in the share granting rules.

(n) Provision for product warranties

Provision for product warranties is recognized for expenses for after-sales service and free repairs for products sold by the Company and its consolidated subsidiaries in the estimated amount to be incurred in the future.

(o) Provision for loss on order received

To provide for future losses on contracted orders received, the Company recognizes a provision for loss on order received equal to the amount of losses it anticipates after the year-end. Such a provision is recognized when losses on orders received are probable and reasonably estimated.

(p) Provision for environmental measures

The provision for environmental measures represents the amounts for future payments relating to environmental measures. The provision is recognized in the amount that is expected to be paid.

(q) Retirement benefits

(i) Method for attribution of estimated retirement benefits to periods

In the calculation of retirement benefit obligations, the expected retirement benefits are attributed to the period up to the end of the current fiscal year based on the straight-line method.

(ii) Accounting method for actuarial gains or losses and past service costs

Past service costs are amortized as incurred by the straight-line method over a certain period (15 years) that is within the average remaining years of service of the eligible employees when the gains or losses occur.

Actuarial gains or losses are amortized in the year following the year in which the gains or losses are recognized by the straight-line method over a certain period (15 years) that is within the average remaining years of service of the eligible employees when the gains or losses occur.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(r) Derivatives and hedge accounting

The Company and certain consolidated subsidiaries have entered into currency derivative transactions and interest rate swap transactions primarily in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates.

In accordance with the accounting standard for financial instruments, derivative financial instruments are carried at fair value with any changes in unrealized gains or losses charged or credited to income, except for those that meet the criteria for deferral hedge accounting under which unrealized gains or losses are deferred as assets or liabilities. Certain domestic consolidated subsidiaries apply the assignment for the currency derivative transactions that qualify for the method to the hedges of foreign currency risk that is qualified for the treatment.

Hedging instruments and hedged items used by the Company and certain consolidated subsidiaries are as follows:

Hedging instruments: Forward foreign exchange contracts

Hedged items: Receivables and payables denominated in foreign currencies, forecasted transactions denominated in foreign currencies, and securities denominated in foreign currencies

The Company and its consolidated subsidiaries hedge the risks of fluctuation in foreign currencies and interest rates in accordance with internal management rules on financial market risk and derivative transactions.

The hedge effectiveness is assessed by comparing the cumulative changes in fair value or cash flows of the hedged items and those of the hedging instruments during the period from the inception of the hedge to the time of determining the effectiveness, and based on the respective amount of changes.

(s) Deferred income taxes

Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts for income tax purposes, and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(t) Changes in accounting policies

Application of Accounting Standards for Business Combinations

The “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (“ASBJ”) Statement No. 21, issued on September 13, 2013; hereinafter the “Business Combinations Accounting Standard”), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on September 13, 2013; hereinafter the “Consolidation Accounting Standard”) and “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on September 13, 2013; hereinafter the “Business Divestitures Accounting Standard”) and other standards have been applied from the year ended March 31, 2016. Accordingly, the accounting treatment has been changed such that the difference associated with changes in an ownership interest of the Company in subsidiaries of which the company does not lose the control is recognized as capital surplus, and acquisition-related costs are recorded as expenses for the year in which the costs are incurred. For business combinations implemented on or after April 1, 2015, the accounting treatment has been changed to reflect the adjustments to the allocated amount of acquisition costs on the finalization of preliminary accounting treatment in the consolidated financial statements for the year containing the date of the business combinations. In addition, presentation of “net income” has been changed to “profit” and terminology has been changed from “minority interests” to “non-controlling interests”. Associated reclassifications have been made to the consolidated financial statements for the year ended March 31, 2015 to conform to this change.

With respect to application of the Business Combinations Accounting Standard, etc., the transitional treatment as presented in Section 58-2 (4) of the Business Combinations Accounting Standard, Section 44-5 (4) of the Consolidation Accounting Standard and Section 57-4 (4) of the Business Divestitures Accounting Standard was prospectively applied from April 1, 2015.

As a result of this change, operating income and profit before income taxes for the year ended March 31, 2016 decreased by ¥60 million (\$540 thousand) and ¥2 million (\$18 thousand), respectively. In addition, capital surplus as of March 31, 2016 decreased by ¥628 million (\$5,582 thousand).

In the consolidated statement of cash flows for the year ended March 31, 2016, cash flows related to purchase or sale of shares in subsidiaries not resulting in a change in scope of consolidation are classified into “cash flows from financing activities”, while cash flows related to expenses arising from payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation or expenses arising from purchase or sale of shares in subsidiaries not resulting in a change in scope of consolidation are classified into “cash flows from operating activities”.

The impact of this change on net assets per share and basic earnings per share for the year ended March 31, 2016 is immaterial.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(u) Accounting standards issued but not yet applied

Implementation Guidance on Recoverability of Deferred Tax Assets (ASBJ Guidance No. 26, issued on December 28, 2015)

(1) Overview

Implementation Guidance on Recoverability of Deferred Tax Assets stipulates guidance for the treatment of the recoverability of deferred tax assets when applying “Standards for Tax Effect Accounting” issued by Business Accounting Council. When transferring responsibility of setting such guidance from the Japanese Institute of Certified Public Accountants (“JICPA”) to ASBJ, while following the framework of JICPA Audit Committee Report No. 66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets”, whereby companies are categorized into the following five categories and deferred tax assets are calculated based on each of these categories, certain necessary revisions were made for category requirements and treatment of amounts recorded as deferred tax assets.

- 1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
- 2) Category requirements for (Category 2) and (Category 3)
- 3) Treatment related to future deductible temporary differences that cannot be scheduled in companies that qualify as (Category 2)
- 4) Treatment related to the reasonable estimable period of future taxable income before adjusting temporary differences in companies that qualify as (Category 3)
- 5) Treatment in case of companies that satisfy the category requirements for (Category 4) but qualify as (Category 2) or (Category 3)

(2) Scheduled date of application

The guidance will be applied from the beginning of the year commencing on or after April 1, 2016.

(3) Impact of adopting revised implementation guidance

The impact of “Implementation Guidance on Recoverability of Deferred Tax Assets” on the consolidated financial statements is currently being evaluated.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Revenue from Contracts with Customers (Accounting Standard Update (“ASU”) No. 2014-09, issued on May 28, 2014)

(1) Overview

ASU No. 2014-09 provides a comprehensive standard for revenue recognition which replaces the existing revenue recognition guidance under U.S. generally accepted accounting principles (GAAP) issued by the Financial Accounting Standard Board (FASB). The core principle of this standard is that an entity should recognize revenue when the entity transfers promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The adoption of this standard will have an impact on certain overseas consolidated subsidiaries that adopt U.S. GAAP.

(2) Date of application

ASU 2014-09 will be applied for fiscal years beginning on or after April 1, 2019.

(3) Impact of application

The impact of this standard on the consolidated financial statements is currently being evaluated.

(v) Changes in presentation

Consolidated statement of cash flows

“Amortization of goodwill” and “gain on bargain purchase”, which were included in “other” under “cash flows from operating activities” for the year ended March 31, 2015, have been set down separately from the year ended March 31, 2016 since significance of the amounts has increased. To reflect these changes in the method of presentation, the amounts in the consolidated financial statements for the year ended March 31, 2015 have been reclassified.

As a result, ¥29 million presented in “other” under “cash flows from operating activities” in the consolidated statement of cash flows for the year ended March 31, 2015 has been reclassified to ¥680 million of “amortization of goodwill”, ¥(277) million of “gain on bargain purchase”, and ¥(374) million of “other”.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(w) Additional information

Stock Remuneration Plan for Directors

The Company introduced a new stock remuneration plan for directors of the Company (excluding outside directors) and executive officers who have entered into an engagement agreement with the Company (excluding overseas residents, hereinafter “Directors, etc.”) that was resolved at annual general meeting of the shareholders on June 26, 2015, in order to raise the incentive to contribute to improving the Company’s mid- to long-term business performance and to increasing enterprise value.

(1) Overview

The Company entrusts money equivalent to remuneration of Directors, etc. The Company’s shares will be acquired using the entrusted money and the Company’s shares and the cash equivalent of the conversion value of the Company’s shares will be delivered and paid to Directors, etc., based on his or her position and the degree of accomplishment of business performance. Directors, etc., are eligible to receive the Company’s shares and the cash equivalent of the conversion value of the Company’s shares, in principle after retiring from the position of Director, etc. In order to maintain neutrality toward management of the Company, the voting rights of the Company’s shares in the trust may not be exercised during the trust period.

(2) The Company’s shares in the trust

The Company’s shares in the trust are recorded as treasury shares in shareholders’ equity on the consolidated balance sheet with the carrying value in the trust (excluding ancillary expenses). The carrying value and number of such treasury shares are ¥507 million (\$4,506 thousand) and 306,600 shares as of March 31, 2016, respectively.

2. U.S. Dollar Amounts

For the readers’ convenience, the accompanying consolidated financial statements with respect to the year ended March 31, 2016 have been presented in U.S. dollars by translating all yen amounts at ¥112.68 = U.S. \$1.00, the exchange rate prevailing on March 31, 2016. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3. Short-Term Loans Payable and Long-Term Loans Payable

Short-term loans payable consisted mainly of unsecured and secured loans payable to banks at interest rates ranging from 0.35% to 12.00% and from 0.28% to 2.54% per annum at March 31, 2016 and 2015, respectively.

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

	2016 (Millions of yen)	2015 (Millions of yen)	2016 (Thousands of U.S. dollars)
The Company:			
Loans from banks, due through 2016 at a rate of 0.79%	¥ 2,325	¥ 2,325	\$ 20,634
Consolidated subsidiaries:			
Loans from banks, due through 2020 at rates ranging from 1.15% to 10.00%	7,139	7,467	63,359
Total long-term loans payable	9,464	9,792	83,993
Less: Current portion	(3,066)	(1,361)	(27,217)
	¥ 6,397	¥ 8,430	\$ 57,775

The assets pledged as collateral for loans payable as of March 31, 2016 were as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Cash and deposits	¥154	\$1,371
Notes and accounts receivable – trade	337	2,998
Inventories	291	2,585
Machinery, equipment and other	71	639
	¥855	\$7,593

The related loans payable for which the above assets were pledged as collateral as of March 31, 2016 is summarized as follows:

	(Millions of yen)	(Thousands of U.S. dollars)
Short-term loans payable	¥ 402	\$3,573
Current portion of long-term loans payable	17	156
Long-term loans payable	—	—
	¥420,109	\$3,728

The aggregate annual maturities of long-term loans payable subsequent to March 31, 2016 are summarized as follows:

Years ending March 31	(Millions of yen)	(Thousands of U.S. dollars)
2017	¥3,970	\$35,238
2018	1,126	10,000
2019	1,300	11,537
2020	—	—
2021 and thereafter	—	—
Total	¥6,397	\$56,775

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

4. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries comprised corporation taxes, inhabitants' taxes and enterprise taxes, which resulted in an aggregate statutory tax rate of approximately 33.1% for the year ended March 31, 2016 (fiscal year ended March 31, 2015: 35.6%). Income taxes of the overseas consolidated subsidiaries are based, in general, on the tax rates applicable in their respective countries of incorporation.

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

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deferred tax assets:			
Allowance for doubtful accounts	¥ 272	¥ 347	\$ 2,413
Provision for bonuses	637	709	5,655
Provision for product warranties	155	142	1,377
Retirement benefit expenses	—	—	—
Net defined benefit liability	6,267	4,215	55,621
Provision and accrual for directors' retirement benefits	369	423	3,271
Loss on valuation of inventories	1,456	1,378	12,919
Impairment loss	1,340	547	11,890
Loss on liquidation of business	3,527	5,191	31,300
Net losses carried forward	5,024	4,564	44,586
Deferred revenue	2,336	2,297	20,731
Other	2,575	3,855	22,856
Total gross deferred tax assets	23,958	23,674	212,619
Valuation allowance	(6,312)	(5,790)	(56,020)
Total deferred tax assets	17,646	17,884	156,599
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(13,752)	(14,111)	(122,041)
Gain on contribution of securities to retirement benefit trust	(577)	(609)	(5,122)
Depreciation	(286)	(415)	(2,535)
Retained earnings of subsidiaries and associates	(178)	(75)	(1,581)
Other	(1,175)	(1,456)	(10,429)
Total deferred tax liabilities	(15,968)	(16,669)	(141,708)
Net deferred tax assets (liabilities)	¥ 1,678	¥ 1,215	\$ (14,891)

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

A reconciliation between the statutory tax rate and the effective tax rates as a percentage of profit before income taxes for the years ended March 31, 2016 and 2015 is summarized as follows:

	2016	2015
Statutory tax rate	33.1%	35.6%
Reconciliation:		
Increase (decrease) in valuation allowance for deferred tax assets	3.4	2.3
Non-taxable income for income tax purposes	(2.0)	(1.2)
Non-deductible expenses for income tax purposes	1.6	1.1
Tax deductions related to R&D activities	(3.3)	(6.3)
Different tax rates applied to overseas subsidiaries	(9.1)	(8.1)
Share of loss of entities accounted for using equity method	0.0	0.0
Retained earnings of subsidiaries and associates	0.7	(0.0)
Decrease of deferred tax assets at fiscal year-end by the change of tax rate	2.4	4.2
Other	(0.4)	(1.9)
Effective tax rates	26.3%	25.8%

The Act for Partial Amendment of the Income Tax Act, etc. (Act No. 15 of 2016) and the Act for Partial Amendment of the Local Tax Act, etc. (Act No. 13 of 2016) were enacted in the Diet session on March 29, 2016. With this revision, corporate tax rates, etc will be reduced starting from the fiscal year beginning on or after April 1, 2016. In conjunction with this, the statutory tax rate used to calculate deferred tax assets and deferred tax liabilities was changed from the previous rate of 32.3% to 30.9% for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2016 and April 1, 2017, and to 30.6% for temporary differences expected to be realized or settled in the fiscal years beginning on or after April 1, 2018.

As a result of this tax rate change, as of March 31, 2016, deferred tax assets (net of deferred tax liabilities) and valuation difference on available-for-sale securities increased by ¥385 million (\$3,418 thousand) and ¥762 million (\$6,764 thousand), respectively while remeasurements of defined benefit plans decreased by ¥243 million (\$2,158 thousand). Income taxes – deferred increased by ¥386 million (\$3,430 thousand) for the fiscal year ended March 31, 2016.

5. Loss on Valuation of Inventories

The ending inventory balance is the amount after write-down of book value due to decline in profitability, and the loss on valuation of inventories included in cost of sales for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Loss on valuation of inventories	¥883	¥112	\$7,837

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

6. Selling, General and Administrative Expenses

The main components of selling, general and administrative expenses for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Salaries and wages	¥14,968	¥13,705	\$132,841
Provision for bonuses	968	1,097	8,593
Retirement benefit expenses	967	842	8,583
Provision for directors' retirement benefits	72	34	643
Provision for directors' stock payment	102	—	912
Research and development expenses	11,228	10,880	99,653
Provision of allowance for doubtful accounts	352	603	3,128

7. Research and Development Expenses

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

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Research and development expenses	¥11,228	¥10,880	\$99,653

8. Impairment Loss

For the year ended March 31, 2016, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Gotemba, Shizuoka Aoba-ku, Yokohama, Kanagawa and others	Business assets	Buildings and structures, Machinery, equipment and other, Goodwill and Intangible assets	¥222	\$1,976

In principle, the Group's business assets are grouped according to division or to whom assets are lent, and the Group's idle assets are grouped on an individual asset basis.

For idle assets that are not used for business, the book values of the group assets whose fair values fall significantly are written down to their recoverable amounts or zero, and these write-downs are recorded as impairment loss under other expenses.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Breakdown of impairment loss by location is as follows:

Impairment loss of ¥222 million (\$1,976 thousand) recognized for Gotemba, Shizuoka and others includes ¥22 million (\$203 thousand) for buildings and structures, ¥50 million (\$448 thousand) for machinery, equipment, ¥124 million (\$1,109 thousand) for other and ¥24 million (\$217 thousand) for intangible assets.

For the year ended March 31, 2015, the Group recognized impairment loss on the following asset groups:

Location	Classification by use	Type of assets	(Millions of yen)
Gotemba, Shizuoka Aoba-ku, Yokohama, Kanagawa and others	Idle assets	Machinery, equipment and other	¥797
Aoba-ku, Yokohama, Kanagawa and others	Business assets	Buildings and structures, Machinery, equipment and other, Goodwill and Intangible assets	358
Gotemba, Shizuoka	Assets to be disposed of	Buildings and structures, Machinery, equipment and other	118
Himeji, Hyogo	Idle assets	Buildings and structures, Machinery, equipment and other	107

In principle, the Group's business assets are grouped according to division or to whom assets are lent, and the Group's idle assets are grouped on an individual asset basis.

For idle assets that are not used for business, the book values of the group assets whose fair values fall significantly are written down to their recoverable amounts or zero, and these write-downs are recorded as impairment loss under other expenses.

Business assets whose carrying amount may not be recoverable are written down to their recoverable amounts, and these write-downs are recognized as impairment loss under other expenses.

Breakdown of impairment loss by location is as follows:

Impairment loss of ¥358 million recognized for Aoba-ku, Yokohama, Kanagawa and others includes ¥3 million for buildings and structures, ¥0 million for machinery, equipment, ¥79 million for other, ¥274 million for goodwill and ¥0 million for intangible assets.

Impairment loss of ¥118 million recognized for Gotemba, Shizuoka includes ¥115 million for buildings and structures, ¥2 million for machinery, equipment, ¥0 million for other.

Impairment loss of ¥107 million recognized for Himeji, Hyogo includes ¥107 million for buildings and structures and ¥0 million for machinery, equipment and other.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

9. Office Transfer Expenses

Office transfer expenses of ¥482 million (\$4,278 thousand) were recorded for the year ended March 31, 2016 due to relocation of Ushio Opto Semiconductors, Inc. to Gotemba. In addition, office transfer expenses of ¥61 million (\$543 thousand) were recorded for the year ended March 31, 2016 due to relocation of the head office of the Company.

10. Leases

Future minimum lease payments under operating leases, which are lease transactions other than finance leases for the year ended March 31, 2016, are summarized as follows:

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Due within one year	¥ 670	\$ 5,951
Due after one year	1,069	9,492
Total	¥1,740	\$15,444

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

11. Financial Instruments

(1) The Group's policy to manage financial instruments

a. Basic policy on treating financial instruments

The Group invests floating money and funds reserved for future business expansion mainly in highly safe financial assets, according to the Group's cash management plan. Financing instruments are determined based upon the use of funds and financing environment. The Group utilizes derivative transactions only to avoid foreign exchange rate fluctuation risk, and does not use them for trading or speculative purposes.

b. The nature and risk of financial instruments

Notes and accounts receivable – trade, which are operating receivables, are exposed to customer credit risk. Operating receivables denominated in foreign currencies are also exposed to foreign exchange risk which is hedged by using forward foreign exchange contracts.

Securities and investment securities consist mainly of equity securities issued by companies with a business relationship and marketable equity or bond securities held for the purpose of short-term investment of floating money and reserved funds. Specified money in trust is also held for the purpose of investment of reserved funds. These investments are exposed to market risk. A part of securities, investment securities, and specified money in trust are denominated in foreign currency, and they are exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.

Notes and accounts payable – trade, which are operating payables, are mostly due within one year. Some of them are denominated in foreign currencies and exposed to foreign exchange risk; however, such risk is hedged by using forward foreign exchange contracts.

Short-term and long-term loans payable, which are made to obtain working capital are mostly due within three years after the end of the current fiscal year.

As for derivative transactions, forward foreign exchange contracts are entered into for the purpose of hedging foreign exchange risk deriving from operating receivables and payables denominated in foreign currencies and securities denominated in foreign currencies.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

c. Risk management structure regarding financial instruments

Credit risk — The Company and its consolidated subsidiaries manage the customer credit risk for operating receivables in accordance with the internal regulations for credit exposure management as follows: the creditability of each customer is reviewed by monitoring the status of each customer on a daily and continuous basis; the due dates and balances are managed for each customer; and the credit line is periodically examined and reviewed.

The credit risk associated with bond securities is immaterial since the Group invests in bond securities with high credit ratings.

Derivative transactions are entered into only with highly rated financial institutions in order to mitigate counterparty risk.

As of the fiscal year-end, the maximum credit risk amount is presented as the consolidated balance sheet amounts of financial assets that are exposed to credit risk.

Market risk — The Company and some consolidated subsidiaries utilize forward foreign exchange contracts for foreign exchange risk identified by currency and by month in relation to operating receivables and payables denominated in foreign currencies and securities denominated in foreign currencies in accordance with the internal rules for market risk management.

For securities and investment securities, market prices and the financial position of the issuers are periodically monitored and reported to directors in charge in accordance with the internal rules for market risk management. In addition, the holding status of shares issued by companies with business relationships is continuously reviewed in consideration of the relationships with those companies.

Derivative transactions are reported to directors in charge on a daily basis as well as to the Board of Directors in accordance with the internal rules for derivative transactions that define the authorization policy and limits of transactions.

Liquidity risk — Liquidity risk of the Company and its consolidated subsidiaries is managed by the Finance and Treasury Departments, preparing and updating the cash management plan based upon reports from each department as well as by maintaining certain liquidity.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(2) Fair value of financial instruments

The table below presents the amounts of financial instruments recorded in the consolidated balance sheet and their fair values as of March 31, 2016 and 2015, as well as their differences. Financial instruments whose fair values cannot be reliably determined are not included.

(Millions of yen)

As of March 31, 2016	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥ 54,595	¥ 54,595	¥ –
(2) Notes and accounts receivable – trade	38,424		
Allowance for doubtful accounts ^(*1)	(1,061)		
	37,362	37,362	–
(3) Securities and investment securities			
Trading securities	3,270	3,270	–
Available-for-sale securities	67,899	67,899	–
(4) Specified money in trust	2,023	2,023	–
Assets, total	¥165,150	¥165,150	¥ –
(1) Notes and accounts payable – trade	¥ 17,797	¥ 17,797	¥ –
(2) Short-term loans payable	5,049	5,049	
(3) Current portion of long-term loans payable	3,066	3,080	13
(4) Long-term loans payable	6,397	6,413	15
Liabilities, total	¥ 32,311	¥ 32,341	¥29
Derivative transactions ^(*2)			
for which hedge accounting is not applied	¥ (28)	¥ (28)	¥ –
for which hedge accounting is applied	–	–	–

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parenthesis indicate net liabilities.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Millions of yen)

As of March 31, 2015	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	¥ 60,765	¥ 60,765	¥ –
(2) Notes and accounts receivable – trade	39,796		
Allowance for doubtful accounts ^(*1)	(1,244)		
	38,552	38,552	–
(3) Securities and investment securities			
Trading securities	1,893	1,893	–
Available-for-sale securities	72,428	72,428	–
(4) Specified money in trust	2,327	2,327	–
Assets, total	¥175,967	¥175,967	¥ –
(1) Notes and accounts payable – trade	¥ 17,786	¥ 17,786	¥ –
(2) Short-term loans payable	4,272	4,272	–
(3) Current portion of long-term loans payable	1,361	1,362	0
(4) Long-term loans payable	8,430	8,461	30
Liabilities, total	¥ 31,851	¥ 31,883	¥31
Derivative transactions ^(*2)			
for which hedge accounting is not applied	¥ (7)	¥ (7)	¥ –
for which hedge accounting is applied	1	1	–

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parenthesis indicate net liabilities.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(Thousands of U.S. dollars)

As of March 31, 2016	Consolidated balance sheet amount	Fair value	Difference
(1) Cash and deposits	\$ 484,516	\$ 484,516	\$ –
(2) Notes and accounts receivable – trade	341,002		
Allowance for doubtful accounts ^(*)	(9,424)		
	331,578	331,578	–
(3) Securities and investment securities			
Trading securities	29,025	29,025	–
Available-for-sale securities	602,583	602,583	–
(4) Specified money in trust	17,954	17,954	–
Assets, total	\$1,465,657	\$1,465,657	\$ –
(1) Notes and accounts payable – trade	\$ 157,945	\$ 157,945	\$ –
(2) Short-term loans payable	44,817	44,817	–
(3) Current portion of long-term loans payable	27,217	27,338	121
(4) Long-term loans payable	56,775	56,917	141
Liabilities, total	\$ 286,755	\$ 287,017	\$262
Derivative transactions ^(*)			
for which hedge accounting is not applied	\$ (252)	\$ (252)	\$ –
for which hedge accounting is applied	–	–	–

(*1): The deducted amount includes general and specific allowance for doubtful accounts relating to notes and accounts receivable – trade.

(*2): Assets and liabilities from derivative transactions are stated in the net amount. The figures in parenthesis indicate net liabilities.

The method of fair value measurement is described as follows:

Assets

- (1) Cash and deposits and (2) Notes and accounts receivable – trade

The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

- (3) Securities and investment securities

The fair value of equity securities is based on market prices at the stock exchange, and that of bond securities is obtained from financial institutions.

- (4) Specified money in trust

The fair value is based upon the price obtained from financial institutions.

Liabilities

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

The fair value of these accounts approximates their book value because they are settled in a short period of time. Thus, the book value is presented as their fair value.

- (3) Current portion of long-term loans payable and (4) Long-term loans payable

The fair value of long-term loans payable is measured by discounting the total of principal and interest at an assumed rate for similar new borrowings.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Derivative transactions

The fair value is measured based upon the prices obtained from financial institutions.

As of March 31, 2016 and 2015, the consolidated balance sheet includes the following financial instruments whose fair values cannot be reliably determined:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unlisted shares and investments in business partnerships with limited liability	¥2,469	¥2,431	\$ 21,195

(3) Redemption schedule

The redemption schedule for securities with maturity dates classified as available-for-sale securities as of March 31, 2016 and 2015 is summarized as follows:

As of March 31, 2016					
	Due within one year	Due after one year and up to five years	Due after five years and up to ten years	Due within one year	Due after one year and up to five years
	<i>(Millions of yen)</i>			<i>(Thousands of U.S. dollars)</i>	
Notes and accounts receivable – trade	¥37,211	¥1,212	¥–	\$330,241	\$10,761
Bonds:					
Corporate bonds	3,313	9,061	–	29,410	80,417
Total	¥40,525	¥10,273	¥–	\$359,651	\$91,178

As of March 31, 2015		
	Due within one year	Due after one year and up to five years
	<i>(Millions of yen)</i>	
Notes and accounts receivable – trade	¥38,175	¥1,541
Bonds:		
Corporate bonds	5,163	7,257
Total	¥43,339	¥8,798

Cash and deposits are due within one year. The redemption schedule for long-term loans payable is stated in Note 3.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

12. Securities and Investment Securities

(1) Trading securities

Trading securities as of March 31, 2016 and 2015 are summarized as follows:

As of March 31, 2016			
Carrying value	Loss	Carrying value	Loss
(Millions of yen)		(Thousands of U.S. dollars)	
¥3,270	¥168	\$29,025	\$1,495
As of March 31, 2015			
Carrying value	Gain		
(Millions of yen)			
¥1,893	¥347		

(2) Marketable available-for-sale securities

Marketable available-for-sale securities as of March 31, 2016 and 2015 are summarized as follows:

As of March 31, 2016						
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
	(Millions of yen)			(Thousands of U.S. dollars)		
Securities whose carrying value exceeds their acquisition costs:						
(1) Shares	¥52,770	¥8,329	¥44,441	\$468,320	\$73,918	\$394,401
(2) Bonds:						
Corporate bonds	3,388	3,333	54	30,075	29,588	486
(3) Other	659	401	257	5,854	3,564	2,289
Subtotal	56,818	12,064	44,753	504,248	107,071	397,177
Securities whose carrying value does not exceed their acquisition costs:						
(1) Shares	449	506	(57)	3,987	4,494	(507)
(2) Bonds:						
Corporate bonds	9,064	9,335	(271)	80,441	82,849	(2,407)
(3) Other	1,567	1,596	(29)	13,907	14,171	(264)
Subtotal	11,080	11,438	(358)	98,336	101,514	(3,179)
Total	¥67,898	¥23,502	¥44,395	\$602,584	\$208,585	\$393,998
As of March 31, 2015						
	Carrying value	Acquisition cost	Unrealized gain (loss)			
	(Millions of yen)					
Securities whose carrying value exceeds their acquisition costs:						
(1) Shares	¥52,350	¥8,857	¥43,492			
(2) Bonds:						
Corporate bonds	7,203	7,049	153			
(3) Other	1,857	1,591	265			
Subtotal	61,411	17,499	43,912			
Securities whose carrying value does not exceed their acquisition costs:						
(1) Shares	1,264	1,291	(27)			
(2) Bonds:						
Corporate bonds	4,343	4,419	(76)			
(3) Other	5,409	5,417	(8)			
Subtotal	11,017	11,129	(111)			
Total	¥72,428	¥28,628	¥43,800			

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Available-for-sale securities sold

Available-for-sale securities sold during the years ended March 31, 2016 and 2015 are summarized as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Sales of securities			
(1) Shares	¥ 445	¥4,840	\$ 3,952
(2) Other	5,899	7,303	52,353
Aggregate gains on sales			
Shares	283	3,296	2,517
Aggregate losses on sales			
Shares	30	—	267

(4) Impairment loss recognized on securities

Impairment losses amounted to ¥86 million (\$723 thousand) and ¥1,162 million and are recognized in shares classified as available-for-sale securities for the years ended March 31, 2016 and 2015, respectively. Impairment loss is recognized when the average market value for the month ended on the balance sheet date falls to less than half of the carrying amounts at the end of the fiscal year. Except in cases in which the market value is recoverable, losses are also recorded when the decline in value is between 30% and 50% of the carrying amounts considering the recoverability.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

13. Derivative Transactions

The notional amounts and the estimated fair value of the derivative positions outstanding at March 31, 2016 and 2015 are summarized below.

(1) Derivative transactions for which hedge accounting is not applied

Currency-related transactions:

As of March 31, 2016				
	Notional amounts	Maturing after one year	Estimated fair value	Unrealized loss
<i>(Millions of yen)</i>				
Bilateral transactions:				
Forward foreign exchange contracts:				
Buy:				
USD	¥ 160	¥—	¥ (3)	¥ (3)
JPY	883	—	(12)	(12)
EUR	311	—	(10)	(10)
Total	¥1,354	¥—	¥(25)	¥(25)

As of March 31, 2016				
	Notional amounts	Maturing after one year	Estimated fair value	Unrealized loss
<i>(Thousands of U.S. dollars)</i>				
Bilateral transactions:				
Forward foreign exchange contracts:				
Buy:				
USD	\$1,427	\$—	\$ (31)	\$ (31)
JPY	7,839	—	(107)	(107)
Total	\$9,266	\$—	\$(138)	\$(138)

As of March 31, 2015				
	Notional amounts	Maturing after one year	Estimated fair value	Unrealized gain (loss)
<i>(Millions of yen)</i>				
Bilateral transactions:				
Forward foreign exchange contracts:				
Buy:				
USD	¥ 194	¥—	¥ 1	¥ 1
JPY	1,163	—	(9)	(9)
Total	¥1,358	¥—	¥(7)	¥(7)

Notes to Consolidated Financial Statements (continued)

Currency-related transactions:

As of March 31, 2015				
	Hedged item	Notional amounts	Maturing after one year	Estimated fair value
<i>(Millions of yen)</i>				
Derivative transactions for which deferral accounting is applied:				
Forward foreign exchange contracts:				
Buy:				
USD	Investment securities	¥8	¥—	¥1
Total		¥8	¥—	¥1

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

14. Retirement Benefit Plans

(1) Overview of retirement benefit plan adopted by the Company

To prepare for the payment of employees' retirement benefits, the Company and its consolidated subsidiaries adopted funded and unfunded defined benefit plans as well as a defined contribution plan.

Under the defined benefit corporate pension plans, all of which are funded, the Company provides lump-sum or pension benefits based on salaries and length of service. In addition, retirement benefit trusts are set up for said corporate pension plans of the Company.

Under the lump-sum retirement benefit plans, which are principally unfunded and partially funded as a result of the setup of retirement benefit trusts, the Company provides lump-sum benefits based on salaries and length of service.

Under the defined benefit corporate pension plans and the lump-sum retirement benefit plans for certain consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated by the simplified method.

Certain domestic consolidated subsidiaries participate in the Kanto IT Software Pension Fund, a welfare pension fund system of multi-employer plans, and the amount of plan assets proportionate to their contributions cannot be calculated in a reasonable manner. Therefore, the required contributions to the pension fund system are accounted for as retirement benefit expenses in accordance with Section 33 (2) of the Accounting Standard for Retirement Benefits.

(2) Defined benefit plan

a. Reconciliation between retirement benefit obligations at beginning of period and end of period

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation at beginning of period	¥32,895	¥30,815	\$291,938
Cumulative effects of changes in accounting policies	—	(1,854)	—
Restated balance at beginning of period	—	28,960	—
Current service costs	1,810	1,258	16,064
Interest costs	520	544	4,620
Actuarial gains and losses arising during period	6,193	2,199	54,691
Retirement benefits paid	(588)	(483)	(5,225)
Contribution to employees	—	247	—
Other	209	101	2
Effect of exchange rate changes	(69)	66	(620)
Retirement benefit obligation at end of period	¥40,760	¥32,895	\$361,741

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

- b. *Reconciliation between plan assets at beginning of period and end of period (excluding plans to which simplified method is applied stated in (3))*

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Plan assets at beginning of period	¥24,196	¥20,796	\$214,735
Expected return on plan assets	543	551	4,824
Actuarial gains and losses arising during period	(1,031)	838	(9,159)
Contributions from employer	3,242	2,373	28,775
Retirement benefits paid	(544)	(389)	(4,832)
Effect of exchange rate changes	(55)	24	(495)
Plan assets at end of period	¥26,350	¥24,196	\$233,849

- c. *Reconciliation between net defined benefit liabilities for plans to which simplified method is applied at beginning of period and end of period*

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Net defined benefit liability at beginning of period	¥452	¥668	\$4,020
Retirement benefit expenses	155	53	1,379
Retirement benefits paid	(82)	(229)	(732)
Other	(7)	(36)	(70)
Effect of exchange rate changes	(5)	(3)	(49)
Net defined benefit liability at end of period	¥512	¥452	\$4,548

- d. *Reconciliation between retirement benefit obligation and plan assets at end of period and defined benefit liability and defined benefit asset for retirement recognized on the consolidated balance sheet*

	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
	(Millions of yen)		(Thousands of U.S. dollars)
Retirement benefit obligation for funded plans	¥ 40,760	¥ 32,895	\$ 361,741
Plan assets	(26,350)	(24,196)	(233,849)
	14,410	8,699	127,892
Retirement benefit obligation for unfunded plans	512	452	4,548
Net balance of liability and asset recognized on the consolidated balance sheet	14,923	9,152	132,439
Net defined benefit liability	14,923	9,152	132,439
Net balance of liability and asset recognized on the consolidated balance sheet	¥ 14,923	¥ 9,152	\$ 132,439

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

e. Retirement benefit expenses and their breakdown

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Current service costs	¥1,457	¥1,606	\$12,935
Interest costs	520	544	4,620
Expected return on plan assets	(543)	(551)	(4,824)
Amortization of actuarial gains and losses	942	871	8,365
Amortization of past service costs	(41)	11	(369)
Employee's contribution	(220)	(247)	(1,954)
Other	(132)	(100)	(1,175)
Retirement benefit expenses applying simplified method	155	53	1,379
Retirement benefits expenses under defined benefit plans	¥2,490	¥2,186	\$22,106

f. Remeasurements of defined benefit plans

The breakdown of the amount recognized in remeasurements of defined benefit plans (before tax) in the consolidated statement of comprehensive income is as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Past service costs	¥ 41	¥ 38	\$ 369
Actuarial gains and losses	6,283	489	55,762
Total	¥6,324	¥527	\$56,132

g. Accumulated remeasurements of defined benefit plans

The breakdown of the amount recognized in accumulated remeasurements of defined benefit plans (before tax) on the consolidated balance sheet is as follows:

	As of March 31, 2016	As of March 31, 2015	As of March 31, 2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Unrecognized past service costs	¥ (140)	¥ (182)	\$ (1,247)
Unrecognized actuarial gains and losses	14,276	7,993	126,703
Total	¥14,136	¥7,811	\$125,456

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

h. Plan assets

(i) Breakdown of plan assets

Percentage of each main category to total plan assets is as follows:

	As of March 31, 2016	As of March 31, 2015
Bonds	22%	38%
Securities	22	30
Cash and deposits	33	11
Other	22	21
Total	100%	100%

Note: Total plan assets include retirement benefit trusts of 11% and 12% that are set up for a corporate pension plan as of March 31, 2016 and 2015, respectively.

(ii) Determination of expected long-term rate of return on plan assets

In determining the expected long-term rate of return on plan assets, the Company takes into consideration the current and future plan asset allocation as well as the current and expected long-term rate of return on various asset categories comprising plan assets.

i. Actuarial assumptions

	2016	2015
Actuarial assumptions at end of period:		
Discount rate	0.5~0.8%	1.0~1.6%
Long-term expected rate of return:	2.5%	3.0%
	1.5~3.3%	1.5~3.3%

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Defined contribution plan

The required contribution to the defined contribution plan amounts to ¥1,087 million (\$9,650 thousand) and ¥526 million for the years ended March 31, 2016 and 2015, respectively.

The most recent information about the multi-employer plan for which the required contributions to the pension fund system are accounted for as retirement benefit expenses is as follows:

a. Funded status of the plan

	2016 (As of March 31, 2015)	2015 (As of March 31, 2014)	2016 (As of March 31, 2015)
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Plan assets	¥299,860	¥252,293	\$2,661,173
Total of actuarial benefit obligations under pension funding calculation and minimum reserve ^(Note)	268,707	227,330	2,384,692
Difference	¥ 31,153	¥ 24,963	\$ 276,481

Note: This item was presented as “Benefit obligations under pension funding calculation” in the previous fiscal year.

b. Ratio of Group's contributions to total contributions to the plan

	2016	2015
Ratio of Group's contributions	0.34%	0.25%

c. Supplemental information

The main factors for the difference in a. *Funded status of the plan* above are as follows:

	2016 (As of March 31, 2015)	2015 (As of March 31, 2014)	2016 (As of March 31, 2015)
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Deficit carried forward	¥ –	¥ –	\$ –
General reserve	24,963	19,332	221,539
Deficit for the year	6,190	5,630	54,942

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

15. Other Comprehensive Income

Reclassification adjustments and income tax effect allocated to each component of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015	2016
	<i>(Millions of yen)</i>		<i>(Thousands of U.S. dollars)</i>
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 982	¥14,219	\$ 8,722
Reclassification adjustments	(302)	(3,323)	(2,684)
Amount before income tax effect	680	10,896	6,039
Income tax effect	(498)	(2,410)	(4,428)
Valuation difference on available-for-sale securities	1,179	8,485	10,467
Deferred gains (losses) on hedges:			
Amount arising during the year	–	1	–
Reclassification adjustments	(1)	10	(10)
Amount before income tax effect	(1)	12	(10)
Income tax effect	(0)	(4)	(3)
Deferred gains (losses) on hedges	(0)	7	(6)
Foreign currency translation adjustment:			
Amount arising during the year	(8,193)	11,036	(72,714)
Reclassification adjustments	(37)	–	(330)
Amount before income tax effect	(8,230)	11,036	(73,044)
Income tax effect	13	(15)	122
Foreign currency translation adjustment	(8,244)	11,020	(73,166)
Remeasurements of defined benefit plans:			
Amount arising during the year	(7,225)	(527)	(64,120)
Reclassification adjustments	900	825	7,996
Amount before income tax effect	(6,324)	(527)	(56,124)
Income tax effect	1,808	(69)	16,054
Remeasurements of defined benefit plans	(4,515)	(597)	(40,070)
Share of other comprehensive income of entities accounted for using equity method:			
Amount arising during the year	0	2	1
Reclassification adjustments	–	–	–
Share of other comprehensive income of entities accounted for using equity method	0	2	1
Total other comprehensive income	¥(11,580)	¥18,919	\$(102,774)

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

16. Net Assets

Information regarding changes in net assets for the years ended March 31, 2016 and 2015 is as follows:

a. Shares issued and outstanding/Treasury shares

For the year ended March 31, 2016

Types of shares	Number of shares as of April 1, 2015	Increase	Decrease	Number of shares as of March 31, 2016
<i>(Shares)</i>				
Shares issued:				
Common shares	139,628,721	—	—	139,628,721
Treasury shares:				
Common shares (Note)	9,072,215	1,882,065	—	10,954,280
Note: Details of increase are as follows:				<i>(Shares)</i>
Increase due to trust for stock remuneration for directors				306,600
Increase due to market purchase of shares				1,570,600
Increase due to purchase of shares of less than standard unit				4,865

For the year ended March 31, 2015

Types of shares	Number of shares as of April 1, 2014	Increase	Decrease	Number of shares as of March 31, 2015
<i>(Shares)</i>				
Shares issued:				
Common shares	139,628,721	—	—	139,628,721
Treasury shares:				
Common shares (Note)	9,307,753	345,447	580,985	9,072,215
Note: Details of increase and decrease are as follows:				<i>(Shares)</i>
Increase due to requests to purchase shares in accordance with Article 797, Paragraph 1 of the Companies Act				270,000
Increase due to market purchase of shares				70,300
Increase due to purchase of shares of less than standard unit				5,147
Decrease due to share exchange				580,985

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

b. Dividends

1) Dividends paid

For the year ended March 31, 2015

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2015	Common shares	¥3,139	\$27,861	¥24	\$0.21	March 31, 2015	June 29, 2015

For the year ended March 31, 2015

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 26, 2014	Common shares	¥3,388	¥26	March 31, 2014	June 27, 2014

2) Dividends with the cut-off date in the year ended March 31, 2016 and the effective date in the year ending March 31, 2017

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Annual general meeting of the shareholders on June 29, 2016	Common shares	¥3,353	\$29,761	Retained earnings	¥26	\$0.23	March 31, 2016	June 30, 2016

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

17. Amounts per Share

The amounts per share of basic earnings and net assets, presented below, are based on the weighted-average number of shares of common shares outstanding during each year and the number of shares of common shares outstanding at each balance sheet date, respectively.

	2016	2015	2016
	(Yen)		(U.S. dollars)
Basic earnings	¥ 85.83	¥ 86.40	\$ 0.76
Net assets	1,621.97	1,653.88	14.39

Per share amounts assuming full dilution have not been presented because no potential dilutive shares were outstanding as of March 31, 2016 or 2015.

The Company's shares held by the trust for the stock remuneration plan for directors are recorded as treasury shares in shareholders' equity which are deducted from the total number of shares issued at the balance sheet date for the purpose of calculating net assets per share (306 thousand shares as of March 31, 2016).

The Company's shares held by the trust for the stock remuneration plan for directors are recorded as treasury shares in shareholders' equity which are deducted from the weighted-average number of shares outstanding during the year for the purpose of calculating the basic earnings per share (188 thousand shares for the year ended March 31, 2016).

18. Supplementary Cash Flow Information

- (1) The following table presents a reconciliation of cash and deposits with cash and cash equivalents as of March 31, 2016 and 2015.

	2016	2015	2016
	(Millions of yen)		(Thousands of U.S. dollars)
Cash and deposits	¥54,595	¥ 60,765	\$484,516
Time deposits with a maturity of more than three months	(8,067)	(10,187)	(71,596)
Money management funds and others included in securities	1,285	6,411	11,406
Cash and cash equivalents	¥47,813	¥ 56,989	\$424,326

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

- (2) The following table presents the breakdown of assets and liabilities at the time of commencement of consolidation in connection with the new consolidation due to the acquisition of shares of MAXRAY INC. and the reconciliation between the consideration and the payment for the acquisition of shares (net) of MAXRAY INC. during the fiscal year ended March 31, 2016.

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets	¥ 1,356	\$ 12,040
Non-current assets	1,881	16,697
Current liabilities	(1,639)	(14,554)
Long-term liabilities	(318)	(2,829)
Gain on bargain purchase	(579)	(5,142)
Consideration for acquisition of shares	700	6,212
Cash and cash equivalents	324	2,878
Net: Payment for purchase of shares of subsidiaries resulting in change in scope of consolidation	¥ 375	\$ 3,334

- (3) The following table presents the breakdown of assets and liabilities at the time of commencement of consolidation in connection with the new consolidation due to the acquisition of shares of Necsel Modules Corporation and the reconciliation between the consideration and the payment for the acquisition of shares (net) of Necsel Modules Corporation during the fiscal year ended March 31, 2016.

	<i>(Millions of yen)</i>	<i>(Thousands of U.S. dollars)</i>
Current assets	¥ 121	\$ 1,082
Non-current assets	47	420
Goodwill	1,683	14,941
Current liabilities	(100)	(895)
Long-term liabilities	(61)	(548)
Consideration for acquisition of shares	1,690	15,000
Cash and cash equivalents	25	226
Net: Payment for purchase of shares of subsidiaries resulting in change in scope of consolidation	¥1,664	\$14,774

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

19. Segment Information

(1) Summary of reportable segments

The Company defines a reportable segment as a component of the Company for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to assess its business performance and make decisions about resources to be allocated to the segment.

The Company has a division system based on product type and similarity in sales market, etc., and each division develops and implements comprehensive domestic and overseas strategies for its development, manufacturing and sales of products and service, and engages in its business activities globally.

Thus, reportable segments of the Company are divided into two categories based on product type and sales market.

“Light sources business” conducts manufacturing and sales of halogen lamps and discharge lamps, etc.

“Equipment business” conducts manufacturing and sales of visual image equipment and optical equipment, etc.

- (2) The basis of measurement of net sales, income or loss, assets, liabilities, and other items by the reportable segment is generally consistent with the significant accounting policies of the Group. Segment income presents the operating income of the segment. Intersegment sales and transfers are recognized based on the market price.

Application of Accounting Standard for Business Combinations, etc.

As stated in 1. Summary of Significant Accounting Policies (t) Changes in accounting policies, the “Accounting Standard for Business Combinations”, etc. have been applied from the year ended March 31, 2016. Accordingly, the accounting treatment has been changed such that the difference associated with changes in equity of the Company in subsidiaries in the case of additional acquisition of shares in subsidiaries in which the control continues is recognized as capital surplus, and acquisition-related costs are recorded as expenses for the year in which the costs are incurred. For business combinations implemented on or after April 1, 2015, the accounting treatment has been changed to reflect the adjustments to the allocated amount of acquisition costs on the finalization of tentative accounting treatment in the consolidated financial statements for the year containing the date of the business combination.

As a result of these changes, segment income of “light sources business” and “equipment business” for the year ended March 31, 2016 decreased by ¥58 million (\$522 thousand) and ¥2 million (\$18 thousand), respectively, compared with that by the previous accounting treatments.

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Notes to Consolidated Financial Statements (continued)

(3) Information about net sales, segment income or loss, assets, liabilities and other items by reportable segment

	Year ended March 31, 2016					Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	Reportable segment			Other businesses (Note 1)	Total		
	Light sources business	Equipment business	Total				
	(Millions of yen)						
Net sales							
Sales to external customers	¥ 77,231	¥ 98,724	¥175,956	¥ 3,164	¥179,121	¥ –	¥179,121
Intersegment sales or transfers	1,343	103	1,447	53	1,500	(1,500)	–
Total	¥ 78,574	¥ 98,828	¥177,403	¥ 3,218	¥180,622	¥ (1,500)	¥179,121
Segment income	¥ 10,976	¥ 1,726	¥ 12,703	¥ 181	¥ 12,885	¥ 245	¥ 13,130
Segment assets	102,972	113,513	216,486	39,026	255,513	¥39,012	294,525
Other items:							
Depreciation	2,146	4,311	6,457	38	6,495	–	6,495
Amortization of goodwill	375	628	1,003	–	1,003	–	1,003
Investment in associates under equity method	21	2	23	–	23	–	23
Increase in property, plant and equipment and intangible assets	5,870	6,871	12,742	481	13,224	–	13,224

Notes 1. “Other businesses” represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to ¥245 million, include elimination of intersegment transactions totaling ¥173 million. Eliminations or unallocated amounts of segment assets, amounting to ¥39,012 million, include elimination of intersegment receivables and payables totaling ¥(16,297) million and unallocated corporate assets totaling ¥55,370 million that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statement of income.

4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

	Year ended March 31, 2015					Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	Reportable segment			Other businesses (Note 1)	Total		
	Light sources business	Equipment business	Total				
	(Millions of yen)						
Net sales							
Sales to external customers	¥ 71,948	¥ 84,033	¥155,982	¥ 3,383	¥159,365	¥ –	¥159,365
Intersegment sales or transfers	1,065	155	1,221	28	1,249	(1,249)	–
Total	¥ 73,014	¥ 84,188	¥157,203	¥ 3,411	¥160,614	¥ (1,249)	¥159,365
Segment income (loss)	¥ 10,074	¥ (36)	¥ 10,037	¥ 175	¥ 10,212	¥ 144	¥ 10,357
Segment assets	103,671	107,526	211,198	46,132	257,330	37,211	294,542
Other items:							
Depreciation	2,074	3,808	5,883	35	5,919	–	5,919
Amortization of goodwill	277	403	680	–	680	–	680
Investment in associates under equity method	34	2	36	–	36	–	36
Increase in property, plant and equipment and intangible assets	3,560	6,753	10,314	584	10,898	–	10,898

- Notes
1. “Other businesses” represents business segments including industrial machinery and others, which are not classified in either reportable segment.
 2. Eliminations or unallocated amounts of segment income, amounting to ¥144 million, include elimination of intersegment transactions totaling ¥157 million. Eliminations or unallocated amounts of segment assets, amounting to ¥37,211 million, include elimination of intersegment receivables and payables totaling ¥(19,260) million and unallocated corporate assets totaling ¥55,893 million that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.
 3. Segment income is adjusted to operating income on the consolidated statement of income.
 4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

	Year ended March 31, 2016						
	Reportable segment					Eliminations or unallocated amounts (Note 2)	Amounts on consolidated financial statements (Note 3)
	Light sources business	Equipment business	Total	Other businesses (Note 1)	Total		
	(Thousands of U.S. dollars)						
Net sales							
Sales to external customers	\$685,407	\$ 876,153	\$1,561,559	\$ 28,088	\$1,589,647	\$ –	\$1,589,647
Intersegment sales or transfers	11,919	923	12,842	476	13,318	(13,318)	–
Total	\$697,326	\$ 877,075	\$1,574,401	\$ 28,564	\$1,602,965	\$(13,318)	\$1,589,647
Segment income	\$ 97,416	\$ 15,324	\$ 112,741	\$ 1,611	\$ 114,352	\$ 2,180	\$ 116,532
Segment assets	913,850	1,007,400	1,921,250	346,350	2,267,601	346,220	2,613,820
Other items:							
Depreciation	19,047	38,260	57,307	341	57,648	–	57,648
Amortization of goodwill	3,334	5,574	8,908	–	8,908	–	8,908
Investment in associates under equity method	188	21	209	–	209	–	209
Increase in property, plant and equipment and intangible assets	52,100	60,985	113,085	4,278	117,362	–	117,362

Notes 1. “Other businesses” represents business segments including industrial machinery and others, which are not classified in either reportable segment.

2. Eliminations or unallocated amounts of segment income, amounting to \$2,180 thousand, include elimination of intersegment transactions totaling \$1,543 thousand. Eliminations or unallocated amounts of segment assets, amounting to \$346,220 thousand, include elimination of intersegment receivables and payables totaling \$144,637 thousand and unallocated corporate assets totaling \$491,395 thousand that consists primarily of surplus funds (cash and securities) and long-term investments (investment securities), etc.

3. Segment income is adjusted to operating income on the consolidated statement of income.

4. The increase in long-term prepaid expense is included in increases in property, plant and equipment and intangible assets.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(4) Other segment information

Year ended March 31, 2016								
	Reportable segment			Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements	
	Light sources business	Equipment business	Total					
(Millions of yen)								
Impairment loss	¥	—	¥ 226	¥ 226	¥—	¥ 226	¥18	¥ 244
Goodwill:								
Amortized for the year		375	628	1,003	—	1,003	—	1,003
Balance		2,955	2,661	5,616	—	5,616	—	5,616
Year ended March 31, 2015								
	Reportable segment			Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements	
	Light sources business	Equipment business	Total					
(Millions of yen)								
Impairment loss	¥	118	¥1,256	¥1,375	¥146	¥1,521	¥—	¥1,521
Goodwill:								
Amortized for the year		277	403	680	—	680	—	680
Balance		1,244	2,232	3,477	—	3,477	—	3,477
Year ended March 31, 2016								
	Reportable segment			Other businesses	Total	Eliminations or unallocated amounts	Amounts on consolidated financial statements	
	Light sources business	Equipment business	Total					
(Thousands of U.S. dollars)								
Impairment loss	\$	—	\$ 2,006	\$ 2,006	\$—	\$ 2,006	\$162	\$ 2,168
Goodwill:								
Amortized for the year		3,334	5,574	8,908	—	8,908	—	8,908
Balance		26,229	23,620	49,849	—	49,849	—	49,849

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(5) Related information

Information about net sales and property, plant and equipment by geographical area

Year ended March 31, 2016							
<i>(Millions of yen/Thousands of U.S. dollars)</i>							
	North America			Asia		Other areas	Total
	Japan	U.S.A.	Other	Europe	China	Other	
Net sales	¥ 37,327	¥ 52,128	¥ 3,192	¥ 20,304	¥ 35,661	¥ 28,336	¥ 2,169
	\$331,269	\$462,627	\$28,335	\$180,197	\$316,482	\$251,480	\$19,257
							\$1,589,647

Year ended March 31, 2015							
<i>(Millions of yen)</i>							
	North America			Asia		Other areas	Total
	Japan	U.S.A.	Other	Europe	China	Other	
Net sales	¥30,144	¥44,433	¥3,555	¥21,207	¥29,998	¥27,394	¥2,631
							¥159,365

Year ended March 31, 2016							
<i>(Millions of yen/Thousands of U.S. dollars)</i>							
	North America			Asia		Other areas	Total
	Japan	U.S.A.	Canada	Europe	Asia		
Property, plant and equipment	¥ 27,187	¥ 7,503	¥ 3,517	¥ 929	¥ 3,134	¥ 37	¥ 42,310
	\$241,281	\$66,596	\$31,213	\$8,248	\$27,815	\$337	\$375,489

Year ended March 31, 2015							
<i>(Millions of yen)</i>							
	North America			Asia		Other areas	Total
	Japan	U.S.A.	Canada	Europe	Asia		
Property, plant and equipment	¥23,562	¥7,457	¥4,264	¥669	¥4,024	¥35	¥40,014

Information by product and service is omitted since the same information is already disclosed in (3) above.

Information about transactions with major customers is omitted since there is no external customer with a sales amount of 10% or more of the Group's net sales.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

20. Business Combination

Acquisition of business

(1) Outline of business combination

a. Name of acquired company and description of acquired businesses

Name: MAXRAY INC.

Business: Design, development and sales of lighting equipment for commercial facilities

b. Major reasons of business combination

For further expansion of high-value-added LED lighting business

c. Effective date of business combination

April 27, 2015

d. Legal form of business combination

Acquisition of shares by USHIO LIGHTING INC., a subsidiary of the Company

e. Name of company subsequent to business combination

No change

f. Ratio of voting rights acquired

Ratio of voting rights prior to the effective date of
business combination: 0%

Ratio of additional voting rights acquired on
the effective date of business combination: 100%

Ratio of voting rights after acquisition: 100%

g. Rationale for determining acquiring company

Acquisition of shares in exchange of cash provided by USHIO LIGHTING INC., a subsidiary of the Company

(2) Period in which the business results of the acquired company are included in the consolidated financial statements

From April 1, 2015 to March 31, 2016

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

(3) Acquisition cost of the acquired company and its breakdown by type of consideration

		<i>(Thousands of (Millions of yen) U.S. dollars)</i>
Consideration for acquisition	Cash and deposits	¥700 \$700
Acquisition cost		¥700 \$700

(4) Major expenses related to the acquisition

	<i>(Thousands of (Millions of yen) U.S. dollars)</i>
Remuneration, fees, etc. for law firm	¥58 \$522

(5) Amount and cause of gain on bargain purchase

Amount of gain on bargain purchase:	¥579 million (\$5,142 thousand)
Cause:	As the fair value of net assets at the date of business combination exceeded the acquisition cost, the difference amount was recognized as gain on bargain purchase.

(6) Amount and breakdown of assets acquired and liabilities assumed at the date of business combination

	<i>(Thousands of (Millions of yen) U.S. dollars)</i>
Current assets	¥1,356 \$12,040
Non-current assets	1,881 16,697
Total assets	¥3,238 \$28,737
Current liabilities	¥1,639 \$14,554
Long-term liabilities	318 2,829
Total liabilities	¥1,958 \$17,383

(7) Impact of the business combination on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed at the beginning of the current fiscal year

Not applicable as the deemed acquisition date is the beginning date of the current fiscal year.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

Acquisition of business

(1) Outline of business combination

a. Name of acquired company and description of acquired businesses

Name: PD-LD, Inc. (Currently Necsel Modules Corporation)

Business: Manufacturing and sales of module and equipment using optical function component and laser diode

b. Major reasons of business combination

For enhancement and expansion of laser solution business

c. Effective date of business combination

March 23, 2016

d. Legal form of business combination

Acquisition of shares in exchange of cash

e. Name of company subsequent to business combination

Necsel Modules Corporation

f. Ratio of voting rights acquired

Ratio of voting rights prior to the effective date of business combination:	0%
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Ratio of additional voting rights acquired on the effective date of business combination:	100%
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Ratio of voting rights after acquisition:	100%
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g. Rationale for determining acquiring company

Acquisition of shares in exchange of cash provided by Necsel Intellectual Properties, Inc., a subsidiary of the Company

(2) Period in which the business results of the acquired company are included in the consolidated financial statements

The business results of the acquired company are not included in the consolidated financial statements as the deemed acquisition date is the end of the current fiscal year.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

3) Acquisition cost of the acquired company and its breakdown by type of consideration

		(Millions of yen)	(Thousands of U.S. dollars)
Consideration for acquisition	Cash and deposits	¥1,690	\$15,000
Acquisition cost		¥1,690	\$15,000

(4) Major expenses related to the acquisition

	(Millions of yen)	(Thousands of U.S. dollars)
Remuneration, fees, etc. for law firm	¥31	\$278

(5) Amount, cause and amortization method and period of goodwill incurred

Amount of goodwill incurred:	¥1,683 million (\$14,941 thousand)
Cause:	As the acquisition cost exceeded the net amount of assets acquired and liabilities assumed, the excess amount was recognized as goodwill.
Amortization method and period:	Straight-line method over 5 years

(6) Allocation of acquisition cost

The allocation of the acquisition cost was not completed as of the end of the current fiscal year since the specification of identifiable assets and liabilities as well as the measurement of the fair value as of the date of business combination were unfinished. Therefore, a tentative accounting treatment was applied based on the reasonable information available at the end of the current fiscal year.

(7) Amount and breakdown of assets acquired and liabilities assumed at the date of business combination

	(Millions of yen)	(Thousands of U.S. dollars)
Current assets	¥121	\$1,082
Non-current assets	47	420
Total assets	¥169	\$1,502
Current liabilities	¥100	\$ 895
Long-term liabilities	61	548
Total liabilities	¥162	\$1,443

(8) Impact of the business combination on the consolidated statement of income for the current fiscal year assuming that the business combination had been completed at the beginning of the current fiscal year

An evaluation of the impact of the business combination is omitted due to the immateriality.

USHIO INC. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements (continued)

21. Related Party Information

Related-party transactions for the years ended March 31, 2016 and 2015 were as follows:

For the year ended March 31, 2015

Classification:	Director
Name:	Jiro Ushio
Location:	—
Capital stock (<i>Millions of yen</i>):	—
Principal business or position:	Representative director of the Company
Ratio of voting rights:	2.48% directly held
Relation to the related party:	Acquisition of land
Nature of transaction:	Acquisition of land
Amount of transaction (<i>Millions of yen</i>):	¥42
Account:	—
Balance at the end of year (<i>Millions of yen</i>):	—

Notes:

1. Consumption taxes are not included in the amount of transaction.
2. Terms and conditions of related-party transactions are decided based on an arm's length basis.

22. Subsequent Events

There are no significant subsequent events.

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